![ofgem]

POLICY ISSUE – UPDATE PAPER

Title of Paper	**Objections**		
Issue Ref	BPD i03	Date: 19 September 2017	
Issue Owner / Author	Jenny Boothe / Colin Sawyer		
Discussed at Design Forum		Discussion at EDAG Group	19 July 2017 (without the paper)
Issued to TDA		Discussion at TDA	

Background

1. The approach to objections proposed for RP2 and RP3 in the SOC was the 'Instant Reactive' model. Under this arrangement, testing for objections would be performed while the customer was at the point of sale (e.g. on a Price Comparison Website (PCW) or a telephone call with a supplier's customer service centre). The process would involve:

   a) The customer selecting a supplier and tariff and agreeing to enter a contract
   b) The supplier performing any relevant checks (e.g. credit scoring) and submitting a Switch Request to the Central Switching Service (CSS)
   c) The CSS validating the Switch Request and, if valid, inviting the Losing Supplier to raise an objection
   d) The Losing Supplier deciding (using an automated process) whether to raise an objection
   e) The CSS, if no objection is raised within a defined period (e.g. 2 seconds) confirming the Switch Request. If an objection is raised the Switch Request would be rejected

2. The attractions of the Instant Reactive model of objections testing are that:

   a) The customer receives confirmation that their switch will proceed on the requested Switch Date while they are still at the point of sale. After this point the only circumstance which could result in the switch not proceeding would be one in which the supplier withdraws the Switch Request (e.g. because the customer had decided to 'cool off'). This level of certainty was seen as a means of building customer confidence in the switching process
   b) Provided that the Switch Request is submitted by Gate Closure (e.g. 17:00), the Switch could be effective from midnight (i.e. start of next calendar day). This is the fastest timetable currently envisaged for switching

3. During the Blueprint Phase an alternative model of objections testing was also considered, namely the 'Compressed Window' model. Under this arrangement the Losing Supplier would be permitted a longer period of time (e.g. a set number of hours or days) to respond to an invitation to object. In complex cases where automated routines were unable to decide whether or not to object, this longer period would allow suppliers an opportunity to undertake a manual review of a customer account and the contractual circumstances.

4. In addition, some suppliers queried whether different models might be employed for different classes of customer: for example, to use the Instant Reactive model for domestic customers and the Compressed Window model for non-domestics. The possibility of adopting this mixed model was one of a number of variants identified in the SOC and tested during the RFI process.

5. A further area of concern identified earlier in the Blueprint Phase related to use of the Change of Occupant (CoO) Indicator. Suppliers indicated in their responses to the RFI that – with the Instant Reactive objections model – they would have insufficient time to validate whether the CoO indicator had been set validly. They also suggested that the CoO indicator was open to misuse by customers and/or suppliers who wished to switch supplier in order to avoid a debt or a contract term such as an exit fee. We noted that objections relate to a customer – not a meter point – so our working assumption was that where the CoO Indicator was set there would be no test for objections. Recognising these points and the possibility of moving to the Compressed Window model for objections testing, we have re-visited this topic and our analysis and conclusions are presented in a separate paper at Attachment 1.

Analysis

6. We have analysed the RFI responses to determine the Net Present Value (NPV) of the objections-related costs associated with the three reform packages and the variants to them. In summary the discounted 18 year NPV (2018 to 2035) of these options is as follows[1]:

   a) RP1 – Optimise Existing: £10.2m
   b) RP2/3 – Major Reform (with Instant Reactive model): £95.9m
   c) RP2/3 – Major Reform variant 1 (central pre-loaded objections database): £117.6m
   d) RP2/3 – Major Reform variant 2 (Compressed Window of 5 hours[2]): £118.4m
   e) RP2 – Major Reform variant 3 (with Instant Reactive for domestic and 20 hour Compressed Window for non-domestic): £93.9m

---

[1] This analysis includes an uplift to account for non-respondents to the RFI and adjustments made to several supplier responses based on the methodology that they provided for their estimates. It represents the best information available at the time of publication.
[2] 5hrs within a working day or over two days depending on when the notification is sent.

7. This analysis has highlighted that the cost of adopting the Instant Reactive model is substantial. Factors driving the high costs identified with the Instant Reactive model would mostly be borne by suppliers and include:

   a) Operating online systems to respond to invitations to object within two seconds
   b) Providing these platforms on a high availability basis such that they could respond to invitations to object at any time (i.e. 24 x 7)
   c) Operating round the clock service management of the objections systems, including at weekends and bank holidays
   d) Developing automated processes to decide whether an objection should be raised

8. In addition, some suppliers expressed concern that they might suffer lost revenue if their automated processes were unable to determine accurately whether contractual conditions have been breached (e.g. revenue lost through early termination of a contract without receipt of a compensating exit payment).

