

Update on COS project progress

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1. Objectives for the meeting

1.01 This paper provides an update on progress with the COS project. It follows the conclusion of the planned Change of Supplier Expert Group (COSEG) meetings and sets out the key challenges to the achievement of the longer term objective for a “fast, reliable and cost effective change of supplier process that will facilitate competition and build consumer confidence”.

1.02 We are seeking comments from SMCG on:

- Our proposals to identify quick wins (including tightening up the three week switching requirements) as well as longer term reforms.
- The reform proposals considered by COSEG.
- The outcomes we propose to test through our information request.
- The high level plan towards implementation of longer term reforms.

1.03 We note the current interest from consumer groups, media and government on improving the switching process. We share the ambition to make the transfer process quick and easy for customers, so that they can take full advantage of our reforms for a simpler, clearer and fairer market.

2. Next steps

2.01 We are preparing an information request for suppliers and Cental Bodies, to send at the end of October, to support an Impact Assessment (IA) on the reforms set out in this paper. We are asking for responses by 11 December and will use these to firm up our proposals. We aim to publish our consultation and draft IA in early March 2014.

2.02 We also intend to publish information in November setting out progress on the COS project to date and next steps. Amongst other things these will set out our view on what quick wins should be initiated now and which require further consultation next year. This information document aims to provide an update for those that were not able to attend COSEG meetings.

3. Testing our proposals and timescales

3.01 Following discussions with COSEG and other interested parties, we believe that we can achieve our objective of a fast, reliable and cost effective change of supplier process that will facilitate competition and build consumer confidence. With COSEG's assistance we have identified the key changes needed to deliver this objective for consumers. We will test these in our IA. However, there remain options on the detail for how we should proceed. In some areas, in particular on COS meter reading and interactions with the contract cooling off period, the options analysis is still under development. We will continue to develop these areas with the aim of including any potential changes in our IA and consultation.

3.02 Our domestic and non-domestic consumer research stressed that reliability was the main priority for customers. We therefore propose to proceed with all practical and proportionate reforms identified to improve reliability. Many of the proposals on reliability can be brought forward as quick wins and our aim is to bring these in as soon as possible. Some of these reforms can prevent the transfer process dragging on for customers beyond the current three week target.

3.03 The other reforms identified are more stretching in terms of their impact on systems and cost. These reforms are likely to take longer to implement and can deliver improvements to speed and efficiency as well as reliability

3.04 We would welcome SMCG's view on the following outcomes that we aim to test through combinations of the proposed reforms:

- The potential for within day, next day and 5 day transfers.
- What transfer speeds are appropriate for Smart, AMR and traditional meters.

3.05 In Appendix 1 we have set out an indicative timetable for achieving the longer term reforms. This is based on two key assumptions. Firstly, that Ofgem will facilitate change by using its Significant Code Review (SCR) powers. Secondly, that were registration services to be centralised under the DCC, this should not happen until 2 to 3 years after DCC go-live. We would welcome the opportunity to test these assumptions and the indicative timetable with SMCG given the ambition to secure radical improvements for customers on a much faster timescale.

4. Stakeholder engagement

4.01 We have held seven full day workshops with COSEG. This group has now closed although we have retained the option to hold ad-hoc meetings and we are still running a COSEG sub-group to review the outstanding COS meter read issues. COSEG has been well attended by suppliers, networks, DECC, consumer groups, code administrators, metering agents and experts from other industries.

4.02 We have supplemented COSEG with discussions with individual energy companies and industry groups. We have met with representatives from other industries (Ofcom, Payments Council, Vocalink and Laurasia). Our independent consumer research with [domestic](#) and [non-domestic](#) customers has been influential in positioning our work and building the case for reform.

4.03 We are continuing to meet with individual stakeholders and industry groups.

5. Proposed reforms

5.01 In this section we summarise the output of COSEG and set out the potential quick wins as well as the longer term system changes. In addition, we set out a further proposal to tighten up the three week switching requirements.

The main proposals are summarised in the tables below. We are aware that industry has already proposed or are considering a number of changes to industry codes following on from discussions at COSEG.¹

QUICK WINS	LONGER TERM SYSTEM CHANGES
1. Objection performance assurance	1. New centralised registration service
2. Regulation/incentives on Erroneous Transfers	2. Reduce the objection window
3. Higher standards for COS billing	3. Remove/reduce the gas confirmation window
4. Reduce electricity meter agent data exchange dependencies (smart metering)	4. Reduce electricity meter agent data exchange dependencies (AMR and traditional metering)
5. Improved customer switching information	5. Supply Point Nomination
6. Improved data quality	
7. Three week switching obligations	

5.2 Quick wins

5.02 The proposed quick wins below focus on the regulatory arrangements that support the reliability of the transfer process for consumers. They do not require significant changes to industry systems but are expected to lead to refinements and improvements to processes and outcomes for consumers and can help achieve the three week switching standard required by EU Third Package.

