

## Note of Ofgem-DECC Independent Suppliers Forum 02 February 2016

This is a note of the forum held by Ofgem and DECC at BIS Conference Centre, 02 February 2016.	From	Adam Cooper (Ofgem) and Stephanie Hurst (DECC)
	To	Independent Suppliers
	Date	22 February 2016

Please see below for the agenda items and any relevant points to note which were not featured in the event slide pack.

Agenda Item	Notes
<p><b>Introduction</b></p> <p><b>Adam Cooper (Ofgem) and Stephanie Hurst (DECC)</b></p>	<p>Stephanie Hurst is the new Independent Supplier Champion for DECC. We are trialling a new format for the Independent Suppliers Forum, which includes workshop items to get suppliers' views on policy. We welcome your continued feedback on this new approach and any other parts of our engagement. Ofgem has a <a href="#">new organisational structure</a>. The CMA's Energy Market Investigation is ongoing with a Provisional Decision on Remedies scheduled for March 2016. The Government's Cutting Red Tape agenda is subject to the ongoing CMA investigation. The following Ofgem consultations are now closed: <a href="#">Draft Forward Work Programme</a>, <a href="#">Simplification Plan</a> and the <a href="#">Priority Services Register Review</a>. Ofgem continues to work to simplify Information Requests. Ofgem is now on LinkedIn; please connect with us.</p>
<p><b>Switching Programme</b></p> <p><b>Angelita Bradney (Ofgem)</b></p>	<p>The Switching Programme aims to introduce fast and reliable switching on a new Centralised Registration Service (CRS). The ambition is for next-day switching. The Programme is currently in the Blueprint Phase. A baseline will be developed towards the end of the year to be used as the basis for requests for information. Independent suppliers were represented on each of the workgroups. Ofgem confirmed that members of Cornwall Energy and ICoSS were represented and that Ofgem welcomed the opportunity to engage with the Independent Suppliers Forum as well as other existing groups. Ofgem said that the schedule of issues to be discussed at each meeting would be published to help suppliers target resource and that Ofgem would consult during the Blueprint Phase.</p> <p>Delegates were split into four tables for a workshop discussion on how the design of the switching process could accommodate cooling off and objections. See appendix for more information on the workshop discussions and their outputs.</p>
<p><b>Energy Ombudsman Review</b></p> <p><b>Mark Wagstaff (Ofgem) and David Pilling</b></p>	<p>The Energy Ombudsman is currently reviewing the function of the Ombudsman to include a more forward-looking view as highlighted in the <a href="#">report by Lucerna Partners</a>. This includes horizon-scanning to look for events that may create a spike in complaints, creating efficiencies through complaints handling, increased stakeholder engagement and taking a more active role in policy development. David noted that the Ombudsman is in a good position to facilitate the sharing of industry</p>

<p><b>(Ombudsman)</b></p>	<p>led examples of good practise (eg through webinars).</p>
<p><b>Flexibility Project</b>  <b>Nathan Macwhinnie (Ofgem)</b></p>	<p>Flexibility is defined as “modifying generation and/or consumption patterns in reaction to an external signal (such as a change in price) to provide a service within the energy system.” The efficient and diversified use of flexibility will produce a more interactive system which produces savings for consumers.</p> <p>This year Ofgem is conducting work to understand the issues which may be inhibiting flexibility. Ofgem is committed to removing the barriers for all sources of flexibility. This is part of a broader programme of work with DECC, intended to manage the transition to a smarter energy system. They will jointly publish a Call for Evidence in late spring 2016.</p> <p>In September 2015 Ofgem set out its priorities for the next months: on storage, the DNO transition to DSOs, I&amp;C DSR, aggregators and possible changes to distribution charges.</p>
<p><b>Electricity Intensive Industries Exemption to FITs and Renewables Obligation</b>  <b>Julie Whiting, Jeremy Lumb (DECC) and Arjan Geveke (BIS)</b></p>	<p>DECC and BIS gave an overview of the exemption for electricity intensive industries from the costs of small scale feed in tariffs and the Renewables Obligation, including the timetable for implementation. Government intends to have the exemption in place by the start of the financial year 2017. Implementing the exemption will require changes to the legislation governing the Renewables Obligation and Feed in Tariff:</p> <ul style="list-style-type: none"> <li>• For the Renewables Obligation this would mean changing the estimate of total electricity supplied used to set the level of the obligation to exclude 85% of estimated supply to electricity intensive industries. The result will be a higher obligation for suppliers supplying households and businesses that are not classed as eligible electricity intensive industries. The exemption is unlikely to be in force in time for the 2017/18 obligation setting announcement on 1 October 2016. DECC is considering how to address this. One option is that DECC could publish an indicative obligation, taking the proposed EII exemption into account, alongside an obligation based on the current obligation setting methodology. The final updated obligation level could then be published as soon as the necessary state aid approval and legislative changes are in place (likely to be early 2017).</li> <li>• For the Feed in Tariff this could mean adjusting the levelisation and mutualisation processes through which all suppliers are levied to remove 85% of supply to electricity intensive industries. The result would be a higher liability for suppliers supplying households and businesses that are not classed as energy intensive industries, in a similar manner to the exemption for certain overseas renewable electricity which is already in place.</li> </ul> <p>Suppliers were encouraged to feed in any views to DECC before and during the consultation (expected to launch around the end of March</p>

