ofgem

POLICY ISSUE – UPDATE PAPER

Title of Paper	**Objections and Change of Occupant (under RP2A)**		
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Background

1. During the Blueprint Phase the processes for raising objections were considered in the context of next day switching wherein Supplier A would have to respond instantly to an invitation to object or within a compressed window (proposed as 5hrs).

2. For domestic customers, the Supply Licence only allows Supplier A to raise an objection for reasons of debt (other than customer requested objections or due to Related MPANs).

3. For non-domestic customers, Supplier A is permitted to block a switch to Supplier B if its contract with the customer includes a term which allows Supplier A to block a switch (other than cooperative objections or due to Related MPANs).

4. BPD i03 noted that objections relate to the circumstances of the customer not the meter point. Where there has been a Change of Occupant (CoO), Supplier A should not block the switch for factors related to the previous occupant.

5. In the case of non-domestic customers in particular, a customer may present a different company or trading name and claim that they are a new occupant. During the Blueprint phase suppliers reported cases where suppliers had possibly colluded with such customers and used the CoO indicator to circumvent early termination fees payable to Supplier A. Suppliers argued that mis-use of the CoO indicator can represent breach of a contractual term: a circumstance that could lead to an objection being raised.

Context

6. Under the existing arrangements (i.e. MPAS and UKLink), Supplier A is invited to raise an objection for all switch requests: for domestic and non-domestic and regardless of whether the CoO indicator (currently the CoT indicator) has been set.

7. Under the DLS Design Assumptions an invitation to object would not be issued to Supplier A if the CoO indicator has been set (domestic and non-domestic customers). This assumption was predicated on the use of instant reactive objections (the premise underpinning RP2) which would not provide time for Supplier A to assess whether a change of occupant had taken place.

Issue

8. Under RP2A, Supplier A would be permitted a longer period (1-2WD) to raise an objection. Suppliers have argued that this would allow them time to determine whether or not the CoO flag had been used validly and – if not – to raise an objection.

9. The issue that arises is whether:

    a) Supplier B's coding of the CoO indicator should be accepted with no opportunity for Supplier A to challenge the coding by raising an objection; or
    b) Supplier A should be given the opportunity to object to all switch requests, even where Supplier B has set the CoO indicator

10. This issue needs to be considered separately for the cases of domestic and non-domestic customers.

11. The customer type (i.e. domestic or non-domestic) would be that held on CSS prior to the switch (i.e. set by Supplier A) not the customer type entered on the switch request by Supplier B.

12. Under RP2 – while Supplier A would not be invited to object if the CoO indicator is set – Supplier A would receive notification of the confirmed switch once the switch request had been validated. At this point Supplier A could verify whether a CoO had taken place and, subject to the regulatory arrangements, report Supplier B for mis-use of the indicator if they found that the original customer was still the occupant. Although the switch would have been executed the administrative hassle and cost of re-patriating the customer under the Erroneous Switch procedure should provide an incentive to suppliers not to mis-use the CoO indicator[1].

Options

13. The options are simply to either allow an objection to be raised even where the CoO indicator has been set or to disallow objections in these circumstances.

[1] It may also be appropriate to consider whether enforcement actions should be applied in situations where suppliers are found to be serial offenders in relation to use of the CoO indicator.

A: Domestic customers

Option A1: Assume CoO set correctly – disallow objections

14. This option avoids the need to test for objections in cases where a new occupant has moved into a premises. The risk with this option is that suppliers could use the CoO indicator liberally as a means of circumventing the objections process. This risk could be mitigated by the provision of reporting mechanisms and enforcement actions under the regulatory framework.

15. The objections process for domestic customers is designed to avoid debt write-offs. As the roll-out of smart metering proceeds it will be much easier for suppliers to change the payment method to prepay and one would expect them to use this capability to improve their debt management performance. In turn this should reduce the number of domestic objections. As a result, suppliers should find it much easier to manage sites where the CoO indicator might be mis-used, such as multi-occupancy premises where occupants change the name on the account.

