Supplier Guaranteed Standards of Performance: Approach to Impact Assessment on Introducing Switching Compensation

Annex

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Overview:

Last year we published an open letter on our proposal to introduce automatic compensation for consumers when switches go wrong. We believe this will create incentives to ensure suppliers improve their switching performance and make switching more reliable.

Guaranteed Standards of Performance place service level requirements upon suppliers when they have certain interactions with their customers. In this document, we set out our proposals to extend the scope of the existing Guaranteed Standards to ensure suppliers compensate consumers when switches go wrong.

We are now seeking stakeholder views and additional evidence regarding these proposals. We particularly encourage consumer bodies and suppliers, as well as any other interested parties, to read and respond to our proposals.

Context

Our decision on the proposals set out in the consultation document will be informed by an Impact Assessment. We are not ready to provide a draft Impact Assessment at this stage as we need to collect evidence, primarily on costs, to inform the assessment. However, we set out in this annex the approach that we plan to take to that Impact Assessment and identify the evidence that we need. We are seeking views on the approach set out in this annex. In particular we would welcome views on whether you agree with our approach to quantifying benefits, and whether you agree with the categories of cost that we have identified and our approach to each of them.

We are proposing four areas for new Guaranteed Standards, three relating to three different stages on the switching journey and one relating to erroneous switches. All four of these areas are aimed at improving the experience that consumers have in relation to switches. These standards are not dependent on each other and the rationale for introducing any one of them stands on its own. Consequently, the approach set out in this annex looks at each of the areas individually and the case for each of the standards needs to be considered on its own merits. A decision on whether to implement any one of these standards does not have implications for the implementation of the others.

All of these standards reflect, either directly or to a large extent, existing requirements in the supply licences or codes. Whilst these obligations already bear on suppliers, it is clear that a substantial proportion of the industry is not complying with them much of the time. This non-compliance appears to be widely spread across the industry. Ofgem does not currently have access to reliable information about levels of compliance by all suppliers. One option to address these problems would be to aim to identify individual breaches relating to each supplier and bring enforcement cases against them. However, we consider that this would disproportionately expensive (both for Ofgem and for any suppliers concerned) and it would fail to adequately address the problem as it would be unable to tackle all the breaches and thus leave the majority of consumers without protection or recompense.

We consider that these proposals are likely to reduce consumer detriment in two ways. At the most basic level, if suppliers do nothing to change their behaviour then consumers who suffer from breaches of the standards will receive compensation, thus ameliorating the detriment suffered. If the existence of the standards incentives suppliers to change processes or practices and reduce the number of breaches that occur then fewer consumers will suffer from breaches of the standards, thus reducing the detriment suffered by consumers overall. Whilst our primary aim is to reduce the incidence of breaches of the standards, the fact that consumers will be compensated where those breaches do occur means that the overall benefit from introducing the proposals is likely to be broadly the same under any assumptions about the impact on numbers of breaches resulting from the effectiveness of the incentive effect.

In looking at costs we consider that the costs that would be imposed on suppliers by the proposals are: the costs of meeting any higher standards than currently imposed by licence of code (or of paying compensation in those cases); the cost of specifically identifying consumers who have suffered a breach of those standards and the cost of making the compensation payments. There would be additional costs imposed in relation to any proposals to enhance the record keeping and reporting regime.

We will be contacting suppliers shortly to discuss a draft Request for Information which we plan to issue to enable us to gather the evidence required. We plan to test the questions with suppliers in advance of issuing the Request for Information in order to ensure that the questions are well targeted and impose the minimum burden on those providing information.

This document sets out, as far as we can until we have evidence on costs:

- the case for intervention;
- the options we have considered to achieve the desired policy objective;
- our approach to assessing the benefits of the proposals;
- our approach to assessing the costs of the proposals;
- our approach to the Request for Information; and
- next steps.

