

Nigel Nash
Head of Market Infrastructure
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Head Office
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Telephone: 01738 456400
Facsimile: 01738 456415
email:

Our Reference:

Your Reference:

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Dear Nigel,

Customer Transfer Process - Discussion Document

Thank you for the opportunity to comment on the above paper, in which Ofgem set out the case for change to the customer transfer process in gas and electricity. This appears to rest on the premise that the existing systems and processes are not fit for purpose. We do not agree with this general statement and set out our reasons for this below.

First, Ofgem recently announced¹ that competition in the domestic energy market is vigorous with 19 million customers having switched energy supplier to date. Of these customers, 78% of gas switchers and 85% of electricity switchers found the transfer process easy (with only 11% and 8% respectively finding the process not easy). It is therefore clear that the overwhelming majority of customers that have exercised their choice to change supplier were satisfied with the process.

Second, Ofgem state that on average Energywatch receive 3,500 complaints each month relating to problems during transfer or change of supplier. However, in our view this is misleading as problems experienced *during* change of supplier are not necessarily *caused* by failures in the transfer process per se. Indeed, two of the four categories into which the majority of these complaints fall (erroneous transfers and objections) are clearly caused by factors outwith the design and operation of the transfer process itself. In addition, significant time and resource are currently being invested by Ofgem and industry to improve performance in both these areas, many of the benefits of which have still to feed through to the complaints statistics.

Third, Ofgem state that suppliers are reporting that the current arrangements are inhibiting their ability to meet the service standards they wish to offer customers and to differentiate

¹Domestic Gas and Electricity Supply Competition - Recent Developments; June 2003

their service to customers. We absolutely disagree with this statement - the standard of service provided by individual companies is determined by the commitment (or lack of) of senior management to good customer service in all areas. Moreover, Energywatch's most up-to-date complaints figures for February to April 03 show a substantial difference in individual suppliers' performance. For example, the lowest rate of transfer related complaints was 1.22 (SSE) compared to the highest at 6.79 (TXU). In addition, we had the second lowest rate of complaints on both account and billing (0.024) and direct selling (0.72). It is therefore apparent that suppliers can differentiate their services and performance using the existing industry processes and systems.

This is supported by the recent J. D. Power 2002 UK Electricity Supplier Domestic Customer Satisfaction Study, which ranked us joint best for customer satisfaction. In our view, therefore, many of the problems experienced by customers during the transfer process are caused by failures (or non-compliance) by individual suppliers' processes and systems, rather than 'shortcomings' in specific industry-wide processes.

Finally, Ofgem state that the weaknesses of current processes present a threat to the development of competition. However, we believe that overhauling the customer transfer process at this stage in the development of the competitive market would, rather than removing a barrier to competition, increase the uncertainty about the regulatory and systems requirements faced by market participants. In addition, substantive change to the transfer process would necessitate significant investment in systems development and potentially higher on-going operating costs. This would significantly distort decisions about entering (or leaving) the market.

Notwithstanding the above concerns, we recognise that a small but significant minority of customers have experienced difficulty in changing supplier and we fully support the aim of improving all customers' experience of the transfer process. We firmly believe that in order to deliver real and lasting improvement it is vital that we first understand what drives the problems experienced by customers. To this end, the industry is currently undertaking an analysis of the root causes of specific problems experienced by customers, which we firmly support. This will then be used to identify the most appropriate cost-effective solutions, which may or may not involve changes to the transfer process.

The above issues were discussed in detail at the joint Ofgem / Energywatch summit on 11th June and consensus was reached on the above course of action. We look forward to discussing the outcomes of the root cause analysis with Ofgem in due course.

Yours sincerely

Rob McDonald
Group Regulation Manager