9. Suppliers' responses to the RFI also stressed differences between the domestic and non-domestic markets, and the way in which they manage them. For example:

   a) In the non-domestic market customers often adopt sophisticated procurement procedures which extend over many weeks. These are generally timed such that contract award occurs well before expiry of the current contract. As a result there can be a longer period between submission of the Switch Request and Switch Date than is the case in the domestic market. However we also note that many smaller businesses behave in a similar manner to domestic customers and may wish to switch faster
   b) The objections checking arrangements that suppliers implement in the non-domestic market can be more complicated: for example:
      i. Checking that contractual terms have been met can be much more complex than testing for debt in the domestic market
      ii. Checking contractual terms may become even more complex where multiple meter points are supplied under a single contract and are switched together

10. Given our analysis of the RFI responses, we issued a supplemental request for information on the costs of adopting a fourth variant to RP2 – named RP2a - under which both domestic and non-domestic switches would use the Compressed Window model. For domestic switches the Objections Window for RP2a is 1WD[3,] with 2WD for non-domestic. The NPV of the costs associated with RP2a is £10.2m: this is £85.7m lower than the base version of RP2. RP2a attracts a much lower cost because it avoids the high costs for suppliers of investing in systems and processes that are 'always on' and capable of responding to an invitation to object within 2 seconds. Under RP2a many

---

[3] WD = Working Day

suppliers would continue to employ the objections processes and systems which they use today, albeit with the objections window reduced from 2-7WD to 1 or 2 WD. We expect that other suppliers would need to move from their current manual processes to an automated set of arrangements but that doing so would be at lower cost than the arrangements needed for instant reactive objections. The cost savings for RP2a also include non-domestic suppliers' ability to validate the CoO flag and avoid bad debt changes by objecting where this has been incorrectly set. This makes the cost of objections under RP2a comparable with that under RP1.

Conclusions

11. While we remain attracted to the Instant Reactive model as it would allow suppliers and PCWs to offer an Amazon-like customer experience with confirmation at the point of sale, we have not been able to demonstrate at this point in time that the benefits would outweigh the costs.

12. **We are therefore proposing that the Compressed Window model of objections testing should be adopted, at least for the medium-term. We also note the arguments made by suppliers that in the non-domestic sector additional time is required to test for objections (e.g. to verify whether there has been a change of occupancy) and are proposing that a longer objection window should apply in the non-domestic sector.**

13. **We propose that, for the medium-term, the fastest switching times would be as follows:**

    a) **Domestic customers: the objection window would be set at 1WD allowing a switch submitted before midnight to become effective at midnight at the end of the following working day (i.e. a 'next working day' switch)**
    b) **Non-domestic customers: the objection window would be set at 2WD allowing a switch to become effective one working day later than would be the case for a domestic switch**

14. While our medium-term policy is as set out above, we want CSS to be capable of supporting both the compressed window and instant reactive approaches. DCC's response to the RFI indicates that the cost of including such functionality would be minimal. CSS would be designed such that the length of the objections window would be determined by parameters that can be modified by a system administrator. This will allow CSS to be flexible to meet future requirements: for example if a future review were to decide that the instant reactive approach was justified or that one objections model (e.g. instant reactive) were appropriate for domestic customers but another (e.g. compressed window) were appropriate for non-domestics.

Processes to improve switch reliability

15. Having proposed that – for the medium-term - the new switching arrangements should be based on the compressed window model of objections testing, we have then considered whether other changes could be introduced to improve the reliability of switching. The focus of our analysis has been on the additional time that will be available between Supplier A being invited to object and the switch taking effect. Under RP2 the fastest that a switch would take effect would be at midnight on the day that the customer entered a contract with Supplier B. Under RP2a the fastest case for a domestic customer will be at the end of the working day following contract formation (a minimum of one day longer than RP2) and for non-domestic customers there will be one further working day.

16. This additional time might allow for two separate issues related to objections to be addressed:

    a) Change of occupant (CoO): with the instant reactive model there would be insufficient time for Supplier A to verify whether Supplier B's coding of the CoO indicator was accurate. Suppliers have commented that this coding is often incorrect – especially for non-domestic customers. Given the 1WD/2WD objection windows under RP2a we have re-examined this issue and presented our analysis and conclusions in Attachment 1
    b) Prevention of Erroneous Switches (ES): again the longer objection windows under RP2a present an opportunity to re-consider our approach. This topic is summarised below with analysis and conclusions presented at Attachment 2.

    Prevention of ESs

17. RP2 included a number of features which should allow consumers to have greater confidence in the reliability of switching, for example: linking gas and electricity meter points at the same premises to a common address; introducing one-fail-all-fail to ensure dual fuel switches cannot proceed independently; and linking Related MPANs. These features are also present under RP2a.

18. However, consumer perception of switching is particularly damaged when a customer is switched between suppliers without the customer having entered a contract with the gaining supplier. We therefore wish to ensure that all possible opportunities are taken to identify and intercept ESs before they take effect. In this section we propose an additional feature which should support this goal.

