

## Switching Compensation Phase 2 Working Group – Session 2

From: James Hardy

Date: 28 February 2019

Time: 15:15 – 17:15

Location: Ofgem, 10 South Colonnade, Canary Wharf

### 1. Introductions and Attendance (please note that no roll-call was taken for those dialling into the Webex).

James Crump, Ofgem (Chair)  
James Hardy, Ofgem  
Iona Penman, Energy UK

Miles Rosenblatt, Bulb  
Alexandra Meagher, Bulb

James Crump (JC) as chair opened the meeting and welcomed members to the second session of the Switching Compensation Phase 2 Working Group.

JC thanked the group for the comments and information that had been submitted to help answer the questions asked in the previous session and for their engagement so far. JC noted that the more comments and information that are provided, and the higher the level of engagement there is, the easier and more valuable the work from this group will be.

#### 1.1 Agreement of Terms of Reference

In the last meeting, the agreement on the Terms of Reference (ToR) was deferred to this session as group members asked for more time to review the ToR. JC explained that the group does need a ToR to be agreed for good governance reasons. The group was asked if they had any strong feeling on the ToR and were asked if they had any comments they would like to make. No comments were received. JC stated that if anyone did not dissent, that the group should consider the ToR to be agreed. It was noted that changed can always be made later on if anything is found that is needed to change.

#### 1.2 Agreement of Minutes of Workgroup 1

A number of comments were received regarding the minutes from the first session of the workgroup. The comments will be acted upon and a re-circulation of the minutes from Workgroup 1 will happen in due course.

#### 1.3 Aims of Today's Session

JC ran through what should be achieved in this session. This included to run through a high level summary of the responses to the data request from the first session, and to understand the next steps for delivering the work. JC once again reiterated that this session should not be used to discuss whether Guaranteed Standards should be used or not, nor is the session looking to re-open aspects of the policy decision for Phase 1 work.

Since the last session, members were asked to identify and provide data on causes of detriment; identify where these causes occur within the switching process; and to deliver this work to Ofgem to allow us to consolidate it into a work package that can be discussed at the next meeting(s).

The information and data provided will help form the discussion for this session, and future sessions. JC thank those group members who have provided engagement so far and explained how the engagement is helpful and appreciated. Suppliers are asked to continue with engagement as much as they can, and encouraged those who are yet to engage to do so.

## **2. High Level Review of Feedback from Workgroup 1**

Many group members provided answers to the question from the last workgroup session. These responses were different in the approaches taken to answering the questions. In the slide pack we have attempted to bring these responses together at a high level.

This session of the working group was intended to be used to run through the answers and responses to the question. There was a hope that by the end of this discussion the group will have a consensus on how to build on these answers to help towards the work at the next stage.

JC asked the group if they had any objections to having individual responses shared more widely, or on the website that is currently being set up for Switching Compensation. JC said that he did not see anything the responses that would be contentious, but we do not want to pre-empt that. Members of the group are asked that if you do not have to share the information you have provided with the public and/or other group members if you do not wish to do so. We would be grateful to hear any thoughts from members on how to approach the sharing of material.

JC explained that we have looked into using facilities like Huddle, but this may be difficult due to budget constraints as huddle licenses for users is a discretionary expense which Ofgem are unable to cover. Ofgem's aim is to share contributions on a dedicated work space on Ofgem's website, or through continuing to circulate documents to group members through the mailing list, or both.

Group members were asked to think about how, and where, you would like to share contributions with the group. We could take the universal approach of not sharing things if the group is split on whether they are happy to share information or not. A suggestion was made

that we share the information but the supplier who provided the information is kept confidential. This is what JC had done with the information provided for the slides for this session. There was a sense of agreement that this would be continued when sharing information in the future.

JC started off the high level review by providing a few general thoughts on the information received since the previous session. JC noted how respondents repeated their concerns that Guaranteed Standards are not the best way to reduce ETs and prevent delays in bills, but also highlighted how respondents also said that there was no value to the supplier in delaying a switch or causing an ET. Real detriment occurs from issues like delayed switches and ETs, and we do know it puts people off from switching. The principal aim of this work is to create a mechanism that ensures customers are recompensed for detriment suffered by compensating to the consumer when switches goes wrong. The principal aim is to.

A group member asked whether Ofgem “wanted consumers to actively seek compensation”. JC responded stating that this was not the aim of guaranteed standards, and that consumers should be compensated when things go wrong, without having to seek it out. We do not want problems to happen, but we recognise they will. The main aim is still that prevention is better than a cure and in an ideal world we would reduce the levels of detriments to the lowest level. What we are trying to achieve with this phase of the Guaranteed Standards work is to achieve the right allocation of compensation (which should be paid by the polluter, the supplier at fault) for when things do go wrong in the switching process. When things do go wrong, Ofgem wants to ensure consumers are protected and compensated for detriments that are suffered, and to be reassured by this.

