

Switching Compensation Guaranteed Standards Phase 2 Work Group – Session 6

From: James Crump

Date: 10 May 2019

Location: nPower, Solihull

Time: 11am – 3pm

1. Attendees

James Crump (Chair)	Ofgem
Andy Baugh	Npower
Gregory Mackenzie	British Gas
Imogen Marriott	Shell Energy
Iona Penman	Energy UK
Adam Rolph	Shell Energy
Sarah-Jane Russell	British Gas

1.1. Numerous group members dialed in to the Webex session. No rollcall was taken of group members joining by phone. However, the group included representatives of 10-15 organisations of varying types in person and on the phone. In the text below, we have not differentiated between contributions from members attending in person and remotely.

2. Introductions

2.1. James Crump (JC), as chair, welcomed the attendees to the session. He thanked colleagues from nPower for providing accommodation.

2.2. JC reminded the group that the first phase of the Guaranteed Standards had gone live on May 1st. He noted that he would respond to queries about implementation as soon as possible.

2.3. JC asked group members if they had agreed with the minutes produced for the fifth session of the workgroup. Some group members suggested changes to the minutes. JC noted that these would be considered before publication.

- 2.4. JC introduced the session with a discussion of that the group had achieved to date (slides 4 and 5 in the slide pack). He noted that the time for the group to make rapid forward progress was approaching, and that it remains Ofgem's intention to implement the best result available according to the timetable as set out in the original consultation. JC noted that there were two possible approaches to achieve a distribution of compensation; either a blanket distribution of responsibility or one which contained a mechanism for identifying and resolving individual cases where a compensation payment was required. To achieve the latter, group members would need to produce outputs. To achieve this, rapid progress was necessary.
- 2.5. JC also outlined the role of a Statutory Instrument (SI) and clarified that Ofgem can only use an SI to create an obligation upon suppliers (or other regulated parties) to behave in a particular manner. Auxiliary documents, such as process maps and a resolution mechanism, would need to be created elsewhere (such as in an annex to code).
- 2.6. JC noted that there whilst a measure based on the number of working days provided certainty, one based on calendar days may be better aligned to the requirements of the ESG. One group member noted that the switching length as required by licence conditions was 21 calendar days from a relevant date, which included the 'cooling off' period as required by the EU 3rd package directive. JC noted that the drafting of the SI would need to create certainty around start point and duration.
- 2.7. JC proposed to use the meeting to establish, for each of the outstanding Guaranteed Standards, whether the group still supported the creation of a compensation scheme based on process maps and a resolution mechanism.
- 2.8. A group member asked about expected timescales for delivery of this work, noting that there had been some uncertainty in this area. JC responded that Ofgem was still planning to issue an SI in late summer. This would then be followed by a consultation

on the SI and period for implementation. The length of this would be determined by the complexity of the solution proposed, but Ofgem expected the proposal to be fully implemented and active by Q1 2020 at the latest.

3. Guaranteed Standard A: Delayed switches

- 3.1. JC asked the group whether they felt that creation of process maps and a resolution mechanism would be desirable to identify responsibility for compensation for delayed switches. He noted that extensive past discussion had identified that in most cases, responsibility for delayed switches would sit with gaining (new) suppliers. Areas in which the losing supplier could cause a delay to a switch would principally be rejection of the switch on the grounds of incorrect data held within existing industry datasets.
- 3.2. Group members raised questions about the length of timeframe that would be covered by the Guaranteed Standard. JC noted that the original timeframe as consulted upon was for 21 calendar days from the implementation of the switch by the customer. Group members noted that this was a different timescale from that set out in the supplier licence, for market monitoring purposes and for the Energy Switch Guarantee. The group member noted that certainty and consistency in this area was important in preventing delayed switches and achieving good outcomes for the customer.
- 3.3. JC asked the group how differences in the interpretation of the start of a switch would affect the choice between models for resolving and identifying responsibility for compensation. A group member argued that this would affect the volume of switches which were captured by any Guaranteed Standard.
- 3.4. One group member argued that it was important that the starting point for any Guaranteed Standard should be where the supplier was in receipt of all information from the customer. The group member argued that this would mitigate the issues faced by gaining suppliers in not being able to control outcomes.

