

Switching Compensation Phase 2 Working Group

Session 7



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17/06/19

- **Introductions**
 - Minutes from Workgroup 5
 - Phase 1 Implementation - Feedback
- **Conclusions of the previous group sessions**
- **Next steps**
- **Any other business**

- The previous workgroup session (session 6) arrived at the distribution as set out in the table below (allowing for changes to parameters around what would constitute a delayed switch).
- Discussion in today's session is intended to assess:
 - Whether the whole group still agrees with this distribution; and
 - How we can draft the SI to ensure that compensation is borne by the parties who are responsible for detriment caused.

Guaranteed Standard		Cost incurred by	£
A	To ensure a switch is completed within <i>[21 calendar days]</i> from <i>[the date the consumer enters into a contract]</i> with the gaining supplier, unless there are valid reasons for a delay to the switch	Gaining supplier	£30
C	To ensure that a consumer is not erroneously transferred	Gaining supplier	£30
E	To issue final bills within six weeks of a switch	Losing supplier	£30

- The purpose of today's session is to:
 - Produce an agreed output from the group sessions (allowing for and acknowledging points of disagreement from the group); and
 - Allow Ofgem to use this output to inform the drafting of an SI.
- Discussion in today's session is not intended to:
 - Discuss whether Guaranteed Standards are the right tool to use in the circumstances identified; and
 - Identify and discuss in detail how individual exemptions should be applied.

Group members will have the opportunity to make these points in a formal policy consultation and SI consultation in late Summer.

Conclusions from previous workgroup sessions

At the last session, we considered two possible models for distributing compensation for Guaranteed Standards. These are:

- **Blanket implementation** of responsibility to one or both parties (similar to that proposed in our 2018 consultation); and
- Responsibility for delay/ETs being **determined by a process map**, with suppliers reaching bilateral agreement based on this assessment of responsibility. Various models could be used to distribute compensation.

The view of the group was that production and maintenance of process maps and a distribution mechanism would come at a cost and would be complex to maintain.

- All measures would require **the establishment of an arbitration and dispute resolution** process.
- All means in which compensation could be distributed (at the point of failure, via a post-hoc reconciliation process) were complex.
- After some discussion, the group was **unable to identify a clearly preferable route to distributing compensation** on a case-by-case basis.

Group output summary	<p>The principal cause of avoidable delays is MPxN misallocation due to poor address data. Address data issues can be caused by input error at contract inception (by customer or supplier), inconsistencies between input data and existing data, or errors in industry data. Ways in which a losing supplier can influence/cause a delay are limited. The main reasons are vexatious objections and failure to improve historic address data errors causing MPxN misallocation.</p> <p>Effective verification by gaining suppliers can mitigate against MPxN misallocation.</p>
Group concerns to be overcome	<p>Certainty on the length of delay for completion of a switch is important. Numerous existing measures allow for different standards when considering what is a ‘delayed’ switch. Some in the group argued that the starting point for the compensation measure should be 21 calendar days from when the supplier <u>is in receipt of all information from the consumer</u>. Losing suppliers can influence switch length through the objections process; this needs to be considered when drafting a Statutory Instrument.</p>
Decision	<p>Group members agreed that whilst losing suppliers are able to influence data held about their customers, this did not necessarily warrant a complex resolution mechanism. Responsibility for delays to switches overwhelmingly fell upon gaining suppliers.</p> <p>The likely occurrence of delays from losing suppliers did not warrant the development of a Guaranteed Standard based upon process maps and a resolution mechanism.</p>

Guaranteed Standard and proposed distribution from WS 6	Cost incurred by	£
<p>A To ensure a switch is completed within [21 calendar] days from [the date the consumer enters into a contract with the gaining supplier], unless there are valid reasons for a delay to switch</p>	Gaining supplier	£30

Group output summary	<p>Gaining suppliers can predominantly 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 is able to issue a final bill based on estimated meter reads, and this often happens in any case (particularly in the instance of changes of tenancy).</p>
Group concerns to be overcome	<p>Some group members noted that any requirement 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 established disputed and missing reads process in electricity are designed to reduce issues arising from where bills are drawn up using estimated reads and requires 56 calendar days (eight weeks) before a bill is issued based on estimated data. Some group members expressed concern that a requirement to pay compensation if final bills were not issued within six weeks could result in a sub-optimal outcomes due to bills being based upon inaccurate estimates. However, there was no agreement amongst group members about the extent of this impact, and the group was not unanimous that it would present a sufficiently large negative impact to warrant a change to the proposed compensation model.</p>
Decision	<p>Group members proposed that the role of the gaining supplier was not sufficiently great to warrant a complex distribution of responsibility. Therefore the group proposed that responsibility for compensation should fall upon the losing supplier.</p>

Guaranteed Standard and proposed distribution from WS 6	Cost incurred by	£
E To issue final bills within six weeks of a switch	Losing supplier	£30

Group output summary	As with delayed switches, vast majority of ETs are caused by address data input error (by customer or supplier/agent), mismatching address data leading to a misidentified MPxN. Other (less common) causes are gaining supplier process error. However, ETs caused by historic data misallocation (or crossed meters) can be hard to reliably detect by gaining suppliers.
Group concerns to be overcome	<p>There were more concerns in this area than for the other two GSOPs. Industry data is the responsibility of GTs and DNOs. Some group members have expressed concerns that it is not appropriate that suppliers should be penalised for poor practice elsewhere in the industry. Suppliers have submitted evidence where data accessed from ECOES and DES can result in ETs.</p> <p>Where ETs occur because of misidentified MPxNs, it is difficult to determine whether this has been caused by historic industry data or customer input error, etc.</p> <p>Important that any GSOPs are drafted in such a way that allows suppliers opportunity to effectively validate customer data.</p>
Decision	Group members' view that the number of ways in which a losing supplier's behaviour could influence an ET was limited, and did not warrant the likely additional cost that would arise from a complex distribution mechanism. Therefore, the most appropriate distribution of responsibility was for the gaining supplier to assume responsibility for compensation.