Associated documents

This document is an annex to our associated Consultation document, "Supplier Guaranteed Standards of Performance: Consultation on Switching Compensation", Ofgem, 12 June 2018, https://www.ofgem.gov.uk/publications-and-updates/supplier-guaranteed-standards-performance-consultation-switching-compensation

Open letter: creating incentives for suppliers to improve switching performance, Ofgem, 6 December 2017;
https://www.ofgem.gov.uk/publications-and-updates/open-letter-creating-incentives-suppliers-improve-switching-performance

Electricity and Gas (Standards of Performance) (Suppliers) Regulations 2015;
http://www.legislation.gov.uk/uksi/2015/1544/contents/made

Supplier Guaranteed and Overall Standards of Performance reforms – consultation response, 10 November 2015
https://www.ofgem.gov.uk/sites/default/files/docs/2015/11/gosp_reforms_-_consultation_response_10th_nov_final_0.pdf

Supplier Guaranteed and Overall Standards of Performance reforms – Final Decision and Statutory Instrument, Ofgem, 28 July 2015;
https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/final_decision_open_letter.pdf

Supplier Guaranteed and Overall Standards of Performance – statutory consultation and proposals, Ofgem, 16 December 2014
https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/gosp_statutory_consultation_.pdf

Gas Act 1986, Standards of Performance provisions contained in section 33A- section 33E;
https://www.legislation.gov.uk/ukpga/1986/44/contents

Electricity Act 1989, Standards of Performance provisions contained in sections 39-42C;
https://www.legislation.gov.uk/ukpga/1989/29/contents

Contents

1. The case for intervention

Chapter Summary

In this chapter we describe the current problems concerning the reliability of switching and explain our rationale for proposing new switching compensation.

1.1. Ofgem is committed to making the energy market work better for consumers by improving their experience of switching, leading to greater engagement in the retail energy market. Competition is benefiting those who are able and willing to shop around, with customers who switch away from default deals saving around £300 per year.[1]

The problem of unreliable switching

1.2. Consumers' switching experience is not always satisfactory. We know that fears about the reliability of switching prevent consumers engaging in the market. In response to Ofgem's Consumer Survey, 46% of customers felt switching was a hassle and 41% were worried that something would go wrong.[2] In the same survey, of those that had not switched supplier, 10% cited concerns about reliability as the reason for not doing so. This is consistent with our qualitative research which found that "negative experiences made customers view the suppliers they dealt with more dimly than before" and the customers' "likelihood to engage and switch again was greatly reduced".[3]

1.3. We also know that consumers who experience delayed switches, erroneous switches and delayed billing and refunds suffer significant inconvenience and, in some cases, significant detriment as a result.[4] This is supported by the CMA who

[1] For more information on the price differential between default tariffs and market cheapest tariff see https://www.ofgem.gov.uk/data-portal/retail-price-comparison-company-and-tariff-type-domestic-gb
[2] Ofgem Consumer Engagement Survey, 2017; percentage agreeing with questions "switching is a hassle that I've not got time for" and "I worry that if I switch things will go wrong"; https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer_engagement_survey_2017_report.pdf
[3] Qualitative research completed on the consumer impact of unreliable switching, Ofgem, 2017; https://www.ofgem.gov.uk/system/files/docs/2017/09/consumer_research_unreliable_switching.pdf
[4] See qualitative research completed on the consumer impact of unreliable switching, Ofgem, 2017; https://www.ofgem.gov.uk/system/files/docs/2017/09/consumer_research_unreliable_switching.pdf

concluded that the level of detriment caused by unreliable switches to consumers is significant.[5]

Delayed switches

1.4. A delayed switch is a switch that is not completed within 21 days without valid reason (such as a consumer request to switch after the 21 day period). This is a requirement under the Gas and Electricity Supply Licences, with the 21 day period starting either when the customer enters into a supply contract or when the cooling off period closes.[6] In 2016, Energy UK introduced an Energy Switch Guarantee which commits signatories to taking responsibility for a switch and ensuring, among other things, that it is completed within 21 days of the customer entering into a supply contract. As of June 2018, suppliers subscribing to the Energy Switch Guarantee supply over 90% of domestic energy consumers. We consider that consumers would expect the clock to start counting when they believe they have entered into a contract with a supplier. We are therefore proposing to apply the guaranteed standard to 21 days from when the customer enters into a supply contract.