1. Objection performance assurance

5.03 Concerns have been expressed by customers and suppliers that the objection rules set out in licences and industry codes are not adhered to in some circumstances. The impact of objections for customers can be significant for example, customers in the non-domestic market that have their transfer blocked incorrectly may incur high out-of-contract tariffs and be persuaded to enter a new contract with their current supplier to avoid these. Other customers may be prevented from accessing more advantageous tariffs and services.

5.04 The objection rules are set out in licences and industry codes. Ofgem has undertaken enforcement action against suppliers for licence breach on a number of occasions. The use of the objections process has also led to a number of disputes being raised under industry codes.

5.05 We consider that there should be proportionate assurance measures to provide confidence to customers and the market that the objection rules are being adhered to. We are therefore proposing to increase our monitoring of supplier behaviour in this area. We would also welcome suppliers being proactive in this area, for example in providing Ofgem with independent audits on their performance. Ofgem would expect to take any such measures into account when determining our priorities for monitoring.

5.06 We also propose to undertake a review of suppliers' communications with customers when an objection has been made to ensure that these meet the licence requirements and to identify best practice.

2. Erroneous transfers (ETs)

5.07 ETs can have a damaging impact on customers' perception of the market and can be a source of confusion and distress for those customers affected. ETs could potentially be more serious for customers with smart meters if those meters stop/start behaving as prepayment meters when this is not expected or were remotely disconnected or reconfigured. The current ET rate for the large domestic suppliers is around 1% of all successful transfers (around 55,000/year).

5.08 Our assessment is that the majority of ETs could be avoided and that the explicit obligation and incentives on suppliers not to make an erroneous transfer are weak. We therefore propose to introduce a new licence condition

¹ E.On have raised UNC468 to require GDNs to populate the UPRN field. A group under the MRA is considering improvements to the process of returning ET's customers. Other potential changes being considered are: A change to MAP09 under the MRA to require DNOs to inform suppliers of the actions following an address update request, introducing a new process to allow electricity registration request to be withdrawn and finally, removal of the 5-day objection resolution period.

on suppliers to take all reasonable steps to avoid making an ET. Were we to consider this an necessary additional step, in the context of the new SLC25C standards of conduct obligation, our aim would be to consult on this measure and set out the draft licence obligations in the March 2014 consultation..

- 5.09 As an additional measure, we are also considering the potential to require suppliers to pay compensation to customers that has been subject to an ET. We will consider this as part of our wider review of the Guaranteed Standards of Performance.²

3. Change of supplier opening and closing bills

- 5.10 Our domestic and non-domestic consumer research both highlighted concerns about the timing of bills on change of supplier. Late receipt of a final bill (so that it coincided with an opening bill) or delays in getting the opening bill, were seen to impact on consumer's ability to manage their finances and deterred switching. Some customers also complained of late receipt of credit balances from their old supplier.
- 5.11 Domestic suppliers have licence requirements to send final bills within 6 weeks of a transfer. In the majority of cases, this is likely to coincide with the first bill from the new supplier. The proposed reforms to the COS meter read processes (described later in this document) aim to remove any constraints to fast billing. This is a particular issue in the electricity market where suppliers report that they have not obtained an opening and closing meter read for 3% to 4% of transfers in 28 days.
- 5.12 COSEG considered that new billing standards on the timing of the opening and closing bills and repayment of credit balances should be addressed (both for domestic and non-domestic customers) through industry self governance. This would build on the Energy UK [Code of Practice for Accurate Bills](#). Where this failed then Ofgem could consider formal regulation. This work area will be taken forward under the Consumer Empowerment and Protection work stream. We will liaise closely with this work stream as our proposals to remove constraints from the COS meter read processes will set the standards for what suppliers should be able to achieve.

