Customer Transfer Process

Discussion Document

June 2003 35/03

Summary

The systems and processes operated by the gas and electricity industry that support the change of supplier process have enabled competition to develop. Competition has resulted in over 18 million transfers in gas and over 20 million in electricity. Prices are now set by the market rather than by regulation of supply monopolies.

These systems and processes are complex, and although designed in advance of competition starting, have remained fundamentally unchanged. These processes are critical to the operation of the market. For customers, their performance determines the time it takes to transfer, the accuracy of billing and the efficiency by which errors are rectified. For suppliers they set the conditions for how marketing can be conducted, how their business must be organised and limitations on how they can compete through service quality and innovation. For all industry parties they necessitate detailed governance arrangements to manage the dependency each industry party has on the other for the timely exchange of accurate data. The core industry activities of customer billing, charging for the use of networks, metering services and energy settlement depend upon this data being accurate and available.

Ofgem supports the view, put forward by both customers and suppliers, that the existing systems and processes are not fit for purpose. The performance of the current arrangements gives rise to problems in maintaining data quality, prevents suppliers maintaining full control of key processes, and fails to ensure transfers can take place quickly and reliably. They are also costly to operate. Increasingly, suppliers are reporting that the current arrangements are inhibiting their ability to meet the service standards they wish to offer customers and to manage the costs of operating their business. Customers have raised concerns over the inconvenience and costs they face where their transfer is delayed or late or incorrect bills are issued. Such billing problems are a significant root contributor to consumer debt.

Ofgem believes the weaknesses of current processes present a threat to the development of competition. We see risks that customers will be put off switching because of fears of the impact of process errors. These shared systems inhibit suppliers differentiating their services. In addition, the extent of customer inconvenience and potential for distress means the weaknesses of the process create serious consumer detriment. This situation is not acceptable.

The time is now right for the industry to evaluate the options for new arrangements to ensure that when customers switch supplier, the transfer is conducted promptly and reliably. Ofgem and energywatch have challenged the industry to deliver improvements. This work will be discussed at an industry summit meeting on 11 June 2003. This document discusses criteria for the acceptability of outcomes from that meeting and the review we expect it to initiate, and the service customers can reasonably expect to be entitled when switching supplier.

This paper does not discuss what formal regulatory action might arise from a failure by the industry to promote effective reform. Such a discussion appears premature. However, this should not be taken to mean that Ofgem is unwilling to take such action if industry fails to rise to the challenge.

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1. Rationale

1.1. Ofgem's principal statutory objective is to protect the interests of consumers, wherever appropriate by promoting effective competition. Promoting competition between suppliers is currently the most effective way Ofgem can promote consumers' interests in the supply market. The processes that enable customers to switch from one supplier to another are key for competition to deliver benefits to customers. Suppliers and customers must have confidence in the transfer process for competition to be effective.

1.2. This paper is prompted by two distinct but linked issues. First, customers raise with Ofgem concerns about the level of service they receive from suppliers during and following a transfer. Problems of delayed transfers, poor billing and ineffective problem resolution can affect both domestic and Industrial and Commercial (I&C) customers. Second, we are conscious that these problems could impede the further development of competition, which would be a major detriment to consumers' interests.

1.3. Broadly, criticism of the arrangements in electricity focuses on the performance and complexity of the design and failure to deliver accurate data on time. Problems with the gas arrangements focus on data quality and ownership, governance and the operation of separate systems for transferring customers for each of the licensed gas transporters.

1.4. Reforming the customer transfer process requires a strategic view, taking into account how the processes that operate in the gas and electricity regimes can be developed and how they can be aligned. Ofgem has no view as to the detailed design on the optimum solution; that is a matter for industry to take forward. Improvements could be achieved in a number of ways – changes to the way the transfer process is currently configured, increased emphasis on compliance with industry agreements or the introduction of new functions, such as an Industry Data Manager, to provide an independent and accountable service.

1.5. We share the view of customers and customer representatives that the performance of the current arrangements is unsatisfactory and must be improved.

2. Timetable

2.1. The proposed timetable for the key events in this document is as follows:

2nd June 2003	Publish a discussion document on the customer transfer process.
11th June 2003	energywatch summit.
7th July 2003	Responses requested to this discussion document.

Views invited

2.2. Whilst this document is not consulting on specific changes, comments are invited on any of the issues raised in this document. It would be helpful if responses could be submitted by 7th July 2003 and should be sent to:

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Contact

2.3. If there are any questions regarding this document please contact either Andrew Wallace (Tel: 020 7901 7067, email: andrew.wallace@ofgem.gov.uk) or Nigel Nash.

