

SUMMARY POLICY ISSUE PAPER – FOR DA DISCUSSION

Title of Paper	Objections		
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Issued to DA	27 June 2016	Discussion at DA	4 July 2016

Summary and recommendation

1. Ofgem is currently conducting a policy review to decide the conditions (if any) under which incumbent suppliers may object to a switch. As set out in our Forward Work Programme, we intend to publish the next steps in relation to domestic and non-domestic objections in Summer 2016.
2. Objections are, potentially, an important feature of the new switching arrangements. As such we have made a working assumption that objections will continue to exist and considered how they should be handled in order to support the goals of faster and more reliable switching. If the working assumption turns out to be invalid we will drop the objections functionality from the new switching arrangements.
3. Objections are currently handled reactively – i.e. when a switching request is processed the incumbent supplier is notified and given a defined period within which they may object to the switch. The duration of this objection window varies according to circumstances but can be up to 7 working days. This delay in switching is experienced by all customers despite the fact that only around 5%¹ of switches are subject to an objection.
4. The programme has considered whether the objections window might be compressed to a few hours or whether objections could be handled instantly, in real-time. The 'compressed window' option would allow suppliers time for manual intervention in at least some cases but the 'instant' option would require them to programme their systems with pre-set criteria and leave these algorithms to determine when to object. Where suppliers enabled it, the 'instant' option could allow a customer to complete a switch request and receive confirmation of the switch at the point of sale (e.g. on the supplier's website or in a phone call).
5. At this stage we do not have cost estimates for the two approaches and some suppliers have suggested that the 'instant' option would be significantly more

¹ This is an average across all customers: in the microbusiness gas sector the rate of objections is in excess of 20%.

expensive to develop than the 'compressed window' option. Cost information will be sought through the Request For Information (RFI) to be issued later in the Blueprint Phase. In the RFI we expect to collect costs for the 'instant' solution (pre-loaded or real-time enquiry) and for the 'compressed window' variant (e.g. 5 hour window within a defined working day).

- 6. Recognising that our evidence base is incomplete we invite DA to comment on our preliminary view that the ability of customers – especially domestic – to receive confirmation of their switch at point of sale is highly attractive. The only approach that delivers this and could allow the new switching arrangements to achieve a start of next day switch is the 'instant' approach.²**
- 7. With regard to the Change of Occupancy (CoO) arrangements, we also invite DA to comment on our proposals that:**
 - a. the requirement for suppliers to retain the evidence they relied upon when using the CoO flag should be extended (from electricity to gas)**
 - b. a more rigorous performance assurance regime should be introduced to collect evidence relating to use of the CoO flag, backed up with effective enforcement actions.**

Analysis

8. In TOMv2 we proposed that objections should be 'pre-loaded' onto the CRS by suppliers to facilitate an instant objections process. Under this arrangement suppliers would notify the CRS of all meter points that would be subject to an objection. For example, the incumbent supplier would pre-load an objection when the domestic debt criteria are exceeded and remove the objection when the customer had made appropriate payments. The pre-loaded objections could be interrogated when a registration request is received thereby allowing non-objected switches to proceed immediately.
9. In addition, the TOMv2 considered a solution option for start of next-day switching whereby the current supplier would be required to respond and object to a pending switch notification from the CRS in near real time. Given that our current goal is to determine a preferred approach and that solution options will be decided after the RFI, we have modified our option definition from 'pre-loaded' to 'instant'.
10. Under the 'instant' approach, suppliers would need to use the defined objections criteria to determine whether or not they would object to a switch and build the appropriate algorithms into their IT systems. When a registration request is received, the central switching system would validate it and determine whether

² The 'point of sale' might be a supplier's website or call centre or a Price Comparison Website operating as an agent of a supplier. It is not intended that PCW's would be able to inspect the CRS to determine whether a prospective switch would be subject to an objection.

the incumbent supplier wishes to object. This determination would be made by inspecting the pre-loaded objections or by issuing a real-time enquiry to the incumbent supplier. If no objection is raised the central switching system could provide confirmation to the gaining supplier – for onward transmission to the customer – that the switch will proceed. If the customer had requested a next day switch and if the systems were configured appropriately, the switch could be executed at the start of the next day.