- 3.5. One group member noted that exceptions and rejections caused by incumbent industry data can cause problem for gaining suppliers which may result in delayed switches. JC asked the group if this process was entirely undertaken by gaining supplier and that the losing supplier will not be a party to this process (other than that the losing supplier had the opportunity to influence industry data whilst it held the customer relationship). The group member noted that the principal mechanism for delaying a switch that can be initiated by the losing supplier was through raising an objection.
- 3.6. JC asked the group whether the objections process essentially results in a switch being terminated. Group members responded that this was essentially correct and that once the objection had been resolved, a new switch could proceed from scratch. JC noted that suppliers can misuse the objections process to prevent individual customers from switching and also from switching *en masse*. Where this occurs it should be treated as a compliance issue. A group member noted that Electralink has data that would allow Ofgem to identify this behaviour where it occurs.
- 3.7. JC asked for confirmation that there are a limited number of ways that a losing supplier is able to influence a switch. There was agreement on group members that the number of ways in which this can occur is limited. It was noted that whilst losing suppliers are able to influence data held about their customers, this did not necessarily warrant a complex resolution mechanism. In the opinion of group members in attendance, responsibility for delays to switches overwhelmingly fell upon gaining suppliers.
- 3.8. JC then asked if the group believed this approach warranted the further development of a Guaranteed Standard based upon process maps and a resolution mechanism. Group members in the room and on the call agreed that this would not be necessary.

3.9. One group member asked if a final decision had been taken with regard to the treatment of a Guaranteed Standard for delayed switches. JC noted that responsibility for drafting the Guaranteed Standard and the terms of the compensation requirement within the SI decision would sit with Ofgem, but from this session had established that group members in attendance agreed that a Guaranteed Standard which placed a compensation requirement on the gaining supplier was preferable to imposing a complex requirement. JC noted that Ofgem would work on the most appropriate drafting of the SI based on the information provided from the group and elsewhere.

4. Guaranteed Standard C: Causes of erroneous transfers

4.1. JC invited the group to consider the same questions as posed for delayed switches for erroneous transfers (ETs). JC presented slides 9-10 in the pack, outlining a possible model for a resolution mechanism. This would be based on bilateral communication and presentation of flow data. JC highlighted that this mechanism would require the drafting of complex process maps and the use of existing flow data.

4.2. JC noted that this resolution mechanism could not be embodied in legislation at a granular level but would require some sort of industry agreement. JC asked if responsibility for ETs was sufficiently complex to require this kind of mechanism.

4.3. A group member noted that once validation checks were complete, residual reasons for an ET would be a case of mis-selling, incorrect customer input, or misallocation of MPxN data.

4.4. JC noted that he had not received a widespread response to Ofgem's request for information on what good validation looked like. JC asked whether all of these issues could be resolved through effective validation. One group member noted that variation between suppliers and sales channels indicated that validation had a key impact in determining the risk of ETs occurring. The onus should be on the gaining supplier to make it as difficult as possible to for a customer to make a mistake.

- 4.5. One group member asked if incorrect customer input was confirmed as a reason for exempting suppliers from making a compensation payment. JC responded that assessing the difference between genuine mistakes by customers and behaviour that could be said to be reckless resulting in an ET could be subjective. It is necessary for suppliers to place appropriate safeguards in place to prevent customers from making mistakes. JC asked the group how evidence could be provided that an ET is purely a customer's fault. He noted that this is something that may ultimately rely upon suppliers making an assessment about whether their validation processes were appropriate and what constitutes the fair treatment of customers.
- 4.6. One group member noted that when an ET occurs, the bad outcome will be felt by another customer. JC noted that this was an additional reason for suppliers to work to eliminate the risk of customer error, and that it was reasonable for customers who were affected by adverse impacts in these circumstances to be compensated. It is important to be sure that suppliers are sure that they could not have done more to prevent ETs.
- 4.7. One group member reiterated need for collaborative measures. JC noted that his response was the same as in previous sessions - that based upon what we know about customer behaviour, a requirement for customers to input an MPxN at the point of switching would be likely to have the effect of reducing overall levels of switching, and could therefore result in a barrier to switching. This is not something that Ofgem is likely to introduce as part of this process.
- 4.8. One group member asked whether the Guaranteed Standards put in place as part of Phase 1 of this work represented enough compensation for a customer after an ET. JC responded that Ofgem strongly felt that an ET that was resolved in good time still represent an amount of detriment for customer and that this warranted a Guaranteed Standard.

