

# **Customer Transfer Discussion Document**

## **A response by British Gas**

### **4 July 2003**

## **1. Introduction**

British Gas is pleased to respond to Ofgem's recent discussion document on customer transfers and the steps that the industry should take into the future to ensure that customers are able to transfer from one supplier to another with the minimum of inconvenience.

The industry has been working to improve the transfer processes for a number of years now. Whilst significant change has already occurred, and is continuing to happen, we now believe it is timely to undertake a more comprehensive review of transfer processes.

We are fully supportive of the view that where customers switch supplier, the transfer should be conducted promptly and reliably. Thorough investigation to determine where these improvements can best be made will be required.

This document follows the structure of Ofgem's own document for ease of reference.

## **2. Rationale**

We share Ofgem's concerns over the complexity of the systems that are in place to facilitate customer transfer and agree that it is timely to review the operation of these processes. However, it is important to remember that the current processes have facilitated 38 million customer transfers and whilst there is scope to ensure that these transfers are managed more smoothly and more quickly, the vast majority of these transfers have been handled in a satisfactory manner. We do recognise though, that the number of exceptions that are generated are unacceptably high.

Difficulties in billing associated with the complexities of the transfer process are a key reason to seek to improve both the transfer processes and the quality of industry data. The improvements that have now been made to the existing processes have had an incremental effect on the robustness of the process, however we believe that it is now appropriate to take a larger step change to resolve some of the fundamental problems with the transfer process.

Ofgem comment that they do not believe that competition in the domestic gas and electricity markets is mature, we disagree with this assertion. It is our view that competition is mature, Ofgem's own figures show that 38 million customer transfers have taken place in the 4-5 years since competition was introduced.

The market has consolidated into six large players and a number of smaller players – this is consistent with the definition of a mature market. In an evolving market, there is usually significant new entry as companies compete for market share, as the market matures, consolidation takes place, leaving those companies that have managed to win significant market share, or those that have managed to reduce their cost base below the average. The number of new entrants to the market has also fallen, indicating that there are no excess profits to be made – a further indication of a mature competitive market.

Ofgem's latest research indicates that the majority of customers consider that the transfer process is fairly easy and straightforward, however we also note that 11% of customers in gas and 8% in electricity found the process complex or difficult, this indicates that there is room for improvement. There are a number of areas in which the process can be improved to ensure that the customer enjoys a slicker transfer process and that exceptions are reduced to a minimum. A significant amount of work has been done to improve the existing processes, however the industry has probably now reached the stage where more radical change is required to fundamentally improve the transfer processes. We are therefore supportive of this review document published by Ofgem, the initiatives that the Industry has instigated and the focus that is now being given to this debate.

### **3. Background**

The Improving Customer Transfer (ICT) project was instigated by Ofgem in 2000. It involved all suppliers and has had a stated aim of encouraging competition by making it easier for customers to switch from one supplier to another.

British Gas responded to Ofgem's 2001 consultation on the ICT project, supporting most of the principles set out there and reinforcing the need for cost-effective change. We believe that the industry has made significant progress in the two years since that document was published, to address some of the shortcomings of the original transfer process. It is timely now to review the fundamental operation of these processes and to consider fundamental change to the way in which they operate.

Significant effort has been made to improve the transfer processes and we are pleased that Ofgem note the steps that the industry has taken since the implementation of the ICT project to improve the process. We have commented below on some of the key changes that have taken place over the last few years. Provision and management of industry data is a key element to the success of an industry transfer process. Steps have already been taken to improve access to data but we accept that there is still a long way to go. It will be important that the industry decides collectively on the most appropriate way to implement change.

Ofgem comment that the existing transfer processes are expensive to operate. However, we need to be sure that where we do make changes to the existing processes, that these changes are cost effective and offer significant benefits to customers.

In section 3.8, Ofgem comment on the work that has been done in moving towards the SAF address format. It is important that the industry continues to work to ensure that the work undertaken against SAF updates has been fully delivered to achieve maximum benefit. Industry data still shows high levels of non-SAF compliant addresses.

The industry is moving towards a system of more easily accessible data provision, however only 3 out of the 14 Distribution Businesses provide MPAS on Line and this low level of provision continues to prolong supplier issues regarding selection of correct customer details prior to registration. Significant improvements can be made in this area, if all Distribution Businesses provide MPAS on Line, this would ensure that all suppliers could view current customer registration data instead of data which could be 3-4 months old. This option is neither costly for Distributors to implement nor would it take long to achieve.