1.5. Using our retail market monitoring data, we have estimated that 9% of switches were delayed for invalid reasons in 2017.[7] Extrapolating this from the total annual volume of switches for 2017 indicates that this is equivalent to 837,000 delayed switches.[8]

1.6. It is therefore apparent that the existence of the licence requirement has not successfully driven suppliers to ensure that all switches take place within a reasonable timescale. Neither has voluntary self-regulation by the industry in the form of the Energy Switch Guarantee ensured that switches complete within the prescribed time. We therefore conclude that some form of active compliance measure is required to incentivise the right behaviour by suppliers and drive acceptable outcomes for consumers.

Erroneous switches

1.7. An erroneous switch occurs if a consumer is switched in error without their consent, for example due to error in selecting the meter point to switch or lack of clarity over whether a consumer has in fact entered into a contract. Both the Gas and Electricity Supply Licences require that a supplier should not register a switch

[5] Delivering faster and more reliable switching impact assessment, 2016
[6] As per supply licence condition 14A.1
[7] This figure uses Ofgem's definition of a delayed switch used in Report 5 of our market monitoring, which differs slightly from the definition used for licence compliance. However, we believe that it presents a comparable picture of the incidence of delayed switches for the purposes of this consultation.
[8] Derived from Ofgem switching data at https://www.ofgem.gov.uk/data-portal/retail-market-indicators.

unless they have a valid contract with the customer.[9] When an erroneous switch has occurred there is a process for the industry to identify the problem and move the consumer back to their contracted supplier.

1.8. We estimate that the market rate of erroneous switches has remained steady at approximately 0.96% of total switches since 2016,[10] equivalent to 89,000 erroneous switches per year if based upon 2017 switching volumes.[11]

1.9. An erroneous switch can result in serious customer detriment, causing distress and inconvenience to the customer who is erroneously switched. In extreme cases, it can lead to a loss of supply if a prepayment customer is erroneous switched away from their current provider. The risk of erroneous switches can also affect consumer perceptions of, and willingness to, engage with the retail energy market. The impact on consumers is exacerbated when the suppliers concerned fail to follow the procedures for putting it right.

Final bills

1.10. Both Gas and Electricity Supply Licences require final bills to be sent by a losing supplier within six weeks of a switch.[12] This is also a commitment under the Energy Switch Guarantee. According to Ofgem's retail market monitoring data, 8% of final bills were not sent within six weeks of a switch in 2017.[13] As a result, consumers may be required to pay a final bill alongside or later than a first bill with their new supplier. Detriment may arise where customers are required to pay multiple energy bills at the same time.

Credit refunds

1.11. Both Gas and Electricity Supply Licences require that losing suppliers provide refunds for customers with credit balances "in a timely manner when requested". Whilst this does not explicitly refer to credit refunds following a switch, it is equally applicable to a losing supplier as to a customer's current supplier. The Energy Switch Guarantee commits signatories to provide credit refunds within two weeks of a final bill.

1.12. Qualitative evidence suggests that this is particularly important for vulnerable consumers who often have to budget on a short term basis. This is supported by Citizens Advice and other consumer advocacy groups who have raised concerns around delays in returning credit after switching smart pre-payment meters. When a

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[9] As per supply licence condition 14A.10.
[10] Market erroneous switch rate calculated using responses to the Switching Programme RFI issued in January 2017.
[11] Ofgem's retail market monitoring data for 2017 calendar year.
[12] As per supply licence condition 27.17.
[13] Ofgem's retail market monitoring data for 2017 calendar year.

customer is kept waiting for a credit refund, in some instances up to hundreds of pounds, for any length of time this could cause significant hardship.

1.13. We do not currently have data on the proportion of credit refunds that are not provided within two weeks of a final bill. We would welcome assistance in building evidence on this.

Context

1.14. The industry is currently leading data improvements on plot addresses and meter technical details which we hope will lead to better quality industry data before the end of 2018. When implemented this should help to reduce the number of delayed and erroneous switches.

