SUMMARY POLICY ISSUE PAPER – FOR EDAG DISCUSSION

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Summary and recommendation

1. The issues considered by this paper are how best to design the new arrangements to ensure that erroneous transfers are (i) prevented from occurring as far as possible, and (ii) effectively rectified when they do occur.

2. We expect that the changes to the switching arrangements that we are currently designing through the Switching Programme will help to place downward pressure on the overall number of ETs. Changes to the business processes, establishing clear responsibility for maintaining and disseminating key data, and efforts to cleanse industry data should all help to reduce errors.

3. However, in future suppliers may have less time to correct an ET before the switch has been processed. Due to current average switching times, ETs can be identified and resolved before a switch has been processed. However, if an ET is processed with a next-day switch, and identified only at the point at which a consumer receives a 'sorry to see you go' letter that they were not expecting, this would be likely to be after the point at which the switch has already been processed. In isolation this will place upward pressure on the number of ETs.

4. Through our changes to the switching arrangements, we want to ensure, firstly, that we put in place mechanisms to prevent ETs from occurring. This could include, for instance, tests of the Consumer Identification Number (CIN) for smart meters, or supplier triangulation of several data points to ensure the correct meter is being switched.

5. Secondly, we want to make sure the existing arrangements to effectively rectify ETs where they do occur are fit for purpose for a next day switching world, minimising any disruption to the affected consumer. Our starting assumption is that it should be possible to return a consumer to their original supplier using, in large part, the same switching processes used to carry out a regular switch, and that are in keeping with the arrangements set out in the Erroneous Transfer Customer Charter for returning consumers to their previous supplier.

6. However, there are instances in which specific measures to handle ETs may be required. These include:

- Consumer billing arrangements: Billing arrangements could look different for ETs compared to a regular switch, as the consumer should only be paying the supplier with whom they have a contract.
- Smart meter switches: ETs have the potential to cause significant detriment to consumers if the meter is inadvertently set to prepayment or credit mode incorrectly.
- Standstill periods: In the absence of an exception, standstill periods would prevent an erroneously transferred consumer from switching for a short period of time, despite them not having made any active choice to switch.
- Supplier gaming: This could occur where a supplier uses the ET rules to avoid having to correctly follow the (potentially more burdensome) cooling off processes.
- Missed communications: During the period which a consumer is with an erroneous supplier, they may have missed important communications such as price increase or end of fixed term notifications from their original supplier, and so may be unaware of changes to their contract.

7. We make a number of recommendations for measures to help both prevent and rectify ETs. For some issues, there is no clear optionality. We set out our recommendation for these for completeness. In other areas, some of the issues are 'live' and so are best dealt with outside the scope of the Switching Programme. We provide our initial views on these areas and note where actions are being taken to consider these issues further.

8. Our recommendations are:

Preventing ETs

- **RECOMMENDATION A**: Consumers shouldhave the facility to manually provide their MPxN information where it has not been possible to reliably obtain this based on the address or other basic information they have provided. Consumers should be informed why this information is being sought, and where they can get it. They should also be informed of what they should do next, such as contacting their current supplier, if the MPxN is still not recognised.

- **RECOMMENDATION B**: In 'high-risk' cases, such as plot addresses, premises with ambiguous naming conventions, or in instances where the impact of an ET would have a significant negative impact on the consumer (eg smart metered prepayment switches), the CIN test should be used to confirm the correct meters to be switched.

Rectifying ETs

- **RECOMMENDATION C**: Introduce a new principles-based requirement for the erroneous supplier to support the ET reversal process where this helps to ensure a smooth return and accurate re-billing of the consumer by the original supplier, and where this helps to reduce the burden of effort on the original supplier.

- In respect of smart meter switching issues, we consider the issues outlined below are current issues that should be resolved now to support the roll out of smart meters. We are feeding the issues raised in this paper into the Consumer Reference Group (CRG) working group. We will review any outputs of this group to see how they should be incorporated into our design proposals.

- **RECOMMENDATION D**: To ensure an erroneously transferred consumer is not blocked from switching, we consider a flag should be included on registration requests that would act to override any standstill period that would otherwise have applied.