11. Under the 'compressed window' approach the central switching system would initiate the enquiry process but in this case the incumbent supplier would be given a period of (say) 3-5 hours to decide whether to object³. Suppliers might then decide to use automated criteria for certain cases while intervening manually in others. The duration of the window would rule out the possibility of switching at the start of next day, but could support end of next day switching.
12. In addition to universal options (i.e. 'instant' or 'compressed window' for all meter points) we also considered the options of:
 - a. Applying the 'instant' approach for domestic customers and the 'compressed window' approach for non-domestic customers
 - b. Allowing the incumbent supplier to specify which approach should be applied for each of their registered meter points. This option was ruled out on the grounds that gaining suppliers would not be able to predict how quickly a switch might proceed without looking up the objections approach specified for each meter point
13. All options were assessed against the Programme's design principles (see appendix in supporting document).
14. Under all scenarios suppliers and customers would be responsible for managing the resolution of an objection and – when resolved – the incumbent supplier would need to ensure that a second registration request is not objected to. In the case of domestic customers with debt, this might involve assigning debt to the gaining supplier: the incumbent would then allow a registration request from the specified gaining supplier to proceed while other suppliers would still be subject to an objection.

Summary of key points from stakeholders

Business Process Design User Group

15. Members of the User Group recognised the attractiveness of being able to provide the customer with confirmation of a switch while they are still at the point of sale. At least one of the larger suppliers expressed concern at the **potential costs** of modifying their systems to support the 'instant' approach. However, others have commented bilaterally that their systems will have to include automated

³ This would be a period within a defined working day. If for example the working day was defined as 08:00 to 18:00 a supplier receiving an enquiry at 16:30 would have until 11:30 the next morning to decide whether to object (assuming the window is 5hrs).

objections handling in order for them to support the expected volume of transactions.

16. There was lengthy discussion at the User Group on the issue of **Change of Occupancy / Tenancy**. It was agreed that objections are related to customers and that objections are not valid after a change of occupant. However concern was raised that the Change of Occupancy (CoO) flag is currently being mis-used as a way of avoiding an objection being raised. This appears to arise most frequently in the microbusiness sector. Possible approaches to managing this issue were discussed, as follows:
 - a. Extend the requirement (to gas from electricity) for suppliers to retain the evidence they relied upon when coding the CoO flag
 - b. Introduce a more rigorous performance assurance regime to collect evidence relating to use of the CoO flag and back this up with effective enforcement actions
 - c. Apply a longer reactive window for objections (perhaps 2-3 days) in cases where the CoO flag is coded. This would provide a natural incentive to suppliers to minimise use of the CoO flag but would be to the detriment of customers who were genuinely moving into a new home
17. We propose to adopt options (a) and (b) above but not to pursue option (c) due to the potential detriment to the customers that would be affected.
18. With regard to **prepayment customers with debt** it was suggested by some suppliers that it can take several days for them to receive payment details from the PPM cash collection agents and that a longer objections window is required to cater for this. We recognise that an objection can only ever be raised on the basis of a snapshot of an account and do not consider that these delayed receipts justify imposing a delay of several days onto all switches.
19. A few suppliers proposed that while the 'instant' approach is appropriate for domestic customers, a period allowing for manual review should be allowed for **non-domestic customers**. The suppliers observed that non-domestic switches are generally submitted in advance of the switch date so the timing constraints of next-day switching do not apply. We will consider this option further when we understand the costs of the different approaches but note that it would require suppliers to keep an up-to-date record of the customer class (domestic or non-domestic) for each meter point⁴.
20. Finally, several members observed that the replacement of customer requested and co-operative objections with a registration withdrawal capability (especially when coupled with a next-day switch) might increase the number of Erroneous Transfers (ETs). This risk is acknowledged and mitigation actions to address ETs will be covered in Issue Paper i13 on Erroneous Transfers.

Discussion at EDAG

⁴ The ease of identifying the customer class will be covered in a separate paper.

21. Many of the points raised at the User Group were also raised at EDAG. In particular the concerns relating to use of the CoO flag were repeated and further questions were raised as to whether the 'compressed window' option might be adopted for non-domestic customers.
22. The Programme agreed to investigate the possibility of having different approaches between domestic and non-domestic customers and respond to EDAG. This further analysis will inform our decision on whether to test the impacts of a separate approach in the RFI. We will return to DA to request its views on this matter.

DA Decision Log

Date of DA Meeting	4 July 2016
Decisions (from Ofgem website)	<p>Approved as baseline. The DA agreed to include the following three options in the RFI:</p> <ul style="list-style-type: none"> • Instant objections, using a new database of pre-loaded objections • Instant objections, where suppliers were required to provide an instant response to a request for information from the CRS • "Compressed window" objections, where a supplier had 5 hours to respond to a loss notification from the CRS <p>The DA agreed that a change of occupancy flag should override an objection relating to a previous tenant and noted that regulatory measures had the potential to ensure correct use of this flag.</p>
Notes	<ul style="list-style-type: none"> • DA noted that compliance is a regulatory issue which cannot be addressed by the system solution • DA queried whether the 5 hour compressed window option might be achieved by enhancing the existing systems: this could allow inclusion of an incremental option in the RFI