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By email: [switchingcompensation@ofgem.gov.uk](mailto:switchingcompensation@ofgem.gov.uk)

Dear Rachel

## **Supplier Guaranteed Standards of Performance: Consultation on Switching Compensation**

We are pleased to have the chance to respond to this consultation on the key questions around improving consumers' experience of switching. We set out below our responses to those questions on which we have particular views.

### **Overview**

Overall, we understand why Ofgem is proposing automatic compensation for customers for switches gone wrong and other behaviours. Key to addressing adverse perceptions of switching in our view is minimising the incidence of switches gone wrong and (finally) addressing the myriad data issues and other challenges faced by those suppliers keen to resolve these issues speedily for their current or past customers. Compensation of itself may not act as an incentive to do so, particularly where this is applied to both suppliers regardless of causation - the issues will not be fixed and error will be costed into new tariffs. Customers of course would gain some measure of satisfaction, which is important.

We think a road map of industry measures to address known issues (e.g. failure to provide a contact point for working problems, inter-supplier incentives, fixes for faults found via the agent ecosystem) can be developed in fairly short order, with industry parties working to allocate progressing changes in an orderly manner. We suggest this based on our recent experience of working groups and switching improvement measures, summarised below.

First Utility engaged in the Erroneous Transfer Working Group (**ETWG**) from October 2016 through to the conclusion in May 2018. This was because we were concerned at the number of erroneous switches in the industry and the flawed industry code provisions then available to deal with parties who cause erroneous switches and do not engage with the industry to resolve escalated queries. We suggested the use of an incentive mechanism to be implemented into industry codes with robust non-anonymised reporting highlighting poor performers, however these ideas were not taken forward by the group.

It follows that we would also like to see any future proposals on erroneous switches incentivising parties with inadequate processes to improve their performance. We include at the end of our more detailed response our further thoughts (which could be added to the roadmap mentioned above) on potential means to address issues which lead to errors.

As a result of being a signatory to the Energy Switch Guarantee (**ESG**) we can identify synergies between the information we provide to ESG with the Ofgem proposals relating to delayed switches, timing of final bill and credit refunds following a switch. We do not submit information on erroneous switches through the ESG and are not convinced those proposals should fall into Guaranteed Standards of Performance (**GSOP**). The existing GSOP legislation deals with issues caused solely by a Supplier or Network (or a third party agent representing a Supplier or Network). We do not believe that GSOP is the best vehicle for dealing with inter supplier disputes.

### **Proposal on Delayed Switches**

We are largely supportive of Ofgem's proposals for delayed switches. We are however concerned that the losing supplier should be expected to pay compensation for delayed switches which are beyond their control. We have previously experienced delays to switches where other suppliers' third party agents have not engaged with our third party agents. These delays relate to Data Collectors (**DC**) and Meter Operators (**MOP**) not processing data in a timely manner or at all. We would have to pay compensation under the Ofgem proposals despite not having any agreements in place or being responsible for a competitors third party agent - thus with no means to mitigate the financial impact of the compensation or - almost more importantly - effecting improvements in the underlying behaviours leading to or increasing the errors experienced and their impact on customers.

### **Proposals on Erroneous Switches**

Industry data quality has been a long-standing issue and the main driver behind the number of erroneous switches over many years. There are a number of parties involved to ensure the correct consumer is switched and should be considered before implementing performance standards. Consumers rely on Price Comparison Websites (**PCW**) and Automatic Switching Websites (**ASW**) to select the correct address (to then provide to a supplier) when confirming a switch. Due to the materiality of the proposals, we would like to see further amendments to Ofgem's Confidence Code to ensure these websites are responsible for and aware of the importance of selecting the correct details.

The gaining supplier is the driver behind an energy switch and determines the overall speed and thorough validation of the switch by i) acting on the switch request from their own switching channels or a PCW in a timely manner, ii) validating the details received on the switch request in a timely manner and iii) proactively processing credit checks on their prospective customers ability to pay. The losing supplier can only go so far to ensure their consumers are not erroneously switched so compensation should only be paid by the losing supplier where there is undeniable evidence that an action taken by them actively prevents a switch from taking place. These actions include invalidly objecting to the switch request by the gaining supplier. We believe only the gaining supplier should pay compensation to consumers in the event of an erroneous switch (Proposal C).

In the event of an erroneous switch taking place, we believe both suppliers should be responsible for determining if a switch is valid or erroneous.