Option A2: Test for objections in all cases

16. This option allows Supplier A the opportunity to object even where Supplier B believes a CoO has taken place. Suppliers have argued that the presence of a significant debt at a meter point indicates that the customer may be using the CoO as a means of escaping from the debt. They claim to use websites such as Zoopla or RightMove to provide a quick confirmation as to whether a property has recently been advertised for sale/rent and therefore whether it is likely that a CoO has occurred. Suppliers claim these checks could be performed within a 1WD objection window.

B: Non-domestic customers

Option B1: Assume CoO set correctly – disallow objections

17. As with domestic customers, this option avoids the need to test for objections in cases where a new occupant has moved into a premises. To avoid mis-use of the CoO indicator it would be necessary to introduce a range of regulatory reporting and enforcement arrangements to drive correct behaviours.

18. In the case of non-domestic customers the objections process is designed to avoid customers reneging on contractual terms, especially exit fees associated with fixed term contracts. This is particularly significant in the case of microbusinesses where 83% of objections were related to fixed term contracts[2].

Option B2: Test for objections in all cases

19. This option allows Supplier A the opportunity to object even where Supplier B believes a CoO has taken place. Suppliers have argued that in most cases they can establish through web enquiries or phone calls whether a business occupier has changed and therefore the CoO indicator has been set correctly. They claim these checks can be performed within a 2WD objections window.

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[2] Ofgem: Decision on review of non-domestic objections, 25 July 2016

Conclusions and next steps

A: Domestic customers

20. One of the key benefits of disallowing objections is that, in the event of a genuine CoO, the switch initiated by the new occupant cannot be blocked as a result of problems associated with the previous occupant. A new occupant could have a very negative customer experience if the switch they requested to coincide with moving in is blocked by Supplier A.

21. A counter argument would be that if customers learn that they can switch away from Supplier A without challenge then they may tick the CoO box on a PCW website as a means of escaping from a debt.

22. Suppliers do not raise objections against all switches where there is a debt on the account. The Ofgem review of domestic objections (25 July, 2016) reported that "around 70% of transfers by indebted domestic customer take place without objection". If the objections window is reduced to 1WD there will not be sufficient time to undertake rigorous assessments of every switch where the CoO indicator is set and Supplier A's customer was in debt. This will cause suppliers to focus on the range of debt management tools available to them – increasingly the ability to change the smart meter to operate in PPM mode and operate a pay-as-you-go tariff.

23. Given these considerations – and especially the importance of offering a good customer experience to genuine new occupants – it is recommended that for domestic customers Supplier A is not offered the opportunity to raise an objection where the CoO indicator is set.

24. If Supplier A subsequently becomes aware that the CoO indicator was set invalidly the regulatory arrangements should allow them to challenge the evidence relied on by Supplier B when setting the CoO indicator and initiating the Erroneous Switch process. Enforcement action against Supplier B for a false declaration should provide sufficient incentive on them to scrutinise the evidence carefully.

B: Non-domestic customers

25. Two important considerations with regard to non-domestic customers are:

    a) The incidence of CoO mis-use is reportedly higher than for domestic customers and switching volumes (absolute numbers) are much lower
    b) The time available for investigation (2WD) is longer than for domestic sites

26. For these reasons it is recommended that – for non-domestic customers – all switch requests are tested for objections, including those where the CoO indicator is set.

27. Clearly this presents a risk that a genuine new occupant may find their switch request being blocked as a consequence of actions by the previous occupant. However for larger sites with HH or AMR metering, preparations for the switch are likely to involve Supplier A such that they would be aware of a change of

occupant. Supplier A is less likely to be aware of CoO situations for smaller sites so there is a risk of genuine new occupants being blocked incorrectly. This risk could only be mitigated by the new customer contacting Supplier A in advance and notifying them of the impending switch. But this is a consequence of allowing Supplier A to object, regardless of the setting of the CoO indicator.