4.9. JC asked if group members were aware of any other instances where responsibility for causing ETs did not sit with the gaining supplier. Some group members noted that misallocated MPxNs could be caused by errors held in industry data. These data were the responsibility of GTs and DNOs. Some group members noted that it did not seem appropriate that suppliers should be penalised for poor practice elsewhere in the industry. JC noted suppliers acted as an interface for the energy industry for their consumers. He reminded the group that issues that were the 'fault' of industry data (for example) would be in scope for compensation. It was suggested that the group could use this to incentivise a different relationship between suppliers and DNOs and GTs, using the fact of a financial penalty for the incidence of ETs to demand change.

4.10. JC summarised the discussion, noting that once again group members in the room and on telephones suggested that in their view the reasons that an ET could be directly caused by the actions of a losing supplier were limited. The view of group members from industry was that any Guaranteed Standards should be drafted to reflect the need for gaining suppliers to validate data and should provide ample opportunity to achieve this.

4.11. JC then asked if the group believed this approach warranted the further development of a Guaranteed Standard based upon process maps and a resolution mechanism for responsibility for Erroneous Transfers. Group members in the room and on the call agreed that this would not be necessary. JC asked if there were any dissenting views. No group members offered dissenting views in the meeting.

5. Guaranteed Standard E: Issuance of final bills

5.1. JC invited the group to consider the same questions as posed for delayed switches for the issuance of final bills. He noted that in previous meetings of the group, there had been some agreement that gaining suppliers could only influence the issue of final bills

by failing to provide the losing supplier with a meter reading in time for them to issue a final bill. However, a losing supplier was able to issue a final bill based on estimated meter reads (which happens in a number of instances already). In previous session the group had been divided on the possible negative implications of this policy, with some suppliers taking this approach as a matter of policy, whereas some believe that it could be a source of detriment for customers.

5.2. JC noted that in previous meetings he had requested that group members provide evidence illustrating the potential negative impact of a Guaranteed Standard which incentivised the issuance of final bills based on estimated data. He noted that one supplier had provided details of the number of complaints arising from final bills based on estimated data, and thanked this supplier for doing so. However, this was not enough evidence to make a judgement.

5.3. A group member noted that any requirement from Ofgem to issue final bills based on estimated data had the potential to undermine the operation of industry processes, including balancing and settlement aspects of existing codes (such as BSC). The group member noted that current disputed and missing reads processes are designed to reduce issues arising from where bills are drawn up using estimated reads.

5.4. A group member suggested that the incidence of a disputed or missing read should provide an exemption for a supplier to make a compensation payment to a customer. JC noted that meter read data was held by a data processor acting as an agent of the supplier. It is unreasonable that an omission by an agent on their behalf should be given as a reason not to provide compensation to a customer.

5.5. One group member noted that the increasing incidence of smart meters would change the landscape around the issuance of final bills, including the creation of a responsibility upon the losing supplier to take meter readings.

- 5.6. A group member asked JC if Ofgem would mandate that a customer would provide an estimated bill after a certain period. JC responded that Ofgem would mandate a compensation payment if the supplier failure to provide a final bill. The group member asked if this would result in a sub-optimal outcomes due to bills being based upon inaccurate estimates. If Ofgem's expectation is that suppliers should be required to produce bills after six weeks, this would countermand the spirit of the industry processes.
- 5.7. JC noted that he had not received information on how significant a problem this was likely to create. A group member responded that this could be estimated by looking at the number of bills that were issued after six weeks, as realistically where meter readings were received by the losing supplier before this point a final bill would be issued. JC noted that it seemed unlikely that many final bills would be issued based on real customer data six weeks after the customer had closed its account with a supplier, and therefore it was difficult to see how the Guaranteed Standard as drafted would directly result in worse consumer outcomes in a significant number of instances.
- 5.8. One group member requested that the timeframe for the GS should be amended to fit into that required by established missing reads processes. JC asked what changes to the GS this would entail. The group member noted that this would the Guaranteed Standard to issue a final bill after 56 days rather than 42 days.
- 5.9. One group member noted that these established industry processes are set at timeframes set that do not enable customer to receive a bill within six weeks. These do not necessarily produce good outcomes for customers. The only way to change this this is to change the timeframes required by these processes. JC agreed, noting that that if industry processes are driving poor customer outcomes, realistically these outcomes should be changed, rather than not introducing Guaranteed Standards in these areas for these reasons. Some group members disagreed, arguing that it was

not appropriate to effectively mandate change without further consultation. Group members argued that it is important to produce an accurate final bill, not just a final bill.