JC noted that a strong theme that came across in the information received was that where things do go wrong, there will be some situations where customers are genuinely at fault, or where the supplier is not at fault or where it will be out of the supplier’s control. Examples of these were provided, and these include customer fraud, incorrect data from consumer, or failure to pay debit balances on switching. It was stated that we clearly should not expect consumers to receive compensation when they are genuinely at fault for things going wrong. However, it was still noted that the majority of failures will still be outside of the customer’s control. It was explained that delays and ETs caused by weaknesses in industry data, or where responsibility for the detriment is unclear (but not clearly attributable to the customer) will not be exempt.

Many group members in this meeting, and previous meetings, have raised queries about incidents which are not the fault of a supplier. JC confirmed that there is scope within this work to recognise the faults that are not caused by a supplier.

A question was raised regarding third party intermediaries and how they fit into the Guaranteed Standard process, and what should happen when it is a third party that is potentially at fault. A discussion was held about the commercial relationship between the supplier and price comparison websites (PCWs) and how this is outside of the customer’s

control. In these instances, Ofgem would expect the supplier to exercise some responsibility over the PCW they operate and supply data with.

JC noted that when a supplier is willing to use a third party to engage with customers, then they are still the first regulated body in the process. Therefore, the supplier is the first point of responsibility for the customer. JC gave a reminder to the group that Ofgem do not regulate PCWs. For this to happen, it would require primary or secondary legislation. It is important that as part of this work, we understand the impact that PCW systems can have upon consumer outcomes.

When discussing the general thoughts on ETs, a point was raised that suppliers do their own investigations on ETs including looking at where they should pay compensation for the ET. A question was asked about whether suppliers should keep an internal record of these? JC responded that if a supplier feels that if the customer is genuinely responsible for the issues leading to the issue causing a missed GSOP, they should record their decision not to pay compensation. However, there may be a question whether issues are the fault of your counter party in the switching process, or is it as a result of an act totally outside of the industry itself.

JC made it clear to the group that suppliers should not be in a situation where they have to pay compensation when it really is not their fault than an ET or a delay etc. has occurred. JC explained that as the sector moves towards principle based regulation, suppliers should make judgements about how to treat customers fairly, which would include the decision to pay compensation.

Many members of the group have asked for further guidance on the exact way that the compensation measures will be applied, and when a supplier should, and should not, pay compensation. Ofgem are unable to respond to all individual queries, but will be pulling together a guidance document on where the new compensation regime will be applied. This guidance document will be issued to group members as soon as possible.

It was stated by a group member that clarification on what is required on reporting for Guaranteed Standards, including for Phase 1, is needed as May 1 is not too far away. Suppliers expressed a view that the sooner they receive clarity on the reporting, the better. JC confirmed that Ofgem are working with their data team on the reporting issue, and this clarity is something that group members should expect to be sent to them in the coming days. This clarity should provide you with an indication of the reporting data that Ofgem will expect you to collect, and to keep.

JC asked stakeholders to send questions on the Phase 1 work to the Switching Compensation mailbox. The Switching Compensation team will be on hand to help in any area where you may need more clarity.

## **2.1 Erroneous Transfers**

The slide pack provided a high level overview of the comments received for each of the three Guaranteed Standards area. JC starting analysing these by running through the main causes of Erroneous Transfers (ETs) and the root causes on these. This information discussed was provided through engagement from suppliers.

JC explained that the main reasons for erroneous switches are incorrect address selected at sign up, and this can be caused by the customer or gaining supplier, an incorrect address in customer database, late cancellations, Customer Service Returners, misleading and fraudulent sales process, and customer driven forgery.

It was said that the main cause of ETs are incorrect address data, with one respondent saying 80% of ETs on their watch was due to incorrect addresses being selected at on boarding. The root causes of these being unclear on boarding processes, a lack of checks and control when a customer signs up, and due to incorrect/poor quality of data held by PCWs.

A lengthy discussion was held about the role of PCWs in the switching process, and the relationship between the regulator. A comment was made that it could be the PCW that selects the incorrect address and therefore causes an ET. One respondent raised the point that since PCWs now have access to ECOES, they could also be selecting the wrong addresses and therefore at fault of the ET. JC stated that the PCW could access the link to the wrong data, or it could be a weakness in their process of selecting addresses which creates confusion for the customer. JC asked if it is the lack of clarity that is in the PCW interface that is likely to cause detriment in these areas. The group participant agreed and said that some of them, but not all of them, can access ECOES select the MPAN but select the wrong address and cause the problem for the supplier. Another group participant added, and said that, it does not help that there is no standard way in which PCWs onboard customers or interrogate ECOES (PCWs may use their own address look up and these may all be different). JC said that the lack of the standard is known, and we are aware of the problems that suppliers have with managing PCWs, but noted that we have no regulatory oversight of them. A challenge of this work will be how a majority of switches do use these unregulated intermediaries. This is something the group will have to look at, and consider, going forward.

