

Direct Dial: 020 7901 7034  
Email: [rob.salter-church@ofgem.gov.uk](mailto:rob.salter-church@ofgem.gov.uk)

Date: 6 December 2017

Dear Colleagues,

**Creating incentives for suppliers to improve switching performance: automatic compensation for consumers and publishing suppliers' switching performance**

We are committed to making the energy market work better for consumers by improving their experience of switching, leading to greater engagement in the retail energy market. Competition is benefiting those who are able and willing to shop around, with customers who switch away from default deals saving around £300.

However, more than half of all customers have never switched supplier or have switched only once.<sup>1</sup> The current arrangements are too often slow, unreliable and not trusted by customers: in 2016, 46% of customers felt switching was a hassle and 41% worried that something would go wrong.<sup>2</sup>

We are improving customers' experiences and perceptions of switching by designing and implementing a new switching process that is reliable, fast and cost-effective, and harmonised across gas and electricity. However, this will take time, so in August 2016 we asked industry to take action now to reduce the incidents of Erroneous Transfers (ETs).<sup>3</sup>

Various requirements oblige suppliers to prevent ETs and follow a defined process to resolve them.<sup>4</sup> In March 2017 we asked suppliers to do more to prevent ETs and provided recommendations on how, such as producing industry-wide 'best practice guidance'.<sup>5</sup>

While suppliers have responded through their efforts to lessen ETs through industry working groups, progress to reduce ETs has not been as fast as we hoped, nor supported by enough suppliers. Suppliers' inaccurate data on their customers' details remains the single largest reason for ETs. Their differing levels of success at preventing ETs illustrates

---

<sup>1</sup> State of the energy market report, Ofgem, 31 October 2017;

[https://www.ofgem.gov.uk/system/files/docs/2017/10/state\\_of\\_the\\_market\\_report\\_2017\\_web\\_1.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/10/state_of_the_market_report_2017_web_1.pdf)

<sup>2</sup> Ofgem Consumer Engagement Survey, 2017; percentage agreeing with questions "switching is a hassle that I've not got time for" and "I worry that if I switch things will go wrong";

[https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer\\_engagement\\_survey\\_2017\\_report.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer_engagement_survey_2017_report.pdf)

<sup>3</sup> ET policy paper, Ofgem, approved by Switching Programme Design Authority on 31 August 2016;

[https://www.ofgem.gov.uk/system/files/docs/2017/01/bpd\\_i13\\_-\\_erroneous\\_transfers\\_-\\_da\\_cover\\_note.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/01/bpd_i13_-_erroneous_transfers_-_da_cover_note.pdf)

<sup>4</sup> Supply Licence Conditions 14A.10 – 14A.11, Master Registration Agreement Agreed Procedure 10 (MAP10), Supply Point Administration Agreement (SPAA) Schedule 10. MAP10 and SPAA Sch. 10 include protections set out in the Erroneous Transfer Customer Charter.

<sup>5</sup> Open letter to support the work of the SPAA/MRA Erroneous Transfers Working

Group and encourage electricity and gas suppliers' participation, Ofgem, 23 March 2017;

<https://www.ofgem.gov.uk/publications-and-updates/open-letter-mra-and-spaa-executive-committees-regarding-erroneous-transfers>

the scope that some suppliers have to reduce the number that occur. This would also help to mitigate any increase in the chance of ETs occurring when faster switching is implemented.

We recognise that industry is also making some progress to address wider perceptions of switching through the Energy Switch Guarantee and encourage industry to continue to improve awareness of the Guarantee, to expand the membership of the scheme and explore putting financial backing to the commitments made to customers.

However, ET rates continue to be too high and still vary considerably between suppliers. They inconvenience and sometimes harm consumers, financially or by causing real distress. Their prevalence also undermines consumers' confidence in the switching process and the retail market as a whole. Unfortunately not all large and medium suppliers have yet signed up to the Energy Switch Guarantee.