- **RECOMMENDATION E**: We intend to continue our current monitoring of the level of ETs, though we propose not to expand on this by attempting to proactively monitor potential gaming of the rules on ETs and cooling off. Where suspicious trends or activities are reported to us we will judge these instances on their merits before deciding whether specific investigation is warranted.

- In respect of missed communications, we do not make any concrete recommendations at this point. In principle we consider that consumers should be notified as soon as possible of any changes to their original contract terms, either upon return to their original supplier or before the ET reversal is complete. However, we welcome input on current practice in this regard, and whether specific amendments to existing requirements are necessary or desirable.

9. **However, at this point, we welcome any observations the EDAG has on the analysis and recommendations set out in this paper, and welcome any thoughts on additional issues we should consider exploring.**

Background and Analysis

10. In version 2 of the Target Operating Model (TOM v2) for the Switching Programme we said: *"the new arrangements will be designed to ensure, as far as reasonably practical, that the gaining supplier only switches the supply point for the consumer with whom they have a valid contract."* We also said that we would review processes for returning erroneously transferred consumers. In effect, we set out two separate objectives for ETs:

    - To prevent ETs from occurring in the first place; and

    - To put in place effective arrangements to rectify ETs where they have occurred.

11. We signalled that we would explore a number of different options to achieve both of these objectives, including *"where a smart meter is installed there may be opportunities to use two-way communication so that the gaining supplier can confirm the correct gas Meter Point Reference Number (MPRN) or electricity Meter Point Administration Number (MPAN) with the consumer"*. We also suggested that we

would consider the role of Third Party Intermediary (TPI) services in supporting suppliers' ability to switch the correct supply point.

12. Furthermore, we indicated that we would investigate whether any rules for a 'standstill' period should be varied where a switch has been identified as an ET.

13. Current licence conditions require that *"if a licensee applies under the [Master Registration Agreement/Network Code] to supply [electricity/gas] at a premises specified by a Customer (the "Transfer Request"), the licensee must take all reasonable steps to ensure that it has a Valid Contract with that Customer for that Transfer Request at the point it is made."* They also require that *"where a licensee becomes aware, prior to starting to supply [electricity/gas] at a premises, that it does not have a Valid Contract for the supply of [electricity/gas] to that premises it shall take all reasonable steps to prevent its Transfer Request from having effect."* The steps to be taken when rectifying erroneous transfers are set out in the Erroneous Transfer Customer Charter, the Master Registration Agreement and the Supply Point Administration Agreement.

14. As part of our work now, we want to revisit these conditions to ensure they remain fit for purpose in future when our new switching arrangements are in place. In particular, the latter of the two licence condition requirements refers to correcting erroneous transfers where these are identified prior to the start of supply. When switching can occur next day, this requirement may not, on its own, be sufficient to ensure a smooth process for returning a consumer to their original supplier.

Related Issues

15. **TPI access to industry data:** Within the Business Process Design workstream we are considering whether, how and to what data Third Party Intermediaries (TPIs) such as price comparison sites should have access in the new Centralised Registration Service (CRS). This is currently a live issue in relation to the Electricity Central Online Enquiry Service (ECOES) database and the Data Enquiry Service (DES), where industry are looking to introduce new arrangements for TPI access in early 2017. Following the Competition and Markets Authority's (CMA's) energy market investigation the industry are considering whether adjustments should be made to existing rules to allow TPIs to gain access to certain data. Should TPIs gain access to certain industry datasets this may help to validate consumer-inputted information, allowing any errors to be identified at an early stage and potentially preventing ETs.

16. **Data modelling:** The Business Process Design work on data modelling aims to ensure that there is clearly defined ownership of certain datasets, and that updated information is quickly and efficiently disseminated to parties using that data. For example, there are currently distributed databases for address data, which are updated at different levels of frequency. This can mean that at any one time some databases can be out of date. Establishing clear roles and responsibilities for maintaining and disseminating different data points should help to align different datasets, possibly helping to prevent ETs that may be caused by inconsistencies between electricity and gas data, for instance.