1.15. Ofgem's Faster and More Reliable Switching Programme aims to reform current switching arrangements by harmonising gas and electricity switching and creating a single central register with responsibility for ensuring the accurate identification of each meter point with the correct standard address. This will reduce the number of erroneous and delayed switches caused by centrally-held industry meter point data that is inaccurate or misleading. This will not be implemented before the end of 2020. The introduction of faster switching will have the contrary impact of reducing the time in which a potential erroneous switch can be identified and stopped. This means that it is particularly important to reduce the number of erroneous switches instigated by suppliers as a result of poor practices or processes rather than poor data.

1.16. That is why Ofgem stated that suppliers must do more to prevent erroneous switches and work together to identify ways of reducing the number of erroneous switches in March 2017.[14] In response, the industry Erroneous Transfer Working Group (ETWG) was established and has come forward with some compensation proposals, including two relating to compensation around failures to resolve erroneous switching. They determined that it would be appropriate for suppliers to pay compensation to customers in the event that a letter had not been sent to a customer within 20 working days of identification of a possible erroneous transfer and if they had not transferred the customer back to the original supplier within 21 calendar days of the erroneous switch being confirmed by the old and new supplier as having taken place. However, they concluded this compensation would sit better within the Guaranteed Standard regime than within the industry codes. Energy UK (EUK), who runs the Energy Switch Guarantee, took the view that offering compensation as part of the Energy Switch Guarantee would harm consumer confidence.

[14] See "Open letter: creating incentives for suppliers to improve switching performance" at https://www.ofgem.gov.uk/publications-and-updates/open-letter-creating-incentives-suppliers-improve-switching-performance.

Rationale for intervention

Switching journey problems

1.17. We have set out above the scale of the problem in relation to delayed switches, and late final bills. We have noted that in relation to delayed switches, late final bills and credit refunds over 90% of the market has signed up to a voluntary agreement to meet the standards proposed but this has not led to a measurable drop in the rate of delayed switches or late final bills. We note that we do not have data on the level of slow credit refunds. In the absence of evidence that industry performance on these measures is improving as a result of the Energy Switch Guarantee we consider that action needs to be taken to ensure better consumer outcomes in relation to speed of switching and timing of final bills and credit refunds.

1.18. We are not aware of any forthcoming changes that would be likely to impact on supplier performance in relation to timing of bills and credit refunds. The Switching Programme will have an impact on the speed of switching, and should reduce the number of problems that supplier encounter in the quality of industry data. However, this will not necessarily have an impact on suppliers' compliance with the requirements which will be in place in respect of speed of switching once the new switching arrangements are introduced where data issues are not the cause of the problem. We believe that our proposals will have the impact of both improving supplier behaviour and compensating consumers where delays to switching, bills and credit refunds still occur. However, we are aware that work is ongoing within the Energy Switch Guarantee to improve the performance of signatories. In the Impact Assessment that will inform our decision on whether to introduce these standards we will consider any alternative proposal put forward to deliver the same outcomes. We note that any such proposal would need to be capable of demonstrating significant measurable improvements in consumer outcomes across the industry in the short to medium term.

1.19. We note that customers with smart pre-payment meters face a particular challenge with credit refunds. With traditional pre-payment meters a consumer can continue to use the credit on their meter after they have switched to a new supplier. With a smart pre-payment meter, any outstanding balance on the meter is removed at the point of the switch and the losing supplier must refund the balance to the consumer. As the smart meter rollout continues, there will be more customers in this position. Customers on pre-payment meters are disproportionately likely to be financially vulnerable and any delay in that credit balance being refunded to them could cause significant inconvenience. We are aware of an industry principle dealing with smart pre-payment meters, but these only cover communication with consumers about how and when credit refunds will be made, not the timing of the refunds themselves.

Erroneous switches

1.20. Erroneous switches often occur because centrally-held industry meter point data is inaccurate or misleading. Whilst the Faster and More Reliable Switching

Programme will invoke structural reform and improve industry data quality, it will not address the detriment experienced by consumers prior to implementation, which is unlikely to be before the end of 2020. Action must therefore be taken to mitigate these adverse consumer outcomes in the short term. In addition, the Switching Programme reforms will not address those problems caused by poor supplier systems or processes, or human error. Recent engagement with suppliers has identified that significant supplier process issues are a key driver of erroneous switches.