Both of these items (i.e. SAF and MPAS online) are significant contributors to the level of erroneous transfers in the electricity market.

### Existing Industry Groups

The industry has convened several groups to look at issues around the customer transfer process and other data related issues. British Gas is committed to understanding and addressing the root causes of problems that affect the customer transfer process.

At the Energy Summit hosted by Ofgem and energywatch in June 2003, suppliers collaborated to produce an industry agreed approach to implementing change in customer transfer processes. British Gas fully support the proposals that were put forward at the summit and we are pleased to see that these complement the key principles set out in Ofgem's document.

### Industry Achievements to date – transfer processes

There have been a significant number of key achievements that the industry has delivered, or is currently developing. Some of these are mentioned in the discussion document – others are mentioned below.

**Mod 487 – Supplier ID:** British Gas has long advocated the need for early release of supplier ID in gas to mirror the provisions in electricity. We have secured industry and Transco agreement to release supplier ID automatically at D-7 to the new supplier – this will be properly introduced in November 2003. We would prefer to have had supplier ID released at a much earlier stage in the transfer process and will continue to press for further change.

**Mod 591 – T flag in gas:** This amendment will see the process in gas mirror that in electricity, with an indicator available to highlight instances where there has been a change of tenancy and thus prevent an objection being raised.

**Debt Assignment:** – suppliers have developed and are committed to a process which will allow prepayment meter customers in debt to transfer to another supplier. This process, where the debt is assigned to the new supplier will provide customers in debt with easier access to the competitive market.

**Co-operative Objections:** in gas suppliers are now raising co-operative objections in cases where the new supplier identifies that a transfer should not have been registered – the results of this trial are very positive, showing that significant numbers of erroneous transfers have been avoided. It will soon be formally introduced as a Licence Condition as part of the changes to objection reasons.

## **4. The case for change**

### Existing Processes

There is clearly scope to improve the transfer processes. However, we challenge Ofgem's assertion that these processes are not fit for purpose. 38 million customers have transferred using the current design – indicating that whilst there may be room for improvement, the process does work. Our view is that the process is not operating at optimal efficiency for customers or market participants, and needs reviewing fully in order to determine where it could be improved.

We support the current process of analysis and evaluation to fully understand the root causes of the problems with the transfer process and to develop strategies to deal with these causes rather than the symptoms. We hope that this approach will lead to a collaborative, practical solution for gas and electricity. Where appropriate, we support

the harmonisation of processes in electricity and gas, particularly in relation to data quality and governance.

We agree that the best way forward is to develop a clear picture of how the transfer process should look in the medium to long term and then devise a plan which can move the industry towards that vision. This plan may include elements of incremental change, and changes which will need to be implemented simultaneously i.e. so called 'big bangs'. The plans for the proposed changes and the timetable for delivery of change will not be evident for some months to come as the industry groups are just embarking on the initial evaluation and analysis phase of the process.

We support Ofgem's view in 4.8 that the industry must develop a clear end-game picture and relevant timescales for progressing towards it. The industry needs to also consider the implications of a pan-European market and ensure that any processes developed for the UK are able to also function in the rest of Europe. There are clear benefits for the UK Industry in leading these changes rather than following principles designed elsewhere.

Any changes to the transfer processes should be governed by some key principles, new processes should be simple, straightforward, automated, aligned, and cause minimal exceptions.

## 5. Deciding on change

We have commented below on each of the guiding principles that Ofgem, Elexon and energywatch have set out in their respective documents.

### Ofgem's Key Principles

Principle	BGT Comment
Control	<p><u>The new supplier should have control over the transfer process.</u></p> <p>We support the principle that the new supplier should have ultimate control over the operation of the transfer process, however they must not be able to impose significant cost on the old supplier.</p>
Timing	<p><u>Faster (next day) transfers.</u></p> <p>We agree that customers should be able to change supplier in a short period of time however, we do not necessarily support the assertion that the industry should be working towards a solution that will enable next day transfer - any such proposal will need to be subject to rigorous cost-benefit analysis. It is our view that customers would be satisfied with the reassurance of a guaranteed transfer date, rather than immediate transfer.</p>
Development	<p><u>Change should be able to be implemented by each supplier at their own pace (rather than industry wide change)</u></p> <p>Where possible, industry participants should be able to implement agreed change at their own pace, so long as they do not delay the rest of the industry from progressing.</p>
Customers	<p><u>The transfer process should be seamless and invisible to customers.</u></p> <p>We agree that the transfer process should be relatively simple for customers. However, we do not support the view that it should be completely invisible. In</p>