	2016).
<p><b>Future of Retail Regulation</b></p> <p><b>Adhir Ramdarshan, Niki Sharp and Bruno Sheldon (Ofgem)</b></p>	<p>Ofgem began with an overview of its <a href="#">consultation on the future of retail market regulation</a>, which is open for responses until 11 March 2016. Delegates were then split into five tables for a workshop discussion on what the future rulebook should look like and the support Ofgem needs to provide to facilitate understanding of these rules.</p> <p>Overall, stakeholders agreed with the structure of broad and narrow principles, but felt that all principles (regardless of structure) should clearly state the desired outcome they are trying to achieve. There was a general consensus that prescriptive rules would be more effective where suppliers have specific reporting requirements and where standardisation of specific information supports consumer understanding and facilitates consumers to make accurate comparisons between suppliers.</p> <p>Principles could also set minimum standards (eg for vulnerable consumers). Some suppliers felt principles around vulnerable consumers could provide more effective protection by allowing tailored solutions, but acknowledged that prescription still had a role to play in that area. Most suppliers noted that Ofgem needs to be comfortable that positive consumer outcomes can be delivered in different ways by different suppliers.</p> <p>Billing and information remedies were highlighted as areas that inhibit innovation more than SLC 25 and so delegates felt that these two areas should have a higher priority than SLC 25 with respect to having unnecessary prescription removed.</p> <p>There was consensus on making current and future guidance more comprehensive for existing suppliers and offering a starter pack to new entrants. Some stakeholders suggested an easily accessible and searchable online resource. There was general support for good and bad practice examples to be used as guidance and for more effective engagement between Ofgem and suppliers. Some delegates mentioned having a single point of contact for each supply company through a dedicated Ofgem relationship manager.</p> <p>There was also some debate over the degree of assurance that can be provided in engagement discussions by Ofgem, as well as the terms and status of these discussions, especially on topics such as innovation.</p> <p>Delegates emphasised the importance of change within Ofgem in order to facilitate a more consultative and transparent approach with suppliers.</p>
<p><b>Barriers to Elective Half-Hourly Electricity Settlement</b></p> <p><b>Áine Higgins Ní Chinnéide</b></p>	<p>The DECC Secretary of State has committed to removing barriers to half-hourly settlement (HHS) by 2017. The benefits to HHS include supporting innovation and competition and creating the right environment for demand-side response, and these in turn will lead to lower bills for consumers. Ofgem will seek to address barriers raised by the Settlement Reform Advisory Group and by stakeholders who have responded to its recent open letter on HHS so that suppliers who wish to do so may use half-hourly consumption data in settlement. Ofgem will be making a decision on mandatory HHS in the first half of</p>

<p><b>(Ofgem)</b></p>	<p>2018.</p> <p>There was a question on how this could benefit consumers as many are not good at engaging with time of use tariffs. Enabling HHS provides an opportunity for suppliers to offer innovative products; consumers will then have the opportunity to respond to competitive tariffs provided.</p>
<p><b>Warm Home Discount</b></p> <p><b>Andrej Miller (DECC)</b></p>	<p>DECC introduced proposals for reforming the Warm Home Discount (WHD) scheme. DECC aims to publish a consultation in spring on extending the scheme in its present form for a further year. The consultation will also include a vision for a reformed WHD scheme post 2017, which will run until 2021.</p> <p>The aim is to focus the scheme more closely on fuel poor consumers and to extend data sharing to encompass working age benefit recipients. This will remove the need for the “broader group” of WHD recipients. Under the future vision the process for complying will be cheaper and simpler so the Government is also considering reducing the customer number threshold at which suppliers will become obligated from 2017/18. There will be a further consultation on firm proposals for the next phase of the WHD likely in autumn 2016.</p>
<p><b>Prepayment Meters</b></p> <p><b>Stew Horne (Ofgem)</b></p>	<p>Consumers who use prepayment meters (PPM) have been identified as a priority in Ofgem’s consumer vulnerability strategy. Ofgem particularly wants to avoid vulnerability being exacerbated by charges to install or remove a meter. Three outcome-based scenarios around costs for installation under warrant have been proposed in the recent consultation and the team are keen to hear about the impacts of each on suppliers’ businesses. These options include ending charges for consumers in vulnerable situations, and a cap on charges.</p>