We have evidence to suggest that it is very difficult to engage with some suppliers whereby contacts are not provided or maintained accurately on the SPAA and MRA operational contacts lists. The telephone enquiry services provided by some suppliers are not fit for purpose with lengthy waiting times during busy periods. These inadequate processes mean some suppliers with appropriately trained staff and refined processes will be unfairly punished. We believe the culpable supplier should pay compensation to consumers in the event of an erroneous switch not being agreed after 20 working days (Proposal B).

### **Proposal on Timing of Final Bill**

We agree in principle with the proposal to require all losing suppliers to compensate customers for that supplier's failure to provide a final bill within the required six weeks. This will incentivise suppliers to issue bills using estimated reads in order to avoid the automatic penalty payable for delay. This means that the incidence of a Shipper Agreed Read (**SAR**) process being invoked is increased, i.e. the customer disputing both the final bill and the opening bill based on the estimated read.

On the one hand, this forces the issue to the fore faster. On the other hand, it makes it even more important for the SAR process to work effectively as the outcome may be re-issued final bill and opening statements. We think that there are practical measures that suppliers will be incentivised to use in order to mitigate this, e.g. engaging the customer to obtain reads, etc. Ideally, therefore, imposing this automatic compensation payment may lead to improvements in both gaining and losing supplier behaviours around final bill and opening statement, including around resolution of SARs, which will benefit customers overall.

### **Credit Refunds Following a Switch**

We agree that a consumer deciding to switch supplier should be able reasonably to rely upon any credit balance from its previous supplier being repaid in a timely manner. It follows that we agree in principle with imposing automatic compensation from the losing supplier should it fail to re-credit within two weeks of issuing the final bill.

For the reasons set out above however, suppliers in the new regime would be incentivised to issue a final bill using an estimated read to avoid the compensation payable on delay. Thus, we are concerned about issuing credit balances based on a final bill that has had to be issued using estimated meter readings. Any subsequent actual readings will adjust consumers' financial balances. This will trigger further refunds of credit balances or even suppliers issuing requests for payment of outstanding balances. We believe this would be very confusing and frustrating for the consumers and potentially disengage them from switching in future. We support the proposal where the final invoice is based on an actual meter reading provided by the customer or the industry.

### **Astute Customers**

The intended outcome of the proposed Guaranteed Standards should promote switching being more reliable and increase confidence in the industry to invigorate disengaged customers. The proposed standards will not provide any additional certainty for disengaged customers to engage in switching energy to a different supplier.

The combinatory effects of multiple breaches of guaranteed standards could create a group of already engaged savvy customers to switch energy every month to receive compensation payments. Each supplier should be keen to review the amount of compensation paid to customers to view any trends. The underlying problems with switching should effectively reduce as a result of suppliers paying compensation.

Suppliers could find that incoming consumer contact will increase as a result of any proposal where gaining and losing suppliers pay compensation. If Supplier A makes the compensation payment immediately and Supplier B makes the compensation payment on the final day, there would be a 10 working day window where the consumer could become confused or frustrated at not receiving their compensation payment from Supplier B.

### **Reporting**

The nature of the proposals and the materiality (over £60m and 1.7m transactions) means we would expect that suppliers are incentivised to keep accurate records. There is an existing framework in place for code administrators to independently review supplier performance. The ETWG were receptive when reviewing potential reports to identify poor performers through the processing of erroneous switching data flows. There is also an effective reporting mechanism in ESG however only a proportion of the market contribute through this method. This would remove the necessity for any external auditing of suppliers' records.

### **Alternative Proposals**

We have provided below some alternative options that could warrant further consideration and discussion:

### Option A - Implement an Incentive Scheme to MRASCO and SPAA for Erroneous Switches

We have suggested the use of an incentive scheme throughout the course of the ETWG. Other members did not take up this suggestion. We propose a modification that mandates guilty parties to make compensation payments. Existing independent reporting of data flows would be utilised to determine performance with non-anonymised reporting made available to the industry and the Authority.

### Option B - Implement an Incentive Scheme to REC for Erroneous Switches

This proposal is to raise the modification detailed above in the Retail Energy Code (**REC**) which is planned to be implemented in late 2018.

### Option C - Immunity from Exposure for ESG Signatories

This proposal would provide immunity for suppliers signed to the ESG and achieving performance targets while compensation payments would be made by non-signatories. It could persuade other suppliers to become ESG signatories and not avoiding regular audits.

### Option D - Mandating All Suppliers to Become ESG Signatories

This proposal would ensure all suppliers provide switching information through the ESG and they are audited centrally with incentives placed on underperforming suppliers.

We look forward to engaging with you more generally on the development of the compensation arrangements and these proposals.

Yours sincerely

**Carl Whitehouse**  
**Industry Codes Manager**