

Modification proposal:	<b>Supply Point Administration Agreement (SPAA) Change Proposal (CP): 17/410: Balance Agreement and Transfer for Smart (BATS)</b>		
Decision:	The Authority <sup>1</sup> has decided to reject <sup>2</sup> this modification <sup>3</sup>		
Target audience:	SPAA Parties, SPAA Panel and other interested parties		
Date of publication:	22 March 2018	Implementation date:	n/a

## Background

This Change Proposal seeks to introduce a new Schedule called the Balance Agreement and Transfer for Smart (BATS), to replace SPAA Schedule 38 - Smart Prepayment Change of Supplier Exceptions Process. The Proposer considers that BATS will facilitate a smoother Change of Supply process for pay as you go (PAYG) customers than the existing SPAA arrangements.

It proposes a complete replacement of Schedule 38 and would impact the Debt Assignment Protocol (DAP) under Schedule 9, and therefore requires Authority consent.

## The modification proposal

SPAA CP 17/410 was proposed by Utilita. The proposer considers the changes are required in order to facilitate a new process designed to address a number of perceived issues with the current smart Change of Supplier (CoS) process, including:

- Current refund arrangements may, in the proposer's view, cause financial detriment to prepayment customers
- The proposer considers that Wide Area Network (WAN) issues could create technical challenges in fulfilling obligations under Master Registration Agreement (MRA) Agreed Procedure (MAP) 24<sup>4</sup> and SPAA Schedule 38<sup>5</sup> to change a meter's mode to credit before Supply Start Date (SSD)
- The proposer also considers that Meter mode uncertainty may create issues for both customers and suppliers
- The proposer considers that Suppliers are writing off potential income as a result of monies owed either as a debit or small debt (debt under £20)
- The proposer also argues that the existing DAP is a complex and cumbersome process for prepayment customers and will not work for faster and more reliable switching arrangements.

To address these potential issues, SPAA CP 17/410 seeks to replace SPAA Schedule 38 with a new proposed Schedule (including the proposed new Data Transfer Network (DTN) data flows) to implement a new process, BATS, for Suppliers to work behind the scenes to make sure that the live supplier has the meter's credit balance to purchase the energy for that supply point during and after a CoS.

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> 'Change' and 'modification' are used interchangeably in this document.

<sup>4</sup> MRA Agreed Procedure for Smart Prepayment Change of Supplier Exceptions Process

<sup>5</sup> Smart Prepayment Change of Supplier Exceptions Process

The Change Report for SPAA CP 17/410 states that the proposal will better facilitate Applicable SPAA Objectives:

*a) Development, maintenance and operation of an efficient, coordinated and economical change of supplier process;*

*b) Furtherance of effective competition between Gas Suppliers and between relevant agents; and*

*d) So far as is consistent with sub-paragraphs (a), (b) and (c), the efficient discharge of the licensee's obligations under this licence.*

The proposer considers that SPAA CP 17/410 will better facilitate these objectives because the proposed BATS changes would amend the current Smart CoS process from one that could potentially have financial impacts on customers to one that in their view does not. It was also noted that the BATS process could also potentially support consumer choice by improving the smart CoS process, therefore potentially facilitating more competition in the market.

The proposer also argues that the CP will facilitate a more robust and reliable change of supplier process for smart Pre Payment Meter (SPPM) customers. They consider SPAA CP 17/410 would enable this by making the new supplier more certain in the initial period after taking supply and enabling customers to start operating in PAYG more quickly.

### **Change Board<sup>6</sup> recommendation**

At the SPAA Change Board meeting on 13 February 2018 the Change Board voted on the proposed modification. The outcome of the weighted vote is set out in the table below:

CP 17/410	WEIGHTED VOTING (%)					
	Domestic Supplier		I&C <sup>7</sup> Supplier		Gas Transporter	
	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	3.28	96.72	0.05	99.95	-	-
IMPLEMENTATION DATE	71.54	28.46	68.76	31.24	-	-
IMPLEMENTATION TECHNIQUE	42.86	57.14	49.14	50.86	-	-

In accordance with the weighted vote procedure,<sup>8</sup> the Change Board considered that CP 17/410 would not better facilitate the relevant objectives of the SPAA therefore did not recommend its approval.

### **Our decision**

We have considered the views of the Change Board and the Change Report dated 20 February 2018 and have concluded that:

- implementation of the modification proposal CP 17/410 will not better facilitate the achievement of the relevant objectives of the SPAA<sup>9</sup>

<sup>6</sup> Change Board is established and constituted pursuant and in accordance with the SPAA.

<sup>7</sup> Industrial and commercial.