We have been clear that we would consider regulatory interventions if suppliers' progress was too slow. It is clear to us that suppliers must do more to improve the accuracy of customer data, so that fewer ETs occur. More broadly, there are problems in the switching process, such as delays or abandoned switches caused as a result of suppliers submitting incorrect data into the industry systems used to record when customers change supplier. In our 2017 consumer survey, 27% of respondents said they believed the switching process took too long.

We therefore recently announced our intention to mandate suppliers to compensate customers when their switch goes wrong as a result of a suppliers' actions. Our objectives are: to protect these customers, to help improve all household consumers' confidence in the process of switching supplier and to create sharper incentives on suppliers to make sure their data and IT systems make switches go "right first time".

To further encourage suppliers to reduce ETs and tackle other switching issues, we intend to publish data on individual suppliers' performance in the switching process. We aim to transparently and fairly show how well suppliers are operating aspects of the process that are in their hands.

We anticipate that suppliers will be able to improve by collecting and maintaining more accurate customer data and by proactively identifying situations that might lead to an ET and taking steps to avoid them, such as when a customer moves home.

### **An automatic compensation scheme**

An automatic compensation scheme will provide some recompense for inconvenience, time or financial detriment to customers who encounter problems while switching. There are some complex questions which we will need to answer as we design this scheme. For example, we will need to specify a trigger for compensation that: clearly identifies a switch that has gone sufficiently wrong to cause harm to a consumer or cause wider damage to attitudes to the switching process; denotes a point in the process that is the same for all suppliers; and does not trigger compensation before a supplier has had the opportunity to resolve any problem.

We anticipate that a new Guaranteed Standard of Performance may be the most effective and least burdensome way to implement such a scheme. But we are open to stakeholders' views on this and the design of the scheme.

### **Publishing suppliers' switching performance**

We think it is important that customers, consumer organisations, suppliers and the industry as a whole can see how well suppliers are doing at ensuring switches are "right first time". This is the aim of publishing supplier switching performance. Our early view is that

reporting could potentially include supplier-specific ET rates, rates of rejections and objections, and the reasons they have occurred. We are also exploring whether reporting could include information on the time taken to switch customers.

Creating an accurate and representative set of metrics for switching performance will be challenging. We aim to report data that provides a useful and accurate indication of suppliers' performance and that is not unduly influenced by factors that suppliers cannot control. In particular, we will identify metrics that reflect suppliers' different responsibilities towards their current customers compared with customers who switch to them.

### **Next steps**

To address these challenges we will engage with stakeholders to ensure they have the opportunity to contribute their views on the design of both the automatic compensation and metrics for suppliers' switching performance. We are in a dialogue with Xoserve and Electralink to understand the data available on switching. This will help us identify potential triggers for automatic compensation and potential metrics for reporting switching performance.

We value stakeholders' views on our intentions; at a strategic level and with regard to detailed design questions that we will need to consider. In early 2018 we will issue a request for quantitative and qualitative evidence to inform our development of formal proposals for the automatic compensation scheme and our plans to publish switching performance data. We aim to implement the automatic compensation scheme by the end of 2018.

We anticipate engaging with stakeholders about our plans to publish switching performance data in January and February 2018 on our early thinking, then again in March and April as we finalise our proposals. We aim to implement this part of our proposals during next year.

We continue to support suppliers' work in the Erroneous Transfer Working Group (ETWG); we think its members and work can contribute constructively to the design of automatic compensation and switching performance metrics. We are committed to making sure that all stakeholders have an opportunity to contribute their views on how these measures can be implemented in consumers' best interests.

We would like to hear your views on how these proposed schemes can minimise consumer harm through switching problems and on how you would like to engage with our work. To discuss further, please contact [Rob.Salter-Church@Ofgem.gov.uk](mailto:Rob.Salter-Church@Ofgem.gov.uk).

Yours faithfully

**Rob Salter-Church**

**Partner, Consumers and Competition, Ofgem**