Confidentiality

2.4. All non-confidential responses to this document will be published on the Ofgem website and held electronically in our Research and Information Centre. Any confidential material should be placed in appendices and clearly marked as confidential. If possible, please provide responses in an electronic form so they can be easily placed on the Ofgem website.

3. Background

Improving Customer Transfers Project

3.1. During the summer of 2000 Ofgem initiated the Improving Customer Transfers (ICT) project. This project aimed to review the processes and arrangements in the domestic gas and electricity markets which facilitate the transfer of customers between suppliers. It sought to understand areas of weakness in the transfer process, to assess whether the market infrastructure offered an appropriate framework capable of supporting customer requirements in transferring between suppliers, and to make recommendations for improvements.

3.2. The ICT project was initiated in response to concerns that over one third of complaints received by energy consumer bodies related to the transfer process. There was also a view, expressed by a number of parties, that the customer transfer processes were complex and expensive for the industry to operate and that problems occurred, not just because of the actions of participants, but also owing to the shortcomings of the process design.

3.3. In November 2000 Ofgem published a consultation document on the ICT project[1]. It provided a critique of the transfer process and set out Ofgem's views on the options for change through refinements to the existing processes, evolutionary change where there was greater flexibility in the introduction of changes between parties or the fundamental re-engineering of systems. The document also proposed a set of draft principles against which to assess the customer transfer processes and changes to it.

3.4. In March 2001 Ofgem published a summary of the responses[2] received to the November 2000 consultation. This document reported the general view held by the industry that the customer transfer process had performed well but that in a small but significant number of instances customers experienced problems that

[1] Improving Customer Transfers – A Consultation Document: Nov 2000
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/72_30nov00.pdf
[2] Improving Customer Transfers – A Summary of Consultation Responses: March 2001
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2106_24_ict_scr.pdf

required action to be taken and that this increased costs for suppliers and led to poor performance in dealing with customers.

3.5. Responses received suggested that at the time there was little appetite for substantial re-engineering of the customer transfer process as this was thought to be costly and the benefits were uncertain. There was however some support for a more evolutionary approach and general support for specific incremental changes.

3.6. In June 2001 Ofgem set out the way forward[3] for the ICT project. This document explained Ofgem's role in the existing change control process and published a revised set of principles against which Ofgem considered that changes to the transfer process should be judged. These principles are set out in Chapter 5.

3.7. The June 2001 document also set out a number of incremental improvements to the transfer process, in particular relating to erroneous transfers, improvements to data quality and access and changes to objection policy.

3.8. Since the publication of the way forward document in June 2001 the industry has worked to implement a number of these changes. Suppliers have put in place arrangements for returning customers with the minimum of fuss following an erroneous transfer and are working to back up this customer commitment with a compensation scheme should they fail in this commitment. The industry is implementing changes to the rules for objecting in the domestic markets and have been consulted on changes in the I&C market. Progress has also been made on data handling, for example with the introduction of the Standard Address Format in electricity and moves to allow electricity suppliers on-line access to the data that they require to service their customers.

3.9. However, although these incremental improvements have eased some problems, they have done little to reduce the difficulties of dealing with the complexity that suppliers have to manage. There has yet to be a concerted attempt to remodel industry processes to meet industry needs.

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[3] Improving the Customer Transfer Process – The Way Forward: June 2001
http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/73_26june01.pdf

3.10. Three recent initiatives from key industry bodies have sought to advance the debate.

Elexon

3.11. Elexon produced a report to the BSC Panel in December 2002 "Change of Supplier and Change of Agent (closure report)"[4]. This project was initiated in response to concerns raised by BSC parties and by the BSC Panel regarding the performance of the Change of Supplier (CoS) and Change of Agent (CoA) processes that are in part governed by the BSC. This report considered the performance of the current arrangements (focussing on electricity) and concluded that improvement was required. The Report noted "The Project has demonstrated that there is a significant cost to the industry and customers due to the current inefficiencies in the process design for CoS and CoA. The costs amount to at least £190m per annum."

3.12. Elexon's report details three options for improving the design and operation of industry processes and makes recommendations as to the most effective solution.

3.13. In February 2003 ELEXON presented a draft consultation document to the BSC Panel based on the Closure Report from the Change of Supplier and Change of Agent Project. The BSC Panel discussed whether it would be useful to proceed with a consultation to feed into the forthcoming industry debate on the customer transfer process. The Panel agreed that the issues raised crossed both the gas and electricity regimes and, given that Ofgem and energywatch were about to initiate work in this area, that it would sensible to suspend further work and make the documentation available to Ofgem and energywatch as appropriate.