1.21. Furthermore, the new switching arrangements will radically transform the speed of switching to the extent that switching will be able to occur by the end of the next working day after the customer has entered into a contract with their new supplier. This significantly reduces the amount of time that customers and suppliers have to identify an incipient erroneous switch and prevent it.

1.22. We anticipate that the switching reforms will encourage increased consumer engagement in the market. Unless measures are taken to incentivise suppliers to change their behaviour, the number of erroneous and delayed switches caused by supplier systems or processes will rise in line with an expected increase in switching volumes. Whilst we would still expect the net impact of the Switching Programme to be a net reduction in erroneous switch volumes, this will only be the case if suppliers are addressing the causes of those erroneous switches that are not caused by the quality of industry data.

1.23. Ofgem believes that compensation for consumers is an important tool for strengthening consumer confidence in engagement with the energy market and an appropriate mechanism to influence a change in supplier behaviour which is not addressed by existing industry initiatives. Despite encouragement from Ofgem over the last 12 to 18 months, industry have failed to develop their own proposals for compensation in relation to any of these issues, and have not managed to demonstrate improvement in industry-wide outcomes in the absence of compensation. It is therefore clear that we must take the necessary action ourselves should we seek to remedy those negative switch outcomes relating to supplier misconduct.

Objectives of this document

1.24. On 6 December 2017, Ofgem announced proposals to introduce automatic compensation for consumers when their switches go wrong.[15] These measures seek to:

- protect these customers;

[15] See "Open Letter: Creating incentives for suppliers to improve switching performance" at https://www.ofgem.gov.uk/publications-and-updates/open-letter-creating-incentives-suppliers-improve-switching-performance.

- help improve all household consumers' confidence in the process of switching supplier; and

- create sharper incentives on suppliers to make sure their data and IT systems make switches go right first time.

1.25. We ultimately hope to reduce the number of bad consumer switching outcomes.

1.26. We are proposing new Guaranteed Standards of Performance and changes to the way in which awareness, reporting, audit and dispute resolution are managed across both existing and new standards. We believe that this will provide sufficient incentive for suppliers to reform their behaviour and reduce the number of negative consumer experience caused by poor supplier practice. In this document we set out the approach that we intend to take to assess the impact of the process changes.

2. Our approach to calculating the impact of our proposals

Chapter Summary

This chapter explains our approach to calculating the impact of our proposals, and undertaking a Request for Information in order to inform our decision on updating Guaranteed Standards of Performance to include switching compensation.

2.1. In this document, we set out our proposed new Guaranteed Standards and alternative options intended to reduce consumer detriment and improve consumer behaviour.

2.2. In our associated policy consultation document, we have set out six options for proposed new Guaranteed Standards within the associated policy. These are summarised in the table below, and in the Impact Assessment that will inform our decision following the consultation they will be assessed against a 'do nothing' counterfactual and an option to pursue an individual compliance and enforcement approach. We describe the counterfactual and options for switching compensation in more detail below.

Option 0: No action (the counterfactual)

2.3. The counterfactual against which we have assessed these options assumes no additional action, other than that already in train, is taken to reduce the incidence of any of the outcomes in the proposed Guaranteed Standards. In our December 2017 open letter, we indicated our expectation that an automatic compensation scheme would be introduced by the end of 2018. Our Impact Assessment will focus on the short term costs and benefits of the proposals, which we recommend should be reviewed once the new switching arrangements are in place to determine whether there is a case for removal of the Guaranteed Standards at that point. For this reason we will not include the impact of the Switching Programme, which are not due to start being realised until after implementation at the end of 2021.

2.4. The counterfactual we propose to use is set out below:

- We would assume, for simplicity, that switching rates (including the absolute number of customer switches) are static from the end of 2017. The annual volume of domestic switches would be 9.3 million (based on 2017 calculations).[16] The proportion of delayed switches, erroneous switches and late final bills would be assumed to remain consistent at 9%, 0.96% and 8%

[16] Derived from Ofgem switching data at https://www.ofgem.gov.uk/data-portal/retail-market-indicators.

of total market switches respectively. We recognise that this is unlikely to be an accurate assumption, but we have no grounds for any other specific assumptions and we consider that taking a static approach based on 2017 numbers is a satisfactory approximation.