17. **Data cleansing:** The Delivery Strategy workstream is developing an approach to cleanse industry data. Although quantification of problems and development of potential solutions is still at a relatively early stage, at this point it appears that one of the key causes of ETs is a mismatch between address and MPAN/MPRN (MPxN) data. This is a key focus of the data cleanse work. Anecdotal evidence suggests the accuracy of this information is relatively low – parties have suggested approximately 85% of this data is correct. We intend to develop a strategy to improve the accuracy of address and MPxN matching, which we expect will help to reduce the incidence of ETs.

18. **Standstill periods**: Our current position is that to allow time for switching data to be fully validated there should be a short, configurable period after a switch where a consumer cannot switch again. This 'standstill' period would apply where a consumer has actively switched, or where they have switched and chosen to cool off. The design of the new arrangements does not, as yet, distinguish between a cooling off event and an ET. Without a carve-out, the effect would be that a consumer who had been erroneously transferred could be blocked from switching, if only for a short period, despite not having initiated the ET switch themselves. In this paper we consider the interaction between standstill periods and ET policy, to determine whether alternative processes or overrides should be included in the new switching arrangements so that those that have been erroneously transferred are not blocked from switching once returned to their original supplier.

19. **Debt assignment**: Where a consumer in debt switches supplier, there are processes for transferring the debt from old to new supplier. Where debt is being transferred, there are points of contact between the two relevant suppliers and the consumer. We expect that in most cases, where a switch involving debt transfer is erroneous, the ET will be identified and the switch halted during these contacts. However, there may be circumstances where a consumer cancels a contract in advance of a switch and the gaining supplier proceeds with the switch. In such cases it is possible that the debt will be transferred. We do not cover the process for reversing debt transfers in this paper, but will consider this eventuality as part of our design of business processes, which is ensuring the processes set out in the Debt Assignment Protocol function under the new switching arrangements.

Analysis

20. Among the six large domestic suppliers, ETs currently account for approximately 0.5% of switches (or circa 25,000 a year). Anecdotal evidence suggests the true incidence of ETs in the domestic segment of the market may be higher when all suppliers are taken into account. ETs are, on average, slightly higher among non-domestic consumers, at approximately 1%.

21. The number of affected consumers is significant, and the switching experience for those who are erroneously transferred is likely to be negative. The majority of ETs occur due to incorrect switching data or consumer errors. Evidence gathered to date suggests that mismatches between MPxN and address data is a particularly common cause. ETs can also be recorded where a consumer has switched but wants to return to their original supplier, and both suppliers agree that this can happen.

22. It is difficult to determine with any precision what is likely to happen to the level of ETs once the Switching Programme changes have been made. However, we consider that in the absence of specific measures to prevent their occurrence they are, on balance, likely to increase.

23. On one hand, the changes we are making to businesses processes, our definition of clear roles and responsibilities for owning and disseminating switching information, and our work on a strategy for cleansing industry data should place downward pressure on the incidence of ETs.

24. However, with the introduction of faster switching, the window for resolving errors before a switch is processed is substantially shorter. If an ET is not identified until a consumer has received a 'sorry to see you go' letter they were not expecting, in future the switch is likely to have been completed.

25. At present, the steps taken to validate consumer data before a switch is processed can be limited. If data errors are identified a supplier may be able to cross-reference electricity and gas information, or have a conversation with the consumer in order to obtain accurate information. TPIs may have less ability to validate switching data, due to their limited access to industry databases. With this in mind, strengthening requirements to validate data and help to prevent ETs from occurring might be warranted.

26. Even assuming these measures are successful in reducing ETs, we still need an efficient process for rectifying ETs where they do occur.

27. Our starting assumption is that, in large part, an ET reversal can be carried out using the same processes as a normal switch, ie the data exchanges between different parties will be similar. However, this will not always be possible or desirable. There are several specific instances we have identified where specific alterations to the normal switching process may be required.

28. We provide a detailed assessment of each of the specific issues and options related to both the prevention and rectification of ETs in the full BPD i13 Erroneous Transfers Paper.