<sup>8</sup> The threshold for a change proposal being accepted by relevant SPAA parties is 65%, as set out in clause 9 of the SPAA.

<sup>9</sup> As set out in Standard Licence Condition (SLC) 30.5 of the Gas Supplier Licence.

## **Reasons for our decision**

We consider this modification proposal will not better facilitate SPAA objectives a), b) or d) and would have a neutral impact on the other relevant objectives.

*a) Development, maintenance and operation of an efficient, coordinated and economical change of supplier process;*

The proposer considers that SPAA CP 17/410 better facilitates objective a), by implementing a more robust and reliable CoS process for SPPM customers. We recognise that the issues identified by the proposer could be construed as potential inefficiencies in the CoS process for Smart; however, there has not been any direct evidence provided to support the arguments raised, or to show how the introduction of a second process to sit alongside the existing DAP process will promote efficiency in the CoS process or in the administration of the SPAA arrangements, as described within the Change Report.

*b) Furtherance of effective competition between Gas Suppliers and between relevant agents*

*d) so far as is consistent with sub-paragraphs (a), (b) and (c), to efficiently discharge the licensee's obligations under this licence.*

The proposer has set out that the introduction of the proposed new BATS process would better facilitate objectives b) and d). However, there was not sufficient evidence presented within the Change Report which supported the proposer's view that the new process would promote competition between Gas suppliers and their agents (objective b)). Nor has evidence been presented that supports the proposer's consideration that the proposal would also better facilitate objective d).

There is a risk that the introduction of the BATS process could be complex and expensive to implement. However, the lack of an impact assessment in the Change Report makes it difficult to assess the impact on industry participants' systems, processes and costs against the potential benefits which the BATS process seeks to introduce.

Nevertheless, we are concerned that creating additional industry processes, will introduce complexity and potentially increased costs into the system. This could ultimately lead to increased costs to the consumer.

Overall, our view is that we have not been provided with enough evidence to support the need for a new process and the associated system change(s), or detailed analysis to demonstrate that the proposed changes would better facilitate any of the identified objectives.

## **Other issues**

We are of the view that the credit balance assignment component of BATS has some merit, but believe further detailed analysis needs to be undertaken to ensure full advantage is made of the smart meter technology. In addition, further consideration should be given to the governance and cost benefit analysis of implementing these new arrangements. However, the approach to debt transfer is more complicated and the introduction of BATS creates more dependencies on existing industry arrangements, at a time when we consider that the industry should be examining ways to rationalise processes.

Other industry measures are in place to prevent potential detriment, particularly SPPM Switching Principles, which have not been in place long enough to allow impact to be assessed. We are of the view that they should remain under review and be refined to ensure that they are a robust set of principles which guides this part of the industry and helps to improve the customers experience at Change of Supply.

The BATS process, whilst having been developed in the SPAA Expert Group (SEG) and Issue Resolution Expert Group (IREG), still contains outstanding issues which we believe make the process less robust than needed in order to mandate its usage within the industry, including the lack of a consensus on how to address misdirected payments and data protection issues regarding customer matching.

The proposer also explained that in their view the existing DAP process is complex and cumbersome for pre-payment customers. It is worth noting that improvements were made to the DAP in December 2016 following the CMA's recommendation<sup>10</sup>. The gas and electricity supply licences require an outgoing supplier to facilitate the transfer of a debt of up to £500 per fuel when a PPM customer seeks to switch to a new supplier. When a customer switches, they take their debt with them and repay it to their chosen supplier.

The proposer highlighted within the Change Report that 94% of their customers with accumulated debt would follow the proposed BATS arrangement instead of the DAP. We are concerned that the existing safeguards of the DAP would not be in place within the BATS process, which is unproven and may contain new risks to customers.

The intention of moving customers off the DAP is a significant policy shift from the CMA recommendation and Ofgem's licence conditions. We could not endorse an alternate approach without having a fully assessed, developed and robust process to replace or complement the existing DAP.

Whilst we do not consider that we have been presented with sufficient evidence that the implementation of this modification would improve efficiency in the SPAA CoS procedures, or that the introduction of the BATS process is likely to have a significant impact on the promotion of competition in the gas market, we do support further work being undertaken to refine the switching processes for SPPM customers.

## **Decision notice**

In accordance with Standard Licence Condition (SLC) 30 of the Gas Supplier licence, the Authority has decided that modification proposal SPAA CP 17/410: 'Balance Agreement and Transfer for Smart (BATS)' should not be made.

**Jacqui Russell**  
**Head of Smarter Metering**

Signed on behalf of the Authority and authorised for that purpose

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<sup>10</sup> <https://www.ofgem.gov.uk/gas/retail-market/market-review-and-reform/implementation-cma-remedies>