- We would assume that no automatic compensation is provided to customers for delayed or failed switches, and no other incentive mechanism for late final bills or refunds of credit to customers is introduced.

- We would assume that currently proposed regulatory measures intended to improve switching and customer engagement with retail markets, such as the rollout of smart meters and the package of remedies proposed by the CMA (including data prompts, the database remedy and PCW access to ECOES and DES) continues in line with supplier licence obligations and currently expected timelines.

- We would assume that existing industry-led measures to improve the customer switching experience, such as the Energy Switch Guarantee, maintain or improve their current rates of take-up by suppliers. However, in the absence of evidence of these initiative having an impact on performance, or because there is no relevant intended impact in relation to the standards under consideration, we have not assumed any future impact.

Option 1: Active targeted enforcement against existing licence conditions

2.5. A possible alternative to an automatic compensation scheme would be for the regulator to implement an active enforcement mechanism targeted specifically at reducing delayed and erroneous switches and delayed final bills. Features of this scheme would be:

- Enhanced monitoring of rates of delayed and erroneous switches by Ofgem, and increased data collection on the extent of late repayment for in-credit customers. This enhanced monitoring would take place alongside exiting regulatory schemes undertaken by Ofgem and other regulators affecting energy suppliers.

- To the extent that the information received as a result of this enhanced monitoring suggests significant and persistently high rates of (for example) erroneous and delayed transfers, it may be appropriate to take further action against poorly performing suppliers.

- This further action could involve compliance activity with a view to gaining credible assurance that the suppliers involved are providing redress for affected customers and taking all appropriate measures to improve their future performance.

- In more serious cases, or where suppliers are not cooperating with our compliance team, we may wish to use enforcement powers. Any decision to use our enforcement powers would of course be taken in line with our published Enforcement Guidelines,[17] which among other things set out the prioritisation criteria we use to decide whether or not to open an enforcement case.

- Ofgem has powers to impose financial penalties of up to 10% of a supplier's turnover. Ofgem may also impose Orders requiring suppliers to take certain actions or to desist from them where this is necessary to return them to a state of compliance.

2.6. Unless we decide to deprioritize other activity, this option would require an increase in the resources used by Ofgem for supervisory and enforcement actions, both in terms of personnel and systems. It would also impose an equivalent responsibility and resource impact on suppliers to engage with this action.

2.7. Under this model, consumers would not receive automatic compensation as a result of detriment being suffered. However, it is possible that changes to licences or industry codes could be made to allow for the provision of compensation on a case-by-case basis.

2.8. It should be noted that enforcement action would only be possible considering existing licence conditions, so would only impact the issues addressed by Guaranteed Standards (A), (C) and (E) below. Enforcement against the issues addressed by Guaranteed Standards (B) and (D) would need to be undertake by the relevant code bodies, so we have deemed that this will be outside the scope of this option. In addition, we have assumed that the compensation mechanism suggested by the ETWG will not be put in place.

Option 2: Guaranteed standards and automatic compensation

2.9. Under this option, we propose the introduction of six new Guaranteed Standards with an automatic compensation mechanism. These are summarised in Table 1 below.

Table 1: Summary of proposed new Guaranteed Standards

Service area	Proposed new performance standard	Customer coverage	Who makes payment?	Payment amount

[17] Ofgem, 'Enforcement Guidelines' at https://www.ofgem.gov.uk/publications-and-updates/enforcement-guidelines.

Delayed switches	(A) To ensure a switch is completed within 21 calendar days from the date the consumer enters into contract with gaining supplier, or from date an erroneous switch is agreed, unless there are valid reasons for delay to switch	Domestic consumers only	Gaining supplier	£30
			Losing supplier	£15
Erroneous switches	(B) To agree whether a switch is valid or erroneous within 20 working days of identification of the possible erroneous switch	Domestic consumers only	Gaining supplier	£30
			Losing supplier	£30
	(C) To ensure a consumer is not erroneously switched	Domestic consumers only	Gaining supplier	£30
			Losing supplier	£15
	(D) To send the Erroneous Transfer Customer Charter "20 working day letter" to an erroneously switched consumer	Domestic consumers only	Contacted supplier	£30
Timing of final bill	(E) To issue the final bill within six weeks of a switch	Domestic consumers only	Losing supplier	£30
Credit refunds after a switch	(F) To refund credit balances within two weeks of sending the final bill	Domestic consumers only	Losing supplier	£30

Our approach to evaluating these options

2.10. As most of our proposed new performance standards are based upon existing requirements within the supply licence and industry codes and the overall value of compensation payments that are likely to be made, we only propose to conduct a high-level impact assessment to determine the costs and benefits of our proposals.