A group member noted that alternative options to compensation should be considered as part of a debate about the reasons and responsibilities for when switching goes wrong. They expressed their view that industry has changed significantly in the past few years and Ofgem to take these changes into consideration. JC responded that despite this, the industry still sees high levels of ETs for example. JC noted that compensation may not be the only solution to the problems within the market, but it is a way to provide some redress to customers, who are not at fault for something that is an impairment to the effective operation of the market. We will be focussing on getting the distribution of compensation in the market right, and that we do not have parties that are bearing costs for compensation for issues caused by other suppliers. JC reiterated that Ofgem are committed to creating a compensation mechanism in the switching process and we are not going to shy away from that. Ofgem are happy to hear concerns of supplier and we will feed that back into the wider switching work. JC again expressed how Ofgem are grateful for the engagement that we have had so far.

JC asked the group to consider the reasons for ETs, in particular looking at incorrect address data in the customer database. It was asked how the working group can build in the compensation, and/or switching process, something that identifies the issues and makes suppliers recognise their misleading sales process. It was stated that this is something suppliers are quite pro-active about and this has been shown in compliance cases. It was noted that suppliers often say they have had a sales person who was not behaving properly. The group have been asked to consider how they could identify this more easily, and how to identify any other errors in the switching process similar to this.

In summary it was agreed that most respondents agree that the main reason for ETs is incorrect address selection. It was also noted that industry data and fraudulent activity. Group members were asked to think about some questions ahead of the next meeting. The answers to these questions will help drive the discussion at the next day-long workshop. These questions are:

- How robust are supplier processes for ensuring correct addresses have been selected? Are gaining supplier controls adequate?
- What can be achieved regarding verification of industry data in the window for switch completion?
- Who is responsible for verifying industry data? Gaining supplier or losing supplier? Who will have billed the customer?

A few key points were made regarding the questions and the work related to them. Firstly, JC said he realised that for the final question there may not always be a clear answer to this. The group members are still asked to think about this question though and how a clear answer could be found.

Secondly, JC expressed the need to be able to bring third parties, such as PCWs, into the switching compensation discussion. Particularly when looking at where incorrect data has been used. An action was set for group members to have a think about anyone they know that could provide value into the conversation, and to let Ofgem know if you have any candidates you would like to bring into the discussion on behalf of third parties and/or PCWs.

The final discussion held on ETs was looking at the ET reason codes which are used in the Electralink data. It was explained that the current reason codes include forgery (proven), Incorrect MPAN/MPRN selected, cancelled contract not actioned, misleading information, technical issues, and Customer Service Returners.

The group was asked whether they recognise these reason codes, and whether these reflected the codes used in supplier data. JC asked whether there is any granularity beneath these codes and whether they something than can be used to help with the data driven process. There was agreement amongst the group of these codes and that they can be used to help with the data driven process.

JC also asked whether the reasons should be used as tools to help identify where the responsibility lies amongst suppliers, or whether to use a different tool to identify these. As these are very high level reasons, the group was asked to take this outside of the meeting and have a think about the answers to these two questions. This can be discussed at the next meeting.

## **2.2 Delays to Final Bill Issuance**

JC briefly ran through slides on the causes of delays to final bills, noting that these would be covered again at the next meeting. It was stated, again based on the information provided by the engagement of group members, that the majority of issues which were classed as the reason for delay in issuance related to meter reading issues, including reliance on third parties and data quality. It was briefly explained that issues may be caused by data quality, where either a supplier or their agents may be responsible, or omission by either supplier where there is a failure to send/respond to a particular flow.

JC provided a few more questions for group members to think about before the next meeting. These questions were:

- How can we quickly get compensation to consumers?
- Is there a mechanism where responsibility can be identified and payments reconciled between suppliers?
- What about resolving disputes?

## **3. Next Steps and Any Other Business**

JC specifically pointed out slide 12 in the pack which is a run through of the entirety of the switching process in through a stage by stage look at problems which can go wrong at each stage. Thanks were given to Andy and Den from Npower who provided this scenario and information.

It was agreed that more expertise, particularly on data, would assist the group's work. The group was asked whether we can get the right expertise in the room to discuss, and to create, mapping of the processes included in the overall switching process, and whether any group members had any views on whether, and how, we should do that. A suggestion was made that if we are looking at data flows, then Gemserv or Electralink may have some of that data already and it might be worth bringing them into the meeting. JC agreed and set an action for him to speak to Gemserv and Electralink to see if they will be able to attend the next session.

## **4. Date of Next Meeting**

It was discussed whether the meeting on the 11<sup>th</sup> of March should be skipped, and move the next meeting to March 25<sup>th</sup>. The majority of the group agreed that the March 11<sup>th</sup> meeting will be useful and therefore should be kept in place.



Therefore, the next meeting will take place on **Monday, March 11<sup>th</sup>, 10:00-17:00 here in Ofgem's Offices, 10 South Colonnade, Canary Wharf.** Webex details will be provided and sent out in due course.

JC noted that Ofgem is still looking to take these meetings outside of London, as requested by many group participants, but due to current financial situations within Ofgem we are currently prevented from doing so. We will keep you updated on this and we hope to be able to arrange meetings in alternative locations outside of London in the near future.

It was mentioned again that for the next meeting, please do get in touch with someone who may be licensed to talk for the PCWs. It has been agreed that their attendance in the discussions may be helpful.