

SUMMARY POLICY ISSUE PAPER – FOR EDAG DISCUSSION

Title of Paper	Cooling Off		
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Issued to DA		Discussion at DA	

Summary and recommendation

1. The Customer Contracts Regulations 2013 establish the right of domestic customers¹ to cancel a service contract at any time up to 14 days after entering the contract. Charges may be raised for services used prior to cancellation but the customer has no further liabilities to the service provider. In most industries cancellation under cooling off would lead to cessation of the service: this is not the case with energy where the supply of electricity and gas will continue.
2. This paper addresses the question of what should happen when a customer cools off: in short, who should the customer be contracted to and under what terms?
3. This issue does not often arise under the existing switching arrangements. Currently it usually takes longer than 14 days to complete a switch so if a customer invokes their cooling off rights the supplier withdraws the registration request: there is no change of supplier and no change to the billing arrangements.
4. A key objective of the switching programme is to encourage more customers to engage with the market, especially those 'sticky' customers who are put off by fears of leaving their trusted supplier. In assessing cooling off options an important consideration was whether an 'easy return to your trusted supplier' would prompt 'sticky' customers to dip their toes into the competitive market.
5. We would welcome EDAG comments on our proposed positions as follows:
 - a. When a customer cools off, their supplier (Supplier B) would advise them that they can either:
 - i. Re-assess the market and initiate a switch to Supplier C; or
 - ii. Contact their former supplier - Supplier A - who will be obliged (under Licence conditions) to switch them back on the terms they would have been on prior to the switch to Supplier B

¹ Non-domestic customers do not have cooling off rights.

- b. Supplier B will bill the customer for the period they were with them (although in the case of prepayment customers, payment will already have been made)
 - c. From the date of cancellation the customer will be on a deemed contract with Supplier B. For a 'period of grace' of a minimum of 30 days the customer will enjoy the same tariff they were on prior to cancellation (thereafter they may be moved onto the supplier's SVT)
6. It is worth noting that unless Supplier B's contract includes exit fees it is quite likely that the customer will go back onto a switching site and initiate a switch to Supplier C. The cooling off process would not be invoked in these cases and Supplier B will be unaware of the customer's reasons for switching.

Analysis

7. TOMv2 proposed that at cooling off a customer would be returned to Supplier A on the terms they would have been on had they not switched to Supplier B, with one option being that the customer would enjoy continuous billing from Supplier A. However we have identified a number of cases where returning to Supplier A with continuous billing would be impractical (e.g. prepayment and complex tariffs on smart meters). Although these issues will have to be resolved when handling erroneous transfers (ETs) they require significant manual intervention. While this may be manageable for ETs – where the volume is currently less than 1% of switches – this could present a significant challenge for cooling off. Estimates by suppliers for the volume of cooling off transactions range from 1.5% to 7%.
8. We commissioned a small-scale consumer survey to explore customers' attitudes towards cooling off. The survey was too small to be statistically significant but the findings included:
- a. Some customers welcomed the security offered by an option to return to Supplier A on their previous terms
 - b. Others observed that if they had good reason to switch away from Supplier A the last thing they would want would be a return to Supplier A
 - c. There was a preference for having a choice between returning to Supplier A or surveying the market and switching to Supplier C
9. One advantage of an automatic 'return to Supplier A' option would be that the customer would only need to contact Supplier B. Supplier B would notify CRS that cooling off had occurred and CRS would instruct Supplier A to raise a registration request to execute the return. Under other options the customer would need to contact Supplier B to cancel the contract and then either contact Supplier A to confirm a return or - if the customer wished to re-assess the market - to contact other suppliers or a price comparison website.
10. Given the unique circumstances of the energy market, customers are unlikely to be aware of their options at cooling off and what would happen until they exercise one of those options. To address this we have concluded that at cooling off

Supplier B should be required to advise the customer of the options available (i.e. returning to A or switching to C) and the arrangements that will be applied between the date of cancellation and the customer exercising one of those options (i.e. a deemed contract). This might be communicated by phone or may require a letter to be sent if the supplier is unable to speak directly to the customer.

11. Under our recommended approach, when a customer cools off they will be placed on a deemed contract. To avoid the risk of customers being moved to a more expensive tariff (e.g. SVT), we are proposing that Supplier B should continue to apply the tariff the customer had signed up to for a 'period of grace' of at least 30 days from the date of cooling off. An SVT tariff might be applied following the 'period of grace' but the supplier would be required to advise the customer of this change at the point of cooling off.

Summary of key points from stakeholders

Business Process Design User Group

12. Members of the User Group acknowledged the attraction of being able to offer customers a return to their previous supplier on the terms that applied prior to the switch to Supplier B.
13. However suppliers also pointed out that:
 - a. If the previous tariff had been withdrawn it would not be accessible on the supplier's website or those of PCWs. The customer would need to speak to the supplier to determine whether that tariff was more attractive than the supplier's current offerings or those of other suppliers in the market
 - b. They would need to modify their systems to accept returning customers and it would be difficult to develop e-processes which would allow such customers to sign up online
 - c. As a consequence of the above issues, suppliers may need to establish specialist 're-onboarding' teams to handle returning customers. This would represent additional training and systems costs to handle a potentially small volume of customers
14. The programme recognises that there is a trade-off between customer benefit (i.e. attractiveness of returning on 'equivalent terms') and potential costs to suppliers. In the event of Erroneous Transfers, suppliers will need to accept returning customers so in assessing the costs and benefits of cooling off options it will be important to focus on incremental costs.

DA Decision Log

Date of DA Meeting	11 August 2016
Decisions (from Ofgem website)	[To be added]
Notes	•