4. Electricity COS meter read (smart metering)

- 5.13 The COS meter read process can limit suppliers' willingness and ability to offer fast switching to customers. In electricity the steps necessary to facilitate a meter read, namely the appointment and de-appointment of metering agents and the requirements for data exchange between these agents, all add time and complexity.
- 5.14 Our analysis points to two reform options for the electricity COS meter reading process. We have identified a potential quick win for smart meters which is described below. We have also identified one potential longer term reform for AMR and traditional meters which is described in the following section.
- 5.15 For smart meters our proposal is to harness the functionality of smart meters by allowing the new and old supplier to obtain the data they need directly from a smart meter on COS. This would replace the current "new supplier led" process and remove the requirement to exchange data between agents to facilitate COS. This would require new rules to be established in industry codes (e.g. the old and new supplier to validate the COS meter read by comparing their view of the smart meter cumulative register and to require the new supplier to reconfigure the meter on COS). Given the current roll-out of smart meters and no identified linkages to centralised registration, we think that this change should be pursued now. This is an area where arguably the industry should be driving forward change. However, some parties have cited Ofgem's COS project as providing uncertainty and are unsure whether they should separately be pursuing related reforms. We intend to provide an early steer to the BSC Panel and the MRA Executive Committee that it should proceed with changes to deliver our goals here. If changes are not forthcoming then we could include this within scope of the proposed SCR.

5. Customer information

- 5.16 It is important for consumers to have easy access to accurate and clear information on the switching process. Evidence from our consumer research suggests that some customers are confused about aspects of the switching process and lack confidence about how it will impact on them. This is likely to deter engagement in the market.

² Ofgem published a Call for Evidence on the supplier Guaranteed and Overall Standards of Performance earlier this year, and intends to launch a consultation setting out the next phase of the project in the coming months.

Customers will also require reassurance on how the roll-out of smart meters will impact on their switching experience.

5.17 We have three proposals in this area:

- To review the messages customers are being given on switching (particularly around the cooling off period) and how these can be more proactively provided to domestic customers. Energy UK has indicated that they are willing to drive this work forward.
- To ask the newly formed Central Delivery Body (CDB) to include smart switching within their remit to provide the key messages customers should be given about the roll-out of smart metering.
- Building on the [Current Account Switching Guarantee](#) in banking, to consider the potential for a switching guarantee/ switching charter setting out the minimum standards for how a customer will be treated. At the COSEG meeting on 9 October, there was an appetite to look at this now (ie around the current three week switching standards) and recognition that this should be reviewed again as other reforms were implemented.

6. Data quality

5.18 Data quality was identified at the start of the COS project, including at SMCG, as a key issue for industry stakeholders. However, specific reforms have been difficult to identify as the causes of data inaccuracy are likely to be many and complex.

5.19 As noted above, COSEG discussions have led to UNC and IGT UNC modifications being raised to require GTs to populate the Unique Property Reference Number (UPRN) field. The UPRN, provides a unique reference code for every building and plot of land in the UK. This is thought to increase suppliers' ability to make sure that they have the correct site to transfer and avoid ETs. It may also be a useful way of linking gas and electricity into a central registration service and with the DCC (which will hold the UPRN for each enrolled smart meter).

5.20 Our other observation on data quality is that the ownership and governance of specific data items is not always clear, monitored or effectively enforced. In some instances there appears to be limited compulsion to update central systems when a data error is spotted. As an example, a new supplier may have to sort out metering issues before being able to bill customers which may impact some customers' willingness to engage in the market. The proposal in this area is likely to be that industry undertakes a full review of data ownership and governance and we will consider the requirement to consult on a new obligation for licence holders to update central systems when they become aware of data discrepancies. We note that Xoserve is currently working to document the data items under the UNC and that this is scheduled for completion next year. We intend to write to Xoserve to understand if this work can be brought forward to facilitate an early assessment of gas data ownership and governance.

7. Strengthening the three week switching requirements

5.21 In response to the Third Energy Package, the Government amended SLC14A of the electricity and gas supply licences. These new obligations require suppliers to have a term in their contract providing for transfers to be made within 21 days.

5.22 Our recent monitoring of suppliers' performance against these standards suggests that, whilst the three week requirement is being met in the majority of cases on the electricity side, there is scope for improvement. Changes to the gas arrangements which go live at the start of November will also allow suppliers in this market to better meet this standard.

5.23 To provide greater assurance to customers that suppliers will meet their requirements for a three week switch, we propose to strengthen suppliers' obligations in this area. We propose to consult on a new supply licence obligation to "take all reasonable steps" to transfer a customer within three weeks unless they expressly request a different start date (or other exceptions apply). We propose to consult on this measure and set out the draft licence obligations in the March 2014 consultation. We are also considering further monitoring of supplier performance in this area and publication of the information.

6. Longer term system reforms

6.01 The reforms that are likely to have the biggest impact on transfer time scales and overall efficiency of the process will require significant changes to central systems. They are likely to deliver significant benefits by removing barriers to consumer engagement and product innovation. Our working assumption is that, given their complexity, Ofgem would need to deliver these changes through an SCR. If this were the case, we would propose to consult on launching an SCR in March 2014 together with our policy proposals and to confirm the SCR, subject to responses, in our August/September 2014 decision document.