19. ESs generally arise as a result of data issues or administrative errors, for example:

    a) The Gaining Supplier enters a contract with a Customer but the customer service agent raising the Switch Request muddles two sales transactions and enters an MPxN that does not correspond with the customer's meter point
    b) The MPxN recorded in ECOES/DES for a specified address is in practice located at a different address

c) There are multiple MPANs at the customer premises and the 'wrong' one is provided on the Switch Request

20. When an ES occurs the action required is to re-patriate the customer to the supplier with which they have a contract. This can be a manually intensive process and is governed by rules in the MRA and SPAA. Given the effort involved from suppliers and the hassle that may be experienced by the customer, it is highly desirable to avoid ESs arising.

21. Steps to avoid an ES may be taken at two stages in the switching process:

a) Prior to submission of a Switch Request: suppliers can follow a variety of procedures to ensure the correct MPxN is submitted on a Switch Request, for example:
   i. Triangulating between MPxN, address and a meter asset reference (e.g. meter serial number or GUID)
   ii. As SMETS2 meters are rolled out, using the CIN test to verify the meter is at the customer's location
   iii. Introducing additional steps such as labelling the supply cable with the MPAN[4] or capturing a reference (e.g. "swimming pool", "electric vehicle charging point") where there are multiple MPxNs for a fuel at a premises

b) Between submission of the Switch Request and Switch Execution (at Gate Closure): between these events the time available to identify and intercept a potential ES is dependent on the speed at which switching can proceed and whether the customer has requested a deferred switch date (e.g. to coincide with the end of an existing contract). Under RP2, if the customer had requested a fast switch the Instant Reactive model would not allow sufficient time for the customer to identify and respond to the possibility of an ES. Under RP2a the time available is extended to a Compressed Window of 1 or 2WD where a fast switch is requested but may be longer if an advance switch request has been submitted. This period could allow a potential ES to be detected by the customer, investigated and avoided.

22. The paper at Attachment 2 discusses the potential to avoid an ES by allowing the Losing Supplier – under appropriate regulatory controls – to Annul a Switch Request on instruction from the Customer. The paper proposes that this facility should be supported by CSS, operating within a rigorous set of governance arrangements. An annulment would be initiated by the Losing Supplier between the Switch Request being validated / notified to the Losing Supplier and Switch Execution Gate Closure. Whether or not the Annulment feature has an impact on the rate of ESs depends on the length of time between these points and the ability of the Losing Supplier to engage with their customer.

23. Under current industry practice, the Losing Supplier sends a Sorry to See You Go (STSYG) communication to the Customer when they are notified of an impending

---

[4] In gas, requirements have already been introduced to label the Emergency Control Valve with the MPRN

switch. If the customer does not have a contract with the gaining supplier they can – if they respond quickly enough – contact their existing supplier and request that they block the switch (using a Customer Requested Objection).

24. The Annulment function proposed in the attachment would provide a similar 'emergency brake' to prevent an ES. Its effectiveness in preventing ESs is expected to depend on:

   a) Communications to the customer, either:
      i. The Losing Supplier issuing a STSYG communication to the customer promptly – ideally using an electronic communication method (e.g. the email address captured when the customer signed up); and/or
      ii. The Gaining Supplier sending a Welcome Pack to the customer prior to switch date
   b) The customer responding promptly
   c) There being time available before Switch Execution Gate Closure for the Losing Supplier to raise an Annulment

25. As noted above we are proposing that in the medium-term domestic customers should be able to switch supplier at the end of the working day following that when they entered a new contract[5]: this is referred to as a 'next working day switch'. However, given that the reputation of switching could be significantly damaged if the volume of ESs were to rise, we are proposing that in the period immediately following CSS go-live[6], the expected switching time should be longer. A standard switching time of 5WD would allow an additional 3WD for potential ESs to be recognised and stopped, either through Withdrawal (by the Gaining Supplier) or Annulment (by the Losing Supplier). Suppliers would be free to switch customers in less time than the industry standard but, given the risks to reliability, they may face additional regulatory requirements where they choose to do this. This issue will be examined further as we develop the transition strategy. Some illustrative switching timescales are shown in Attachment 3.

---

[5] We recognise that this will not be appropriate in all circumstances, for example when new prepayment devices need to be issued or the Debt Assignment Protocol needs to be followed. There will also be cases where the customer specifies the date when they wish their new supply to start, for example to coincide with moving into a new property or to coincide with the end of their existing contract.

[6] Potentially 3-6 months following CSS go-live.

Attachment 1

Title of Paper	**Objections and Change of Occupant (under RP2a)**		
Issue Ref	BPD i03	Date: 6 September 2017	
Issue Owner / Author	Jenny Boothe / Colin Sawyer		
Discussed at Design Forum	17 July 2017	Discussion at EDAG Group	19 July 2017
Issued to TDA		Discussion at TDA	

Background

1. During the Blueprint Phase the processes for raising objections were considered in the context of next day switching wherein Supplier A[7] would have to respond instantly to an invitation to object or within a compressed window (e.g. 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. Our initial policy paper 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 the customer had breached their contract terms but the gaining supplier had incorrectly applied the CoO indicator with the effect that a site was not objected to and early termination fees to Supplier A were avoided.