## **Appendix – Switching Programme workshop discussions**

### **1. Management of Cooling Off - briefing note for ISF breakout session on 2 Feb and summary of stakeholder views**

#### **What is the issue?**

We want to introduce fast, potentially next-day switching.

We want to understand how consumer rights to cooling-off can be accommodated in the design of the switching process

We have identified a number of methods on how this could be done and we want to understand the impacts and preferences of independent suppliers

#### **Option 1 – Customer automatically returned to Supplier A**

#### **Option 2 – Customer automatically returned to Supplier A but Supplier B responsible for consumer billing**

#### **Option 3 – Customer is given the choice**

- Returned to Supplier A
- Stay with Supplier B until sign-up to Supplier C
- If no preference identified returned to Supplier A if practicable

#### **Option 4 – Customer automatically returned to Supplier A but Supplier B responsible for consumer billing**

## Questions for suppliers

1. How would suppliers expect to operationalise each of the options?
2. Would suppliers need to automate their processes to meet the requirements for any of these options?
3. What are the key risks and potential benefits for independent suppliers from each option (cost, customer engagement, data privacy, transparency etc etc)?
4. Are there any particular issues you are aware of in relation to traditional pre-payment metering that should be accounted for?
5. For any of these options should the customer be placed on a deemed contract or an SVT?

## Summary of feedback from breakout sessions

### Group 1

- Need to ensure faster switching protects vulnerable consumers. Group felt reliability was most important.
- Clarity required on how faster switching will impact wholesale market requirements eg Cash out.
- Need to consider switching in a Non Traditional Business Model market – One supplier stated that they offer a bundled service. Where the customer switches away they lose the entire bundle not just the energy element. Therefore returning back to Supplier A will essentially be a new contract.
- General view that going back to original supplier may be difficult.
- The consumer communication around these options may be confusing.
- Defaulting to a 14 day switching arrangement would remove the complexity of the process.
- Considered there should be rules to prevent consumers switching through many suppliers – essentially an enhanced 'lock-out' arrangement.

### Group 2

- Initial support for option 1 (automatic switch back to Supplier A) – though there wasn't a consensus. There would be some additional upfront development costs for Supplier A to be able to hold a customer's account as pending for 14 days.
- Acknowledged that continuous billing may be easier for the consumers, but there seemed to be a preference for Supplier B remaining responsible for billing and settlement for the period the customer was theirs. It was possible Supplier B could bill the customer before the end of the cooling-off period.
- Preference for reliability over speed.
- Wanted to make sure that time taken for suppliers to set up Direct Debits was considered - eg on Supplier B's ability to bill the customer if they are only with them for a short period.
- If there was a switch reversal (option 1 or 2), one supplier said Supplier B should be in control of that process.

## **2. Objections – *briefing note for ISF breakout session on 2 Feb and summary of stakeholder views***

### **What is the issue?**

We want to introduce fast, potentially next-day, switching.

We want to understand how objections can be accommodated in the design of the switching process.

We have identified two options and we want to understand the impacts and preferences of independent suppliers.

For the purpose of this discussion we have assumed that the objections process for domestic and non-domestic will be retained in some form. This is being tested by a separate Ofgem project.

### **Current process**

The incumbent supplier is informed by the registration agent (MPAS or Xoserve) if another supplier has requested a switch.

The incumbent then has several days (5 days in electricity and can be as low as 1 or 2 in gas) to decide whether to object.

### **Option 1 – Centralised objections register**

Under this option the CRS would maintain a central log of each MPxN<sup>1</sup> that would be objected to if a switching request was made.

The incumbent supplier would provide information to the CRS to maintain the central objections register.

### **Option 2 – Short objections window**

Under this option the CRS would send a notification of an impending switch to the incumbent supplier who would have several hours to decide whether to object.

Note that this would require fast data exchange (eg not overnight batch processing).

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<sup>1</sup> MPxN refers to the unique meter point identifiers in gas and electricity. In gas it is an MPRN (Meter Point Reference Number) and in Elec it is an MPAN (Meter Point Administration Number).