6.02 As part of our information request and IA we will test the synergies of delivering key reforms together, in particular with a centralised registration service. This will help us to take a view on the timing for these reforms and whether some can be brought forward more quickly.

1. Central registration service

6.03 The March 2011 smart metering ‘prospectus’ concluded that the DCC should take on the role of centralised registration services provider for gas and electricity 2 to 3 years after DCC go-live. Centralisation of registration services is a new opportunity created through the new DCC role and SEC governance. The COSEG has debated what form the proposed centralisation should take and concluded that it should be operated as a licence requirement of the DCC and be governed under the SEC.

6.04 This is the most far reaching of the reform proposals as it would provide the long-term, common, platform for gas and electricity customer transfers. The business case here is likely to include harmonisation of processes, more efficient change control and a more agile and flexible system better placed to cope with future requirements from industry. Incorporating the changes noted below is also likely to be more efficiently achieved if they are directly incorporated in the design of a new central registration service. This change would need to be carefully managed and would require changes to licences, price controls and industry codes. We would expect to consult in March 2014 on inclusion of centralisation of registration within an SCR.

2. Objections process

6.05 The length of the objections process is one of the main determinants of the speed of the transfer process. In electricity there are 5 days to object and 5 days to remove any objection. In gas there is a variable objection window which can be as low as 1 to 2 WD but can be as long as 7 WD. The COS project has not considered the potential to remove objections or to amend the reasons for an objection being raised. However, this may be considered by Ofgem in the future.

6.06 In this area we are reviewing the potential to radically shorten the objection window. In the RFI we are testing the impact of:

- Shortening the objection window to 2 hours
- Requiring an objection to be made by 5pm for any loss notification received by 3pm
- Shortening the objection window to 2 days
- Introducing a central objections register (that the incumbent supplier would need to keep up to date on a daily basis) so that any objection would be made instantly

6.07 This is an area where COSEG has highlighted the potentially different demands of the domestic and non-domestic markets, for example of checking the validity of Change of Tenancy notifications. We expect to consult in March 2014 on inclusion of new objection process rules within an SCR.

3. Gas confirmation window

6.08 The high level objective in this area is to promote faster switching and alignment with electricity by removing or reducing the minimum 7 WD timeframe (the “confirmation window”) between the objection window closing and the customer transfer date (whilst allowing customers to choose a longer switching timeframe if they wish).

6.09 During the confirmation window the Gemini system, run by Xoserve, undertakes gas nomination and allocation processes. Xoserve has confirmed that they could reduce the time needed so that the latest time that the objection could finish was 5pm the day prior to the transfer. However, this would be a costly and lengthy change to their systems and introduce risks to the gas nomination and allocation process. It has also suggested that it could go further, for example to facilitate within day switching, but that this would increase risk for shippers in being able to balance their positions, it would request process enhancements and potentially require profiling of settlement charges within the settlement day. We would expect to consult in March 2014 on inclusion of changes to the confirmation window within an SCR. Given potential interaction within the wholesale market, this is also an area where COSEG suggested that there could be different requirements for the domestic and non-domestic markets.

4. Electricity COS meter read (AMR and traditional metering)

- 6.10 As noted above, the COS meter read process can provide a drag on suppliers' willingness and ability to offer fast switching to customers.
- 6.11 For AMR and traditional meters our proposal is to allow the new supplier of an electricity AMR/traditional meter to obtain the data that they require to process a COS meter read from a central database. This would remove data dependencies and replicate the arrangements in place in gas. The data held centrally would be the accurate meter technical details (MTD) and consumption information that would have previously been provided by the DC and MOP. This is an area where we are still developing our proposals. There are also some interoperability issues for gas and electricity AMR metering in identifying the communications provider and passwords before being able to read the meter. We propose to continue with a COSEG sub-group to progress these issues.
- 6.12 Our analysis also suggests that there is a range of data that could be usefully held on the registration systems (or centralised service were that to be introduced), which could support the work of agents and other industry players (in both gas and electricity). To support this, further thinking may be necessary to ensure agents have the appropriate access rights to this data.