Context

6. Under the existing arrangements (i.e. supported by 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] Supplier A is the incumbent / losing supplier. Supplier B is the gaining supplier.

7. The Industry Codes (the MRA for electricity and the UNC for gas) place obligations on both Supplier A and Supplier B in the way they deal with situations relating to the CoT indicator. For example, the requirements of the MRA are as follows:

   a. Supplier B "shall only set that data item [the CoT indicator] to "True" where it has reasonable grounds to believe, having made reasonable enquiries of the Customer, that the Customer is a new owner or occupier. The Supplier shall retain for a period of not less than one year evidence to substantiate that belief."[8]

   b. "the Old Supplier [Supplier A] should use reasonable endeavours to establish whether that data item has been set accurately by the New Supplier when determining whether it has reasonable grounds to issue an objection in accordance with Condition 14 of the Electricity Supply Licence"[9]

8. The current arrangements mean that where Supplier A has grounds for raising an objection (e.g. outstanding debt at a domestic MPxN) and has evidence that Supplier B has not set the CoT indicator accurately, they may raise an objection and block the switch.

9. RP2 was predicated on the use of the instant reactive approach for objections testing. This would not have allowed time for Supplier A to assess whether a change of occupant had taken place. The Draft DLS Design Assumptions therefore specified that an invitation to object would not be issued to Supplier A if the CoO indicator had been set.

10. Under RP2 – while Supplier A would not be invited to object if the CoO indicator was set – Supplier A would receive notification of the confirmed switch. At that point Supplier A could verify whether a CoO had taken place and, subject to the regulatory arrangements, challenge Supplier B for misuse of the indicator if they found that the original customer was still the occupant.

Issue

11. Under RP2a, Supplier A would be permitted a longer period (1WD for domestics and 2WD for non-domestics) to raise an objection. Suppliers have argued that this would allow them time to determine whether or not the CoO flag had been set validly and – if not – to raise an objection if the circumstances allow (e.g. if there is an amount outstanding).

12. The issue that arises is whether under RP2a:

    a) Supplier B's coding of the CoO indicator should be accepted with no opportunity for Supplier A to raise an objection; or

---

[8] Source: Clause 15.3.1 of the Master Registration Agreement
[9] Source: Clause 16.2 of the Master Registration Agreement

b) Supplier A should be given the opportunity to object to all switch requests, even where Supplier B has set the CoO indicator

Options

Option 1: Allow objections even where the CoO indicator has been set

13. Under this option, CSS would validate a switch request and – if it is valid – send an invitation to object notice to Supplier A. The notice would include the CoO indicator as coded by Supplier B (i.e. CoO set or not set).

14. Under RP2a suppliers have said they would develop automated objections testing routines with exception cases being flagged for manual intervention. In the case of domestic customers most suppliers have indicated that if the CoO indicator were set they would programme their objections testing routine such that it would not raise an objection (although this is not a universal or a committed position). In the case of non-domestic customers, suppliers have indicated that the CoO indicator might not be relied upon by their automated routines and that they may validate use of the CoO indicator by contacting the customer.

15. However there is a risk that Supplier A raises an objection even where there has been a genuine CoO. In such cases the suppliers would need to liaise and if they agree a CoO has occurred, Supplier B would need to re-submit the switch request. Supplier A would need to ensure that they did not object to this request. These arrangements would need to be supported by effective regulatory provisions and, further, CSS would be expected to produce reports on the number or percentage of switch requests carrying a CoO indicator, analysed by supplier.

Option 2: Deny Supplier A the opportunity to object where the CoO indicator has been set

16. Under this option, CSS would validate a switch request and then inspect the CoO indicator. If the CoO indicator were set, Supplier A would be notified of the impending switch but would not be invited to object. The switch would be executed on the switch date specified. It is not proposed that this would allow the switch to proceed more quickly than a request where Supplier A is invited to object[10].

17. In this case, Supplier A would inspect the notification of loss and – if they considered that the CoO indicator had been set invalidly – may challenge the validity of the switch. The regulatory regime could be designed to include performance assurance and enforcement provisions which would handle any misuse of the CoO indicator.

Analysis

18. Used correctly, the CoO indicator should provide a mechanism to ensure that a switch requested by a new occupant does not get delayed because of issues associated with a previous occupant.

---

[10] The validation performed by CSS will include validation that the switch date specified does not fall prior to expiry of the objections window.

19. The CoO indicator could however be coded incorrectly, either as a result of an administrative error or as a result of misuse. Misuse might arise as a result of:

    a. a customer ticking a CoO 'box' on a PCW or supplier website in an attempt to evade a debt or exit fee
    b. a supplier using the CoO indicator fraudulently to acquire a new customer without an objection being raised by the incumbent.