Gemserv

3.14. Gemserv published a report in May 2003[5] that draws particular attention to the problems of data quality. Gemserv's report suggests that the design of industry processes allows inaccurate data to be transmitted that causes degradation in

[4] http://www.elexon.co.uk/ta/panel/svg_paper23.html SVG papers 023_0297a and 023_0297b
[5] http://www.gemserv.com

data quality that leads to billing problems. The Gemserv report discusses gas and electricity and supports Elexon's conclusions that the performance of the current arrangements as a result of design problems, ambiguity in roles and responsibilities together with inadequate performance incentives for key parties needs to be improved. Gemserv concluded that "Doing nothing is not a tenable option".

energywatch

3.15. In May 2003 energywatch launched its better billing campaign. This campaign arises from the high levels of complaints energywatch receives about billing, and the levels of consumer distress caused by billing problems. energywatch have highlighted a number of areas of poor performance. Many of these are under the control of individual suppliers, but a significant part of the problem is the poor performance of underlying industry processes.

4. The case for change

4.1. In the domestic gas market there were, on average, 409,000 attempted customer transfers each month in the period March 2002 to February 2003. 10% of these requests were rejected by the gas transporter (GT), the main reasons being that the supply point had already been confirmed by another supplier or an incorrect meter number or postcode was selected. Of the remaining customers that were successfully registered, 27% were objected to and were prevented from transferring. Of the 283,000 successful customer transfers each month, 1.5% were reported to be erroneous.

4.2. In the non half hourly electricity sector the situation is different. There were, on average, 508,000 attempted customer transfers each month in the period March 2002 to February 2003. 3% of these requests were rejected by the Distribution MPAS system. Of the remaining customers that were successfully registered, 16% were objected to and were prevented from transferring. Of the 418,000 successful customer transfers each month, 2.3% were reported to be erroneous.

4.3. On average energywatch receive 3,500 complaints each month (source energywatch: data from April 2002 – March 2003) relating to problems during transfer or change of supplier. The majority of these complaints are due to suppliers erroneously transferring customers, objecting to their transfer, delaying sending out a final bill or sending out the final/opening bill with an incorrect meter read.

4.4. Commentators and industry parties are agreed that the performance of the current industry processes that support CoS and CoA need improvement. How that improvement in performance should be attained is for debate.

4.5. The inefficiencies inherent in the operation of the current arrangements present an opportunity to improve customer service and simultaneously reduce costs. However there will be a range of views about how these improvements can be best achieved.

4.6. At one end of the spectrum, some parties will present the case for major change to the framework for how data is handled and who is tasked with managing key stages. The idea of an Industry Data Manager (IDM), who would maintain a

database of supply points, address details and metering information was discussed in the ICT consultation document. This idea is not radical – Transco's role in the provision of supply point administration services is essentially that of an Industry Data Manager– but the application of an IDM in electricity would be a considerable departure from the current design. The benefits of such an approach are thought to be efficiencies from a single, central gas and electricity database with the opportunity to have responsibility for ensuring the accuracy of data submitted to it with clear definition and control for the transmission of data between parties. However, creating new functions may generate additional cost.

4.7. At the other end of the spectrum of views, some suppliers and distributors may argue that the current structures are adequate, but significant improvement can be attained by all parties adhering to the rules. Whilst there may be a good case for tightening definitions and ensuring that there are clearer incentives for parties to comply with their responsibilities, this view would suggest there is no need for further expenditure on developing and implementing new systems.

4.8. Ofgem has no prejudice as to the developments needed to deliver a step-change in performance for customers. We suggest that the industry should proceed by developing a clear picture of the end game, and then develop a sensible timetable for progressing towards it. This timetable might encompass both large-scale and incremental changes to meet the requirements of particular issues.

4.9. How this vision can be expressed is discussed further in the following chapter. However, in adopting a blue-print for change, the industry must ensure it addresses the substance of consumer complaints. These tend to fall into the following categories:

- **Time taken to transfer**. Customers would like to be able to transfer far quicker (e.g. next day) than is currently permitted. Where a transfer is delayed for any reason the customer should be informed and given a clear date for when the transfer will take place.

- **Different arrangements for gas and electricity**. The two regimes impose different timescales for transfer and different sources of information for resolving queries. Synchronising a gas and electricity transfer for the same day is difficult for suppliers to achieve.