5. Gas COS meter read

- 6.13 In the gas market, the reliance on agents is reduced as Xoserve undertakes meter read processing and holds a central register of MTD. This means that the COS meter read can be processed in gas with relative ease, suggesting that process reform in this area is unnecessary.
- 6.14 However, discussions with stakeholders have suggested that whilst structural and process reform may not be necessary, other issues currently exist around adherence to and definition of existing processes. Stakeholders suggested a number of areas which should be looked at further including:
- Greater audit
 - Improved definition of agents and agent responsibilities
 - Mandatory data flows
 - Better defined/allocated responsibilities for updating and cleaning centrally held data.
- 6.15 COSEG attendees considered that the most appropriate place to carry these issues forward would be in the proposed new gas performance assurance framework under the UNC. However, we remain interested to understand if there is scope to expedite this aspect of the reforms.

6. Supply Point Nomination

- 6.16 The Supply Point Nomination process is applicable to all gas LSP sites and new connections in the domestic gas market. It is a mandatory request by a shipper to Xoserve for supply point data, including transportation charges, in advance of a request to transfer a site. The shipper must include a reference code (the Supply Point Offer Reference Code), received from Xoserve in the response to the Supply Point Nomination (the Supply Point Offer), in any subsequent request to transfer the site.

- 6.17 The SPN process is not a feature of the electricity market and has the potential to delay the transfer process. COSEG discussed several options for reform including complete removal of the Supply Point Nomination process and accessing the data via other means such as an online web portal.
- 6.18 Xoserve provided information to show that, in the vast majority of cases, the Supply Point Offer, sent in response to the Supply Point Nomination, was turned around within the hour. This reduced concerns about the impact of Supply Point Nomination process on transfer timescales. However, COSEG still felt that efficiencies could be achieved by making the Supply Point Nomination process elective where it was not needed. The view from GTs was that this process should be mandatory for sites above a certain capacity threshold and have been asked to provide views on the threshold below which they would be comfortable for the process to be elective. Suppliers at COSEG requested that the Supply Point Nomination process should be operated through the centralised registration service, were that to be introduced, so that they had a single point of contact for the transfer process.

7. Other issues

- 7.01 COSEG has reviewed a number of other issues, not all have resulted in policy proposals. An update on security keys, the interaction between the transfer process and the cooling off arrangements and the potential for electricity Data Processor (DP) and Data Aggregator (DA) agent centralisation is set out below).

7.2 Security keys

- 7.02 Before a customer with a smart meter transfers, it is preferable for that meter to have been loaded with the new suppliers' security key to allow access control and the new suppliers meter configuration details. SMIP has agreed an interim arrangement for managing the transfer of security keys to the smart meter on COS which involves the DCC passing on the key to the meter. An enduring arrangement for the management of security keys will need to be introduced during roll-out to meet the CPNI (Centre for the Protection of National Infrastructure) and CESG (Communications-Electronics Security Group) security requirements. It is expected that the enduring solution will require the outgoing supplier to send the security key to the meter on the new supplier's behalf. There is significant potential for the interim and enduring arrangements to inhibit our ambition for fast (ie next day and within day) switching if it means that the smart meter will not be correctly updated.
- 7.03 The responsibility for designing the enduring security key arrangements and SLAs will sit with the SEC Security Sub-Committee. We are considering our ability to signal the requirements for the SLAs developed for the enduring solution to meet or exceed the requirements needed to meet the minimum speed of switching set out in the SCR.

7.3 Cooling off arrangements

- 7.04 The new EU Consumer Rights Directive (CRD) provides for new rules relating to cooling off periods that are required to be implemented next year. Specifically, the CRD provides the customer with a 14 day cooling-off period that the customer will not be able to waive. Where the customer provides express agreement, the new supplier can supply energy during the cooling off period ("an express transfer"). The customer will still be able to terminate their contract without termination penalties during that period however, it will be possible to charge the customer for the gas/electricity supplied before the contract is terminated.
- 7.05 We are working with BIS to understand how it intends to transpose this requirement into GB law. Once this is known, we will consider the need to call an ad-hoc COSEG to review any additional policy requirements.

7.4 DP/DA

- 7.06 The initial view identified through COSEG is that centralising the DP and DA requirements is not required to improve the speed and reliability of the transfer process. Instead, the data dependencies created by the existing arrangements can be removed through other means (as set out above). Nonetheless, other efficiency drivers to centralise DP/DA in the electricity market may still exist.
- 7.07 COSEG has noted the links between this area of work and electricity settlements reform. In particular, there has been a request to ensure that any changes to the roles of agents are only made once so that a decision on centralisation should only be made when it is clear what functions are required to support the market. In light of

these concerns, and the need to carefully consider the competition impacts of removing metering agent roles from the market, Ofgem is proposing to review the potential benefits of DP/DA centralisation as part of its work on electricity settlements. However, we will keep this under review to ensure that this remains the best way to assess the potential efficiency benefits in this area.

Appendix 1: Indicative COS project plan