5.10. JC asked the group if it was possible to assess the sum of risks that might arise from additional inaccuracies in final bills arising from this measure, and any knock-on effect on settlement. JC noted that from discussion there was no agreement amongst suppliers that this impact is likely to be very large, and that the group was not unanimous that preserving the integrity of industry processes would present a sufficient negative impact to prevent the implementation of compensation.

5.11. JC noted that it would help Ofgem if group members could provide any evidence about the scale of the problem that might arise from additional inaccuracies in final bills.

Action: Group members to provide evidence of consumer detriment arising from inaccuracies in final bills caused by the use of estimated data.

GROUP MEMBERS – By mid- June

5.12. JC also noted that these issues were of the kind that should be resolved in the drafting of an SI and not through a bilateral resolution mechanism.

5.13. JC summarised the discussion, noting that once again group members in the room and on telephones suggested that in their view the reasons that a delay in issuing a final bill could be caused by a gaining supplier were limited to failure to communicate an opening meter read to the losing supplier. The view of group members was that it was always in the gift of the losing supplier to issue a final bill based on estimated data within a six week period, although the desirability and subsequent impacts of this was not agreed by all group members.

5.14. JC then asked if the group believed this approach warranted the further development of a Guaranteed Standard based upon process maps and a resolution

mechanism for responsibility for Erroneous Transfers. Group members in the room and on the call agreed that this would not be necessary. JC asked if there were any dissenting views. No group members offered dissenting views in the meeting.

6. Next Steps

6.1. JC noted that the questions on Slide 11 had already been answered by the preceding discussion.

6.2. JC noted that based on the discussion at the meeting, attendees to the meeting and on the phone considered that the answer to the principal question on Slide 11 (“does the group still support the creation of a compensation scheme based on process maps and a resolution mechanism?”) was no. He asked the group members in the room if they agree with this statement.

6.3. One group member noted that subject to reasonable exceptions this was agreed. No other group members responded.

6.4. JC noted that based on the conversation at this meeting, the group appeared to have arrived at the following conclusions regarding development of the second phase of the Guaranteed Standards:

- A distribution of responsibility that requires gaining suppliers to be responsible for delayed switches and responsibility for erroneous transfers, and losing suppliers to be responsible for delays to final bills, is sufficient to draft an SI for the second phase of the Guaranteed Standards.
- The group did not believe that the proposed approach warrants the development of a process map and the creation of a complex, case-by-case resolution mechanism.

6.5. Therefore, the next steps for the Phase 2 work would be for Ofgem to draft an SI. JC noted that all parties would have the opportunity to make further comments on the text of an SI through a formal consultation.

6.6. JC noted that it was important that all group members, and not just those who had attended the session or joined in a teleconference, had the chance to comment on the decision and output of the group. To this end, JC agreed that Ofgem would write up a summary of this decision and the group's work and circulate this amongst group members. This would be produced alongside minutes of the meeting.

Action: Ofgem to produce a summary of the outcome of the group's work and circulate to the whole workgroup ahead of the next group meeting.

OFGEM – By mid-June

6.7. One group member asked whether the group had settled upon an outcome regarding whether the period to produce a final bill under the Guaranteed Standard would be 6 weeks or 8 weeks. JC noted that this was something that would be considered by Ofgem would need to consider in drafting the SI. Ofgem would welcome submissions of evidence in forming that consultation, and also it would be consulted upon alongside the SI and there would be a chance for formal response there.

6.8. A group member asked about the next meeting. JC noted that Slides 16 and 17 covered next steps. He suggested that the next session would be in mid-June and that he would produce a summary of the output of the group (a closing statement). JC reiterated the need to communicate the output of the meeting to group members who had not been party to the call, and the decision taken at the next meeting would need to be informed by the response to that communication.

7. Any other business

7.1. JC and other group members thanked colleagues from nPower for hosting the meeting.

7.2. The group discussed the location of the next meeting. JC suggested looking at room availability before setting a location.

8. Date of next meeting

- 8.1. JC agreed to circulate a date for the next meeting subject to an agreement of location. This would be some time in mid-June.