- **Billing problems following transfer**. Billing delays and inaccuracies can occur with both closing and opening accounts, delays and inaccuracies.

- **Problem resolution**. Customer issues are not resolved quickly and may require repeat contacts.

- **Accountability**. Failure of suppliers to be accountable for resolving problems

- **Information provision**. Key information (identity of supplier, metering details) is not readily available.

5. Deciding on change

Change will occur

5.1. There will be change, as industry processes respond to changing needs for either performance or functionality. Currently change is managed on a piecemeal basis responding to particular issues. There is no overall design that either the gas or electricity regimes aspire to and against which change can be planned. Nor is there any mechanism for bringing together arrangements for gas and electricity to meet the needs of dual fuel customers.

5.2. Whilst competition in meter ownership, meter operation and data collection help to drive commercial efficiencies, the administration of these processes during change of supplier adds another layer of complexity. There have been suggestions that change of agent could be de-coupled from the change of supplier process. In addition, the Elexon report concluded that, for electricity, another supplier agent should package all the data associated with metering and data collection and be adequately incentivised to transfer accurate data on change of supplier to the new supplier.

5.3. The value of establishing an overall vision for how these processes may operate in the future would be to give some shape and direction against which the resolution of current issues could be soberly assessed and to provide some comfort that there would be a genuine basis upon which to look forward to a period of relative stability and high-performance.

5.4. Ofgem set out principles against which proposed changes should be assessed in the ICT documents. These are set out in the table below:

Principles	**Supporting Objectives**
Control A customer's chosen supplier should have control over managing the transfer process.	Data available when needed. Data items to be consistent and accurate.
Timing A new supplier should be able to take over responsibility for	

supplying a site with the minimum of notice, potentially immediately.	Data available when needed.
Development Suppliers should be able to adopt new processes at their own pace. Industry wide changes to be kept to a minimum. Suppliers should, as far as is practical, be allowed to develop their systems and processes without being constrained by other industry parties, except where required to achieve interoperability.	Current interfaces to be maintained. Service providers to have appropriate incentives to deliver enhanced facilities. Industry agreements should specify data items and business processes sufficient to enable interoperability. Wherever possible, parties should be free to vary business processes by agreement.
Customers The transfer process should be invisible to customers.	Data available when needed. Data items to be consistent and accurate.
New entrants The transfer process should be as simple and accessible as possible to enable new entrants to the market to operate.	Industry agreements should specify data items and business processes sufficient to enable interoperability. Wherever possible, parties should be free to vary business processes by agreement. Data available when needed. Data items to be consistent and accurate.
Regulation The transfer process should require a minimum level of regulation.	Industry agreements should specify data items and business processes sufficient to enable interoperability. Wherever possible, parties should be free to vary business processes by agreement.
Settlement The transfer process should enable the accuracy and integrity of Settlement to be achieved.	The transfer process should not unnecessarily impose additional complexity and cost on Settlement.

5.5. Note that these principles are not presented as absolute criteria that must be met, but as a checklist against which proposals can be assessed. Were a proposal to fall outside these principles then this should be justified.

5.6. Elexon, in their project report "Change of Supplier and Change of Agent Improvements" also considered the goals and principles which could be used for aiding the industry in deciding upon the features for an effective change of supplier process:

Requirements	**Process Principles**
1. Allows a customer to immediately and easily change supplier	1. Guaranteed to complete in a defined, short time
2. CoS meter reading readily available to old and new suppliers	2. Structurally simple and easy to understand
3. Allows new suppliers to immediately gain customers	3. Protects and enhances data quality
4. Ensures all energy can be allocated to a supplier in settlement	4. Adequate incentives matched to clear responsibilities and clearly defined interfaces
	5. Cost effective, with costs equitably shared amongst participants

5.7. energywatch also promote a set of entitlements for customers who are clients of the transfer process, and who have every reason to expect that their decision to change supplier should progress smoothly as agreed with their new supplier. energywatch consider that the customer entitlements relate to:

Timing.	The transfer should be quick and efficient and not cause the customer hassle. It should be completed within a given time. The transfer process should provide, on dual fuel transfers, for the customer's gas and electricity to be switched at the same time.

Information.	The transfer process should be transparent and keep the customer informed generally and especially over difficulties.
Accountability.	The supplier should be able to resolve problems without the customer being affected. The supplier should be required to operate against standards of service, which if not met entitle the customer to automatic compensation.
Billing.	The transfer process should deliver closing and opening bills within a defined time period and should rely on actual or customer readings.