20. The trade-off between the two options is therefore:

    a. Under Option 1 (allow objections in all cases) there is a risk that genuine new occupants could be blocked from switching due to the circumstances of their predecessor
    b. Under Option 2 (deny opportunity to object if CoO is set) there is a risk that suppliers would misuse the CoO indicator to deprive Supplier A of the opportunity to object.

21. Under Option 2 there is an incentive for suppliers to set the CoO indicator and switch customers without Supplier A having the opportunity to object. Supplier A might challenge repeated use of the indicator but this would be under governance and after the switch had been executed. A miscreant supplier might rely on the fact that a challenge would be administratively demanding for Supplier A and might not succeed. A very strong regulatory regime – including enforcement action – would be required to drive appropriate behaviour.

22. Anecdotally the potential for misuse is greater in the non-domestic sector where exit fees are widely used. Recognition of this might suggest that a hybrid option (e.g. Option 1 for non-domestics and Option 2 for domestics) could have merit. However suppliers have argued for a common approach to objections testing as this would simplify their systems and processes.

Conclusions

23. The current regulatory arrangements require suppliers to make evidence-based decisions on whether a CoO event has occurred. The regulations require the gaining supplier to have "reasonable grounds to believe, having made reasonable enquiries of the customer". They also allow the losing supplier to raise an objection in circumstances where an objection is allowed (e.g. debt or contract terms) and where the supplier has made reasonable endeavours to establish whether the gaining supplier has set the CoO indicator accurately and has concluded that no CoO had occurred.

24. Our overall goal is that switching should be driven by the gaining supplier. We would like to minimise opportunities for losing suppliers to frustrate the switching process. Based on this position – and wanting to avoid situations where a genuine new occupant is hindered because of the circumstances of the previous

occupant – we should adopt Option 2 (i.e. no objection permitted if CoO indicator is set).

25. However we are concerned that if Option 2 were adopted, gaining suppliers or customers might set the CoO indicator knowing that by so doing they could avoid the risk of an objection being raised by the losing supplier.

26. The arguments are finely balanced and whichever option is adopted there will be a need for effective regulatory procedures to monitor performance and apply sanctions for misuse. We would expect the CSS to support this by producing regular reports - analysed by supplier – for example, on volumes of switches where the CoO indicator had been set by gaining suppliers or on the number of objections raised by losing suppliers where the CoO indicator was set.

27. Weighing these arguments, we are minded to propose in the DB2 consultation that **Option 1 should be adopted: all switch requests should be subject to objections testing**.

28. This represents a continuation of the current arrangements and we are conscious that suppliers have expressed concerns that these arrangements are open to misuse. Respondents to the consultation will be invited to comment formally on our proposed position and to provide evidence to demonstrate how often the ability to object where the CoO indicator is set is current used in order to help confirm the scale of the issue. Respondents will also be asked to propose regulatory processes that should be implemented to monitor potential misuse and on the sanctions that should be applied if misuse is discovered.

Attachment 2

POLICY ISSUE – UPDATE PAPER

Title of Paper	**Customer Requested Objections (under RP2a)**		
Issue Ref	BPD i03	Date: 6 September 2017	
Issue Owner / Author	Jenny Boothe / Colin Sawyer		
Discussed at Design Forum	17 July 2017	Discussion at EDAG Group	19 July 2017
Issued to TDA		Discussion at TDA	

Background

1. During the Blueprint Phase we examined the processes for raising objections. This analysis was approached 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. The Objections Policy Paper noted that the Supply Licence currently allows for:

   a) co-operative objections: where Supplier B identifies an error and asks Supplier A to raise an objection, thereby blocking the switch and preventing an ET

   b) for domestic customers only – customer requested objections: where the customer becomes aware that an unauthorised switch has been initiated and requests Supplier A to block it from proceeding

3. Given the timescales proposed for objections testing under the central case for RP2, it was recognised that there would be insufficient time for co-operative or customer requested objections to be raised. However where a switch request was raised several days ahead of the switch date it would be feasible for:

   a) Supplier B to recognise that an error had been made and to withdraw the switch request

   b) The customer to contact Supplier B to request the switch request to be withdrawn

   c) The customer to contact Supplier A to request them to instruct Supplier B to withdraw the switch request or to allow Supplier A to annul the switch request

4. The DLS Design Assumptions include a requirement that CSS should allow switch requests to be withdrawn at any time up to gate closure (by Supplier B). During Blueprint it was noted that the processes to address point (c) above would need to be considered further during DLS.

Issue

5. Under RP2a, Supplier A would be permitted a longer period (1-2WD) to raise an objection. In addition, for an initial transition period, the expected switching speed would be set to 5WD (including the 1-2WD objection window). These extended periods could allow the customer to identify that an invalid switch had been initiated and take steps to prevent it being executed. In cases where the customer and supplier have agreed a longer notice period (e.g. to start the contract on the 1st of the next month) there could be an even longer period during which an Erroneous Switch (ES) could be prevented.