Guaranteed Standard and proposed distribution from WS 6		Cost incurred by	£
C	To ensure a consumer is not erroneously transferred	Gaining supplier	£30

- To what extent can ETs be prevented by effective verification? Wide variation between suppliers in ET performance indicates that differing practices may impact ETs. Can good practice be shared (e.g. through the ET PAB)?
- Electralink have indicated to us that they provide a product to 90% of TPIs (by market share) which allows the identification of MPxNs which have previously suffered an ET. Can this be used to identify high-risk MPxNs that have previously switched (either by TPIs or suppliers)?
- Can suppliers use the reality of compensation to pressure GTs and DNOs to improve historic matching of data to MPxNs? (This is already happening under the auspices of the CSS provider as part of the creation of the REL.)
- What other measures can be used to minimise risk?

- Much of the discussion in workgroup sessions was around what events should/should not exempt a supplier from making a payment under GSOPs.
- There is likely to be an exemption to cover circumstances where a delay/ET is genuinely the result of customer behaviour and the supplier has made reasonable endeavours to avoid a delay/ET.
 - However, what constitutes 'reasonable endeavours' is open to interpretation.
 - Suppliers who make lots of exemptions are likely to be challenged about their validation mechanisms and approaches.
- This will depend on the interpretation of Treating Customers Fairly (See Standard Condition 0 in Supplier Licences).
 - All suppliers will need to develop their own interpretations of what constitutes fair treatment of customers and apply this in different circumstances.

Next Steps and Next Meeting

- Our current plan is for Ofgem to take the conclusions of the group and use them to develop a policy and SI for the second phase of GSOPs.
- We are still expected, and still expect, **to publish a second Statutory Instrument in late Summer**. However, we will attempt to deliver a consultation as soon as possible.
- Given the concerns of group members, we will continue to engage with stakeholders whilst developing policy, and may hold a further development session (or sessions) closer to publication.
- We will continue to accept feedback from interested parties.

Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.

	Reason for delay	Root cause	Responsible party
Data mismatch	Lockout	Customer signs up with multiple suppliers	Valid delay – covered by exemption from GSOP
	Pending Withdrawal	Customer activity	Valid delay – covered by exemption from GSOP
	Pending Pre-Move (customer gives advance warning of them moving home) – one respondent indicates this is 75% of cases	Customer activity	Valid delay – covered by exemption from GSOP
	(Multiple) Exception(s) raised from point of sale, e.g. missing/invalid data, industry rejection.	More information and validation required with the customer. Losing or gaining supplier fails to validate data in time.	Missing data – gaining supplier? Invalid data – losing supplier?
	Customer provided data and industry mismatch.	Further information is required from the customer to validate.	Exempt if customer data is demonstrably incorrect and appropriate controls exist. If controls inappropriate – gaining supplier.
	Incorrect Industry data rejection - Combination of Disconnected MPANs, Extinct rejections etc	(Failure to verify) industry data?	Losing supplier
	Other - Pending Security Deposit/Secure Terms/MPxN etc.	Waiting on further information/customer contact to progress the sale.	Gaining supplier, unless information has been requested and not provided
Objection	Objection	Customer is in debt with a previous supplier	Valid delay if exemption is unresolved.
	Failure to move flow after an objection is resolved	Failure of losing supplier to reinstate flow	Losing supplier

	Reason for delay in issuance	Root cause	Responsible party
Missing reads/data	Missing opening meter reads	Quality of reads from MOPs and data from DCs	Gaining supplier
	Missing Closing meter reads (D86)	Quality of reads from MOPs and data from DCs	Losing supplier
	Dispute between agreed reads, insufficient time to work between agreed reads process	Quality of reads from MOPs and data from DCs	Both suppliers
	Missing, invalid data or industry rejection	Uncorrected errors in industry data?	Losing supplier
Process error	Inability/omission by old supplier to validate reads	Old supplier error	Losing supplier
	Inability by old supplier to initiate missing reads process until 30 WD after new start date	Industry processes – old supplier is locked until 30 WD(?)	Losing supplier
	Failure by old supplier to initiate missing reads process	Old supplier error	Losing supplier
	Failure by new supplier to respond following initiation of missing reads process; inability of old supplier to contact new supplier	New supplier error	Gaining supplier

	Reason for erroneous switch	Root cause	
(Address) data issues	Incorrect address selected at sign up, either by customer or gaining supplier	Unclear onboarding process Lack of checks/control at signup	'Gaining' supplier
	Incorrect address in customer database	Failure of GT/DNO to manage database Failure of existing supplier to resolve database error Wrong data from meter installers/data providers	'Losing' supplier
	Incorrect submission by supplier	Submission of incorrect details	'Gaining' supplier
Supplier fraud	Customer switched without consent	Misleading/fraudulent sales process	'Gaining' supplier
Process error	Failed withdrawal	Withdrawal process incorrectly applied	'Gaining' supplier
	Late notification of cancellation	Supplier fails to notify cancellation in time	'Gaining' supplier
	'Technical issues'	Electralink: "Where the ET process is used by Suppliers to correct a technical problem whilst at the same time enhancing customer service."	Either/both suppliers
Customer caused	Late cancellation (after cooling off period)	Customer desire to return – these will be excluded from GS as a valid contract exists	To be covered by an exclusion
	Customer Service Returner	Customer desire to return – these will be excluded from GS as a valid contract exists	To be covered by an exclusion
	Forgery – customer driven	Fraudulent activity	To be covered by an exclusion