	<p>many other industries, the customer plays a very active role in the transfer process – for instance in the insurance market where the customer phones around to obtain the best quote and must provide a significant amount of information simply to obtain a quote. Customers are similarly involved when they change their bank, mobile phone provider or cable TV service. Where a customer has involvement in the transfer process, then there are less likely to be erroneous transfers.</p>
New entrants	<p>It will be important to ensure that any changes to the transfer process do not deter market entry. British Gas supports cost-reflective initiatives that will reduce the levels of complexity and introduce added transparency to the customer transfer processes.</p> <p>Interoperability is a key factor in delivering improvements in customer service, where new entrants have to design new systems and processes, they often experience difficulties which can impact on the ability of other suppliers and their agents to complete transfers accurately and in a timely manner. Reducing complexity should help to ensure that these issues are minimised.</p>
Regulation	<p>We believe that in determining the changes that are necessary as the industry moves forward, self regulation should be the preferred method of governance and Ofgem should put into practice its stated policy of withdrawing from prescriptive regulation. This approach has worked well in setting up the co-operative objections trial and in developing the ETCC compensation scheme. We are pleased to note that Ofgem also view their role in these developments as one of advisor rather than driver.</p>
Settlement	<p>We believe that there is scope to reduce the complexity of the settlement processes for domestic customers.</p> <p>When a domestic customer changes gas supplier, the settlement issues are relatively straightforward as far as the customer is concerned, as the AQ process does not acknowledge consumption at change of supplier. The impact of this is smeared across suppliers when the bills arrive.</p> <p>Conversely, for electricity, the customer can be directly affected by the overriding settlement requirements to reconcile and validate every single meter reading against stringent controls. Due to issues with settlement data and processes, customers can receive confusing billing information, particularly around transfers, that the settlement rules prevent suppliers from resolving.</p> <p>Any amendments to the settlement processes must be evaluated for full cost effectiveness.</p>

## Exelon's Key Requirements and Principles

Requirements	British Gas comments
Allows a customer to immediately and easily change supplier.	We have commented on this area above.
CoS meter reading readily available to old and new suppliers	We wholeheartedly support this change.

Allows new suppliers to immediately gain customers.	Analysis and evaluation to determine whether next day transfer is a desirable option will need to be carried out.
Ensures all energy can be allocated to a supplier in settlement.	We have commented on settlement issues above.
<b>PRINCIPLES</b>	
Guaranteed to complete in a defined short time.	We support the notion of a guaranteed transfer date which can be provided to the customer for additional surety.
Structurally simple and easy to understand	We agree that where possible, we should attempt to reduce the complexity of the transfer systems and processes.
Protects and enhances data quality	<p>We support this principle, however full cost benefit analysis must be carried out to ensure that any such enhancements or data cleansing exercises are cost-effective.</p> <p>Improving the data that exists within the industry must be a fundamental part of any review of the transfer processes. Many of the problems that exist today result from inaccuracies and inconsistencies in the data that is exchanged as part of the change of supplier process.</p> <p>The opportunity to correct &amp; align data with the various market participants is severely restricted by manual, inflexible &amp; costly processes. (The resolution of the D0095 exceptions, which reflect inconsistencies in data, is currently impeded by the industry processes themselves which can prevent data issues spanning a customer transfer from being resolved, perpetuating the problem. Participants inability to correct &amp; align data items leaves these issues unresolved (affecting both material &amp; non-material changes) and ends with inaccurate data being passed around the industry via the CoS &amp; CoA processes.</p> <p>A further data quality issue that needs to be reviewed is the number of disparate databases maintained by various market parties (i.e. the same piece of data held by numerous parties increases the difficulty in maintaining data integrity, thereby increasing the potential for misaligned updating of data). Ownership of data items must be clearly defined. Currently several industry parties believe their view is correct and clarification on which party has responsibility for ensuring the integrity of the data item should be developed.</p> <p>British Gas would support the introduction of industry standards for the governance, maintenance, ownership, cleansing and monitoring of data.</p>
Adequate incentives matched to clear responsibilities and clearly defined interfaces.	Clearly defined obligations coupled with effective governance, monitoring and enforcement should ensure that all participants meet their obligations.
Cost-effective, with costs shared equitably amongst participants	<p>All change must be analysed to ensure that it is cost-effective.</p> <p>We agree that costs should be shared equitably between market participants.</p>