## Questions for suppliers

1. How would suppliers expect to operationalise each of the options?
2. Would suppliers need to automate their processes to meet the requirements for either / both options?
3. What are the key risks and potential benefits for independent suppliers from each option (cost, customer management, data privacy, transparency on objection actions etc)?
4. Are there any differences between gas and electricity or domestic and non-domestic customers that we should take into account in our policy development?
5. For option 1, should a change of tenancy flag be able to automatically override an objection held on the centralised objections database? Is there time under option 2 for suppliers to challenge a change of tenancy flag? Does this point to greater control and policing of the current change of tenancy (COT) process?
6. Do we need to retain objections to stop erroneous transfers? Should we have a new process to halt transfers / unwind transfers that have already taken place?
7. As a variation to option 1, should we explore an option for suppliers to hold data that can be directly accessed by the CRS in near real time?

## Summary of feedback from breakout sessions

### Group 1

- For option 1, suppliers thought they would need to automate their objections processes. For option 2, there may be an option to use additional resource to manage the process (but this would be at higher cost).
- This included updating outstanding debt when the customer made payments.
- Suppliers were keen to understand the latency requirements for updating the central objections database (option 1) eg after customers had cleared any debt. There was concern about how easy it would be to keep the central objections database updated.
- Most suppliers said that automation would require significant investment to in-house systems.
- Next-day switching reduced suppliers' ability to withdraw an objection if the customer resolved the reason for the objection. The example was given of a consumer paying off a debt following a communication from the old supplier to say that an objection had been made. Others noted that objections were rarely withdrawn on practice.
- The group said that it was important to focus on consumers' experience of the objection process. There was a concern that customers could get many messages from the old supplier in quick succession if the new supplier kept resubmitting the switching request on the chance that the objection reason had been resolved.
- For the non-domestic market, one suggestion was to hold the customer's account in suspense, eg for 14 days while the old supplier confirmed if they wanted to object. The account could be serviced by the new supplier. This approach was not thought to be workable for traditional PPM or smart meter customers.
- Option 1 was thought to have benefits in allowing customers to switch on calendar days and for objections to be processed during non-work hours eg evenings. This would be needed for a switching process that took place at the start of the following day.



- Under Option 1, suppliers said that the CRS should be liable if it did not process an objection properly eg if a customer transferred when the supplier had provided information to the central objections register to say that it should be blocked.
- Suppliers said that an automated approach reduced the opportunity for consumer interaction – particularly in the non-domestic market. In this sector, suppliers may want to review the customer’s account to decide whether or not to object, even if they had grounds to do so.
- Suppliers were asked to provide any views (after the meeting) on how long they require to respond to objection requests under option 2.
- Many suppliers were concerned about the requirement to receive and send messages in near real time and to process requests in tight timescales, compared to overnight batch processing. Some noted that updating systems with payment activity may occur through overnight batch processing.
- There was a concern from some that options 1 and 2 might act as a barrier to new suppliers.
- If suppliers were not confident that they could rely on the objections process working then this may increase the use of security deposits and other debt risk management tools such as PPM meters.
- Significant concern about the misuse of the COT flag. In Option 1, a COT flag would override an objection on the centralised objections database. Any use of the COT flag would require strong policing and audits.
- Concern that a short objections process removed one of the tools to prevent erroneous transfers.

## **Group 2**

- Support for centralised database approach (option 1) for both domestic and non-domestic. Expect suppliers automate this. Concern that option 2 would be resource intensive.
- Need for reason code as well as flag in database. If available to a new supplier, this helps to explain the reason for objection to customer. To protect privacy, suppliers should not have access to customer history. More complex non-domestic metering arrangements may need specific reason codes. Some objections resulted from metering issues eg not switching Related Meters (which must be switched together for settlement purposes) rather than an issue linked to the customer’s debt or contract termination arrangements.
- Complicated metering arrangements in the non-domestic market will need to be explored – potential for suppliers to revert to automatically flagging.
- Questions on how frequently suppliers would be required to update the database? Real time information would be ideal but is that possible / too much of an ask?
- Updated meter reading could also remove debt and the ability to object. Not such an issue for smart meters.
- Suppliers said that use of a change of tenancy flag should not always override an objections flag.
- Domestic customers should be made aware of the need to clear debt to switch – challenge given low levels of engagement.
- Supplier still likely to hold own database under option 1. Still a role for a centralised database as don’t want peer-to-peer data transfer as big source of data errors.