5.8. Ofgem believes the industry should be capable of addressing customers concerns, by meeting the success criteria suggested above. There is considerable experience in the industry of where they fail and how it could be designed to succeed. There are a variety of potential solutions, for example, increased compliance and incentives for data management; new data flows between suppliers; new industry roles (such as Industry Data Manager) that should be evaluated.

5.9. This is now the time to take a considered view of the market and make sensible planning assumptions for when solutions can be implemented. Ofgem is aware that companies are operating in an environment where there are a number of competing priorities, such as metering competition and BETTA, but this should not stop organisations from debating the shape that they want industry processes to take in the future (BETTA should not in its own right impact adversely on the change of supplier processes as the retail baselines in Scotland and England & Wales are similar. The Master Registration Agreement already includes the Scottish trading arrangements within the industry baseline).

Will change affect all parties?

5.10. The purpose of the processes that support change of supplier and change of agent is to enable competition between parties. The industry must agree the conduct and design of these processes. Although far from a unique situation, it is understandable that there will be tension in cases where contestants are asked to

collaborate. As discussed above, there will be a spectrum of views about how improvements in performance can be delivered.

5.11. Whilst some parties will consider such costs to be an investment to increase performance and reduce operational costs, others may be content with the current arrangements and see little benefit from change to their operation when viewed in comparison with their new-entrant competitors.

5.12. Whilst the current processes may be deficient, the deficiencies are known and suppliers have workarounds in place to mitigate their effects. A proposed change may promise considerable benefits, but its introduction may jeopardise operational performance or other priorities in the short term.

5.13. The changes required by participants will depend on the design architecture chosen. It is entirely possible that the industry could adopt an evolutionary approach that allows suppliers to make changes at their own pace over and above an agreed minimum baseline requirement. Alternatively, the architecture could be such that some suppliers could maintain the existing baseline requirements whilst others are able to adopt new and innovative ways of handling and processing data. This minimum standard is likely to be driven by interoperability and data access requirements.

5.14. In any case, where change is identified, its implementation should be planned carefully and adequate notice given to minimise risks to the operation of the market. Changes that require modification to systems may require more notice than those that refer to higher standards of data management through better management and scrutiny of current processes.

6. Way forward

Ofgem's Role

6.1. The discussion set out above is predicated on two propositions. First, that there is a broad recognition of a need for change. Second, that there is a willingness to implement the required change. The first steps are for the industry to decide what change is required and the level of commitment to make the necessary changes.

6.2. Ofgem's role in developing and implementing change was discussed in detail in the ICT document. In particular we have a role in approving key changes to central industry documents which define the change of supplier process. In addition Ofgem has set out the key principles against which we consider that the requirements for particular changes should be judged.

6.3. Ofgem considers that it would be inappropriate to be cast in the role of project manager for determining the changes that should be made to the customer transfer processes. The imperatives for change in this case do not stem from regulatory or legislative requirements (as for example in the case of the opening of the competitive market or the introduction of NETA) but rather from commercial incentives identified by industry parties.

6.4. However Ofgem is concerned about improving performance to benefit customers. Ofgem's primary duty is to protect the interests of customers, wherever possible through the promotion of effective competition. Ofgem notes the concerns raised in the recent NAO report[6] that the reluctance of some electricity customers to transfer supplier may have dampened price competition. For competition to be effective, customers must have confidence in the operation of the transfer processes.

Next steps

6.5. Industry participants have indicated that they believe the scope of this review, across both industries, is too big to be dealt with through the normal change control channels. This view is shared by Ofgem and we are therefore working with energywatch to hold an industry summit meeting on 11th June to consider the strategic vision on the future of the change of supply process.

6.6. At this summit meeting the industry will be asked whether they consider that the existing industry architecture provides an adequate service for customers. To the extent that it does not, the industry will be challenged to establish a review of the existing process and report back with recommendations in a set timescale. It is for the industry to consider whether such a review would best be facilitated by an independent project manager.

6.7. Work is already underway, with industry parties developing proposals for a project plan. Ofgem consider that this a real opportunity for the industry to demonstrate that it has learned the lessons of the first years of market operation, and has a commitment to ensuring that the processes will meet the needs of customers and suppliers in the future. Such a plan should set firm milestones for the first stage, an analysis of the root cause of the problems, consideration of the changes needed and how they will be achieved, as well as setting targets for how the processes should perform in the future. Ofgem will support the industry to develop and put into action such a plan.

[6] NAO New Electricity Trading Arrangements in England and Wales report
http://www.nao.gov.uk/publications/nao_reports/02-03/0203624.pdf