### Energywatch customer entitlements

<b>Entitlement</b>	<b>British Gas comments</b>
Timing	<p>We support the principles set out by energywatch which state that customers should be able to transfer within a guaranteed period, that they should transfer swiftly, on a guaranteed date and that their gas and electricity should be able to transfer on the same date.</p> <p>Any changes to harmonise gas and electricity should be recognise customer (and Settlement) expectations and requirements. For a domestic customer, gas and electricity switching should be very similar. Therefore, future change should work to remove some of the confusing elements that mean a customer has a different experience/service level from the same supplier for different fuels.</p> <p>Alignment of timelines will bring significant benefits for customers and should simplify the process for suppliers.</p> <p>For larger customers, more tailored solutions for customer transfer - such as the contract rounds for I&amp;C gas, or change of supplier/meter for half hourly customers, or the synchronised transfer of groups of meters – may be required.</p>
Information	We agree that the transfer process should be relatively simple for customers, however, we do not necessarily support the view that it should be completely invisible.
Accountability	We do not believe that automatic compensation will lead to process improvements. There are already financial incentives on suppliers to 'get it right first time' – exceptions inordinately add to the cost of a transfer. Clearly suppliers must have in place adequate complaint procedures to consider cases where a customer believes the supplier has been at fault.
Billing	<p>Issues with industry data can lead to delays in customer billing so resolving some of the outstanding issues with industry data will have a key impact here.</p> <p>When deciding what change is most likely to improve the transfer processes, the industry must ensure that all proposals are subject to rigorous cost-benefit analysis. Where a change does not add value, then we should not continue with it.</p>

## **6. Additional areas for comment**

A further area that the industry must consider is a framework within which commercial principles can be discussed and agreed prior to designing solutions. Currently, the industry can spend too much time proposing change only for the change to be rejected by parties delivering monopoly services. This is an area where Ofgem should be involved to offer clear assistance to establish the key principles to moving such issues forward.

### **Change of agent issues**

Using existing processes, it is difficult for larger suppliers to migrate a portfolio to new commercial agents which impedes metering competition. BSCP513 provides for a BCoA process but as it is not mandated, it does not provide for an effective solution. As an alternative to BCoA we have to utilise daily capacity with the agents and Service Providers which slows down migration activities due to restrictive system capacities within the industry.

We also have concerns over the quality of the data that is passed from agent to agent – poor data quality issues can impair suppliers' ability to serve customers, as well as adding significant costs to resolve. There are also issues with the interoperability of agents, resulting in increased cost and time to resolve data issues.

In gas, currently Change of Agent is not an issue, as a supplier simply moves portfolios at the end of contracts. For electricity, the micro-management nature of the process (i.e. every meter point has to go through a transfer process) adds complexity.

### **Alignment between gas and electricity processes.**

There are a number of fundamental areas where the transfer process differs between gas and electricity, it will be important going forward that full consideration is given to the feasibility and desirability of harmonisation in gas and electricity.

### **Transco LDZ Disposal**

Any move by Transco to dispose of Local Distribution Zones will need to be facilitated in such a manner that there is no fragmentation in current network code services (in this case SPA and UK Link), between network owners given the potential impact on the Change of Supplier process. Gas network owners should also be required under the terms of any disposal to work actively to support the industry work groups considering industry change.

## **7. The way forward**

The industry has been working to improve the customer transfer processes for a number of years now. Whilst significant change has already occurred, and is continuing to happen, we now believe it is timely to undertake a more comprehensive review of transfer processes.

We are fully supportive of the view that where customers switch supplier, the transfer should be conducted promptly and reliably. Thorough investigation to determine where these improvements can best be made will be required.

We agree that Ofgem should have a significant, although not leading role in the discussions to improve the transfer processes. The project should be driven by the industry through the industry groups that have been set up to investigate the change of supplier processes. A supplier-led project will ensure that the changes that are introduced will offer the most benefit to customers, combining a process that enables ease of switching at a cost-effective price.

British Gas look forward to playing an active role in this exciting project.