6. In the situation where a switch takes, say, 3-5WD, issues arise as to whether:

   a) CSS should be designed to accommodate customer requested objections if the customer states that they do not have a contract with the supplier requesting the switch (i.e. Supplier A raises an objection ***within the objections window***)
   b) CSS should be designed to allow Supplier A to annul a switch request on instruction from the customer. The sole purpose of this would be to avoid an ES where the customer had not entered a contract with Supplier B. The annulment could be processed ***during the objection window or at any time prior to execution of the switch***
   c) Customer requested objections and/or annulments should be permitted in the case of non-domestic customers (under existing licence conditions customer requested objections can only be raised in respect of domestic customers)

Context

7. The RFI issued with the SOC sought information from suppliers on volumes of ESs, Registration Withdrawals, Customer Requested Objections (CROs) and Cooperative Objections. Respondents to the RFI identified a total of approximately 100,000 customer requested and cooperative objections during 2016, of which around two thirds related to non-domestic sites (i.e. assumed to be cooperative objections).

8. For a CRO to be raised under the current arrangements the following steps have to be completed:

   a) The customer must discover that a switch request has been raised. This might occur as a result of:
      i. the customer receiving a Sorry To See You Go (STSYG) letter/email/message from Supplier A, or
      ii. the customer receiving a welcome pack, or similar, from Supplier B

   b) The customer must contact Supplier A to enquire why a switch request has been raised. If Supplier A confirms that a switch request has been raised, the customer may then instruct Supplier A to block the switch because it does not have a valid contract with the Supplier B (by raising an

objection). Supplier A is required to keep evidence of the customer's request and inform Supplier B of the reason for blocking the switch

c) Both of the above steps a) and b) must be completed within the existing objections windows (up to 7 working days for gas and 5 for electricity). Without this intervention an ES will occur causing frustration to the customer and requiring remedial effort and cost from the two suppliers.

Analysis

9. Under RP2a a period of 1 or 2WD (domestic and non-domestic respectively) will be permitted for Supplier A to respond to an invitation to object. Even with 2WD the time available for the customer to discover the unauthorised switch (e.g. receive a STSYG letter/email/message or a welcome pack) and instruct Supplier A to raise an objection is much reduced from the current period (up to 7WD).

10. In the initial period following CSS go-live, there may be a further period of time between confirmation of the switch (when the objections window has expired) and switch execution. This period might initially be 2-3WD, providing time during which a potential ES might be identified and avoided. The starting point is to recognise that if a customer becomes aware of a switch request which has been raised where the customer has no contract with Supplier B, the customer may contact either Supplier A or Supplier B.

11. Given that the model for switching is 'gaining supplier-led' the most straightforward situations are those where the customer contacts Supplier B (e.g. after receiving a Welcome Pack that they had not expected). The action to be taken would depend on the timing of that contact:

a) Prior to execution of the switch:
   i. if Supplier B agrees with the customer that the switch request was raised incorrectly (e.g. supplier has input the wrong MPRN), Supplier B can process a switch withdrawal transaction in CSS
   ii. if the switch had been authorised (i.e. Supplier B has evidence that the customer had entered a contract) – but the customer had not realised they had entered a contract or had changed their mind – the customer may invoke cooling off (assuming notification within the 14 day cooling off period) and Supplier B will again process a switch withdrawal

b) After the switch has been executed (i.e. after gate closure):
   i. If Supplier B agrees with the customer that the switch request was raised incorrectly, Supplier B will have to liaise with Supplier A to arrange for repatriation under the ES procedure
   ii. If the switch had been authorised but the customer wishes to cool off, the customer will be offered the standard cooling off options (new switch to A or C, stay with B on a different tariff or stay with B until switching to another supplier)

12. The situations which were not explicitly catered for in the draft DLS Design Assumptions (because they are not relevant under RP2 with instant reactive objections) are those where the customer contacts Supplier A to enquire why a switch request had been raised without their authorisation:

    a) Prior to expiry of the objections window – Supplier A could block the switch either by raising an objection in a similar manner to the current CRO process or by using a new annulment process

    b) Between switch confirmation (i.e. the end of the objections window) and switch execution – no procedure is currently provided within the draft DLS Design Assumptions: options for an annulment process are discussed below

    c) After switch execution – Supplier A will have to liaise with Supplier B to arrange for repatriation under the ES procedure

13. As set out in SOC, suppliers may submit switch requests in a group and specify that if one request fails, all the other requests in that group also fail (i.e. OFAF). The OFAF requirement is applied at all stages of the switching process so if a switch request is withdrawn or annulled all the meter points covered by that switch request ID would be withdrawn / annulled.

