

Objecting in the Domestic Market

Ofgem and **energywatch** have challenged suppliers to make switching simpler. **energywatch** have challenged the industry to bring the transfer process into the 21st century. These are demanding challenges and it would be unfortunate to stumble at the first hurdle.

Powergen supports the need to change the transfer process. There are two primary tests for any change:

- ◆ How well does it improve the customer experience?
- ◆ How cost-effective is it?

The current proposals for Customer Requested Objections give insufficient weight to customer benefits.

We describe below an alternative proposal, which would give greater customer benefit. Current figures indicate over 80,000 customers a year misled at the point of sale could benefit from a wider CRO process¹, and the true figure is probably much higher². It would also be more cost-effective.

Powergen supports the other proposals in the Consultation Document, to remove the obstacle of termination notices to customers wishing to transfer and to establish a cooperative objection process.

Customer Benefit from CROs

Depending on their scope, CROs may:

- a) avoid an erroneous transfer;
- b) avoid a reregistration (ie. the customer switching back shortly after leaving)

CROs are unambiguously easier for customers than Erroneous Transfers. They are either simpler:

- ◆ No disruption to payment arrangements
- ◆ No confusion from transfer process (sales audit call, meter read etc)
- ◆ No potential for a final account

¹ Based on 8M transfers a year of whom 2% are recorded as erroneous, of which nearly 50% are due to misleading sale.

² It is not easy for a customer to appreciate information is misleading, unless telephone contact with a supplier gives a personalised price comparison.

Or the same:

- ◆ Suppliers work together to resolve the transfer
- ◆ Uncertainty over which supplier they will end up with, whilst the new supplier completes its review process
- ◆ Potential contact from the new supplier to understand the nature of the problem with the sale

The only potential disadvantage of a CRO compared to an ET is if a customer requests a CRO incorrectly, when if faced by an ET they would have decided it was easier to return to their preferred supplier through reregistration. When the CRO is overturned (by the new supplier) the customer has to take further action to be with their preferred, original, supplier (clearly if the customer wants to be with the new supplier they would not request a CRO, or an ET).

CROs have similar customer benefits over reregistration, though there may be a potential downside of the new supplier seeking further contact with the customer to reinstate the original sale.

We recommend that:

- ◆ Customer Requested Objections should be available whenever the customer believes a transfer to be erroneous.

Cost-Effectiveness

The costs of the system changes to implement our proposals for CROs and also the proposals outlined in the Consultation Document are relatively small. However, the operational costs will be less for CROs than for ETs and therefore there is no reason to restrict the customer benefit from the revised proposal for CROs on grounds of cost-effectiveness (we cover the audit implications below).

Other Issues

Supplier Concerns

Current objections practices vary markedly between suppliers and it is probably fair to say there is a degree of suspicion amongst suppliers.

A principal benefit of Ofgem's proposals (and related proposals to change the MRA) is that they make a clean break with the past. Past supplier concerns should not therefore affect the choice of future CRO process.

There may however be supplier concerns that the volume of CROs will exceed their capacity to investigate each case. Certainly it is possible that misselling is currently underreported – suppliers preferring to use reregistration in preference

to ETs – but this would seem to be an argument for a wider scope of CRO, to increase transparency, rather than the narrower one currently proposed.

Audit requirements

Current industry practice (MAP10, its gas equivalent and MAP12) is not to lay down precise requirements for an audit trail. We support this. The benefits of an efficient ET or CRO process should not be denied to a customer because a contact with their existing supplier does not meet overprescriptive rules.

Note also that the new supplier will normally investigate each CRO or ET, so that misuse of the CRO process (equally of ETs initiated by the old supplier) would be readily identified. Challenge and audit should soon follow. Poor telesales practice cannot be hidden and therefore Ofgem's powers give a strong deterrent effect.

Ofgem have however advised that taping gives additional benefits:

- ◆ makes audit easier
- ◆ can investigate individual cases
- ◆ can establish duration of any misuse

The Consultation Document strikes the right note – the proposed licence change allows for some flexibility, but Ofgem have set out their expectations. Suppliers can make their own decision as to what activity is cost-effective. There is no reason for the scope of CROs to be limited.

Cooperative Objections

Cooperative objections fully involve both suppliers and there is therefore no need to restrict their scope to “transfers initiated in error.” Whilst suppliers would probably ignore the strict wording if a customers' circumstances required it, it would be better if the Licence was not a potential constraint.

However, cooperative objections are not a substitute for CROs (as implied by Paragraph 9.4 of the Consultation Document). They do not allow the new supplier time to review the case adequately (so are not an alternative to ETs), and are also relatively complex for the old supplier to initiate.

Termination Notices – Tidying Up the Licence

The proposed revised Condition 46 states (Para 4) that a termination notice which is not valid shall not be effective to terminate a domestic supply contract.

Yet the effect of removing the right to object for lack of termination notice is that a domestic supply contract will end if the transfer completes, whether or not the termination notice was valid.

It would seem Paras 2,3 and 4 of Condition 46 could be removed.

Conclusion

- ◆ Customer Requested Objections are easier for customers than Erroneous Transfers
- ◆ There are no cost grounds for limiting the scope of CROs
- ◆ CROs should therefore be available whenever the customer believes the transfer to be erroneous

Next Steps

Powergen looks to Ofgem to use this consultation process, on gas licence changes, to ensure the widest possible debate on what is a significant issue for customers and suppliers in both gas and electricity.

Ofgem will then decide on the scope of the gas licence changes. Powergen will facilitate obtaining an equivalent scope in the MRA, for electricity.

Annex – Potential Alternative Wording of Paragraph 8b and c of Condition 46

b) the supplier who has initiated the proposed supplier transfer has agreed with the licensee that the proposed supplier transfer should not take place; or

c) the customer states that the contract with the proposed supplier transfer has been initiated in error and has requested the licensee to prevent the proposed supplier transfer from taking place.