Options

14. Ways in which these 'Supplier A presented' cases might be addressed are as follows:

    a) Option 1: Supplier A raises customer requested objection

    b) Option 2: Supplier A raises a switch annulment transaction on CSS

    c) Option 3: Supplier A informs the customer that only Supplier B can raise switch withdrawal commands and that the customer must contact Supplier B to arrange for this to happen

    d) Option 4: Supplier A advises Supplier B that the customer has informed them that a switch has been requested where there is no contract between the customer and Supplier B. Supplier B is then required to seek re-authorisation of the switch from the customer or submit a switch withdrawal

Option 1: Supplier A raises customer requested objection

15. This option allows the customer to block the switch by making one call to Supplier A. It is consistent with the existing licence conditions but, without any other design changes, it can only be performed within the standard objections window. Given that the objections window will be reduced to 1WD for domestic customer, there are likely to be many occasions where the customer contacts Supplier A after the objections window has closed but before the switch has been executed. This solution will not prevent ESs in these cases.

Option 2: Supplier A annuls

16. This option allows the customer to block the switch from happening by making one call to Supplier A who would raise an annulment transaction in CSS: an

annulment could be raised at any time between validation of the switch request and gate closure. However the provision of an annulment command could allow suppliers to block a switch outside of the objection window by raising an annulment at any time up to switch execution at gate closure (i.e. at 17:00 prior to a switch becoming effective at midnight). This risk could be mitigated by placing additional obligations around use of the annulment command such as maintaining evidence of the customer's request (potentially strengthening the current requirements in SLC14.10 for CROs) and informing Supplier B of the reasons.

Option 3: Referral to Supplier B

17. This option does not require the development of additional functionality within CSS. When the customer contacts Supplier A they would be told that the only way of stopping the switch is to contact Supplier B and request that they raise a switch request withdrawal. If the switch request arose from 'slamming' behaviour by Supplier B (i.e. supplier wilfully registering customers with who they have no contract) or because Supplier B specified the wrong meter point, the customer will have had no previous dealings with Supplier B and probably has no wish to contact them. This option also requires the customer to explain to two suppliers why the switch was unauthorised: in the discussion with Supplier B it is possible that the customer will be made to feel that they have to justify their view, rather than the other way around.

Option 4: Supplier A requests Supplier B to withdraw

18. This option removes the obligation from the customer to speak with Supplier B. Instead, Supplier A would notify Supplier B that the customer had claimed that they had no contract with Supplier B. Supplier B would then be required to seek re-authorisation from the customer or withdraw the switch request. This option places the onus on Supplier B to ensure that the switch is backed by a valid contract and they may, for example want to seek confirmation from the customer. However, if gate closure passes while this exchange of data and verification work is underway the switch will proceed and an ES would result.

Assessment of options

19. None of the options identified above is without negative aspects. The table at Attachment 2A presents the merits of each option. These are summarised below.

20. Option 1 – Supplier A raises customer requested objection: this has the benefits that the customer is only required to contact Supplier A and does not require additional functionality to be developed within the CSS. However this option does not prevent ESs in cases where the customer is unable to notify Supplier A of an unauthorised switch request within the objection window. If the time available after the objection window closes is minimal this option is attractive (because it does not require any additional functionality in CSS) but if there are a few working days between expiry of the objection window and gate closure this option will allow an unauthorised switch to proceed and become an ES.

21. Option 2 – Supplier A annuls - offers the highest level of certainty that if a customer contacts Supplier A prior to gate closure the switch request can be blocked and an ES will be avoided. We recognise the potential for suppliers to misuse this facility so regulatory and reporting provisions would need to be developed to ensure that annulment is used in the circumstances for which it is designed. This option will require an additional element of functionality to be developed within CSS but, if included at the design stage, this is not expected to be material to the overall development cost.

22. Option 3 – referral to Supplier B: this has the obvious shortcomings of a poor customer journey and a significant risk of the switch proceeding if the customer has not convinced Supplier B to withdraw the switch request before gate closure.

23. Option 4 – Supplier A requests Supplier B to withdraw: also presents a risk that internal administration delays mean that gate closure passes and the switch is executed by default. This could be mitigated by subjecting miscreants to enforcement actions but – as switching becomes faster – the time available to Supplier A to issue a notification and for Supplier B to action it will be squeezed and it will be increasingly difficult to for suppliers to operationalise. The result will be an ES which generates additional cost to both suppliers and unwelcome hassle and frustration for the customer. This option is ruled out for all customers.

Conclusions and recommendations

24. Selecting a preferred option is complicated by the fact that the option which offers the best customer experience also offers losing suppliers an additional tool to frustrate switching. Despite the mix of pros and cons associated with it, **we are minded to recommend that Option 2 is adopted subject to seeing evidence to validate the assumption that a significant number of ETs could be prevented through this mechanism**. The annulment feature offers the best customer experience (they only need to contact their existing supplier) and the best chance of intercepting a potential ES before the switch is executed. Furthermore, by de-coupling the process from objections, this approach future-proofs the switching arrangements should the policy on objections be changed in future (i.e. the administrative processes of withdrawal and annulment would still be available to prevent ESs).

25. We have then considered whether the existing restriction that CROs are only permitted for domestic customers should be carried forward and applied to annulments. Given that the objective of the annulment process is to avoid ESs and that many smaller non-domestic customers approach switching in a similar manner to domestics, we think that it is appropriate to allow annulments to be applied to all customers. Furthermore suppliers have advised that it would simplify their operations if processes can be applied consistently across all customers.

26. While we are conscious that inappropriate annulment of a complex non-domestic switch (e.g. involving multiple meter points under one-fail-all-fail) could result in detriment to both a customer and the gaining supplier, **we recommend that**
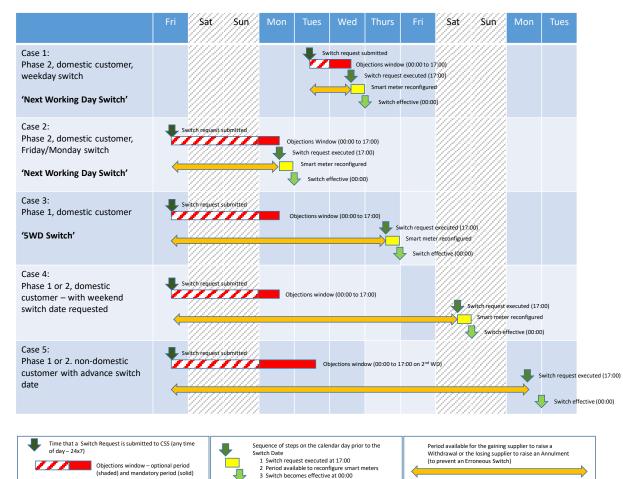
annulment, if permitted, should be permitted for all customers. To mitigate the risks of misuse we propose to review and strengthen the current regulatory obligations.

27. As with the position on the CoO indicator we will set out the proposed positions above in the September consultation on a 'minded to' basis and invite respondents to provide evidence to support the requirement and suggest appropriate regulatory arrangements, which may include:

   a) The need for Supplier A to maintain evidence to support annulment and notify Supplier B of the reasons for annulling a switch
   b) The need for CSS to clearly segregate between objections raised in relation to debt or contract terms and annulments raised because the customer does not have a contract with the gaining supplier. The CSS will need to be capable of reporting on the volume of these different transactions, analysed by supplier and by domestic / non-domestic.

28. Finally we note that co-operative objections (as operated in the existing arrangements) should not be required in future. If Supplier B detects an error in their switch request which might result in an ES they can submit a withdrawal, at any time up to gate closure. If they were to be reliant on a revised version of co-operative objections, such errors could only be intercepted prior to expiry of the objections window (1 or 2WD).

Attachment 2A – Analysis of Options

	1 – Customer Requested Objections	2 – Supplier A Annuls	3 – Referral to Supplier B	4 - Supplier A invites B to reconsider
Customer Journey	+ Customer only has to contact Supplier A - Switch can only be blocked if customer contacts A before objection window closes	+ Customer only has to contact Supplier A + Switch can be annulled at any point up to gate closure	- Customer has to contact both Supplier A and Supplier B to have switch withdrawn - Higher probability that time runs out before customer is able to complete both contacts	+ Customer only has to contact Supplier A - Once responsibility has been passed to Supplier A, customer will be uncertain as to whether switch has been withdrawn prior to execution
Probability of Erroneous Switch	Depends on length of time between end of objection window and gate closure but could be significant	Lowest	Depends on how quickly the customer is able to contact both suppliers	Depends on how quickly Supplier A refers the matter to B and how quickly B then acts
Legal Risk	Supplier A is blocking a switch raised by B on the grounds that no contract was entered into between B and the customer. The fact this is permitted by existing licence conditions (subject to collection of evidence etc.) indicates this is an acceptable arrangement	In effect this is the same as Option 1 in that Supplier A would only be permitted to annul the switch where the customer can present evidence that no contract had been entered into	No risk. If convinced by the customer, Supplier B would be withdrawing a switch request that it had previously raised in error	No risk. Supplier A would be acting as a postman, passing information to Supplier B. As in Option 3 it would be Supplier B withdrawing a switch request that it had previously raised in error
Development Cost	No additional cost for CSS or supplier systems	Small incremental cost to develop functionality in CSS to allow annulment and also to allow supplier systems to enter annulments and process annulment notices	No additional cost for CSS or supplier systems	No additional cost for CSS or for supplier systems other than a small incremental cost to suppliers to allow Supplier A to notify B of a customer request to annul
Possibility of Mis-use	Possible – similarity with existing arrangements should mean misuse is only at a similar level to today	Possible – if conditions around use and requirements for evidence etc. are similar to existing CRO process this should be similar to Option 1	None – withdrawal process is controlled by Supplier B	None – withdrawal process is controlled by Supplier B

Attachment 3: Switching Timescales

Switching Timescales – RP2A