2.11. The aim of each of these proposals is twofold:

- To incentivise change to supplier behaviour to deliver better consumer outcomes, thereby avoiding the occurrence of consumer detriment; and

- To compensate consumers for detriment suffered where it does occur.

2.12. We have therefore identified the extent to which these aims would be delivered and assessed this as a direct benefit of the proposals. Where we have been unable to quantify benefits or costs using existing Ofgem data, we have indicated where we expect that a benefit or cost will occur and how we expect to obtain information on that benefit or cost. If necessary we will request information as part of our associated RfI.

2.13. Many of the benefits of this programme will be manifested as direct transfers between suppliers and consumers who have suffered detriment. We have considered this as a benefit (a net consumer benefit) even though it is neutral in terms of gross economic benefit.

2.14. We have not attempted to quantify the indirect benefits arising from the introduction of the measures discussed in this paper or the associated Consultation Paper. Such indirect benefits would mainly arise from improved consumer engagement in the market arising from improved consumer confidence. These benefits could be significant, but in the current market context, with many changes and Ofgem actions expected to impact on consumer engagement levels, we do not consider that it would be possible to isolate the impact of these proposals on consumer engagement.

Key assumptions, sensitivities and risks

2.15. At this stage we have not attempted to model the effects of either an enhanced supervisory model or an automatic compensation scheme on the level of delayed or erroneous switches. In our January 2017 RFI for the Switching Programme, we estimated that around 0.96% of switches are erroneous. Applying this to our 2017 figure of 9.3m switches would produce an estimated volume of 89,000 erroneous switches.

2.16. In our open letter to industry we indicated that we expect measures to address detriment from delayed and erroneous switches to be in place by the end of 2018. The Switching Programme will not be implemented before the end of 2020, so we have excluded its impact from our counterfactual and our assessment of the impact of these proposals. It remains our expectation that changes to central systems and main switching arrangements will generate improvements to data quality and industry process and radically transforms speed of switching capabilities, and that this will create an increased propensity to switch (and therefore an increase in total switching volumes). This programme will also introduce significant improvements to the quality of data used in the switching process, which we expect will reduce the incidence of erroneous switches. Our expectation in the Switching Programme is that the volume of erroneous and delayed switches will reduce by 25,600 and 77,100 respectively in the first year of the programme's operation (currently expected to align roughly to the calendar year 2021) and a further 12,800 and 81,600 respectively in the second year (currently expected to align roughly to the calendar year 2022).[18] However, we have not modelled this impact of the Fatser and More Reliable Switching Programme in our calculation of detriment.

[18] See

2.17. Similarly, we have not assumed any impact from regulatory measures intended to improve switching and customer engagement with retail markets, such as smart meter rollout and CMA remedies, noting that the intent of these remedies is to improve switching participation rather than switch reliability. Whilst it is probable that these measures will increase the volume of switching and therefore may increase the number of erroneous delayed and erroneous switches and late-returned credits, it is difficult to model this increase with any confidence.

2.18. We note that that whilst industry-led measures to improve the customer switching experience, such as the Energy Switch Guarantee, intend to provide reassurance to consumers, to a great extent these are aligned with existing licence conditions (with some exceptions). The intention of the Energy Switch Guarantee is to reassure consumers relating to supplier performance rather than provide remedies for underperformance, and whilst the threat of expulsion from the Energy Switch Guarantee should incentivise suppliers to improve performance, it does not offer a formal enforcement mechanism or vehicle for remedying consumer detriment. We have not seen any evidence that the Energy Switch Guarantee has had an impact on overall energy performance in relation to the issues covered by the proposed standards.

2.19. Where no relevant output from existing industry incentives is currently proposed (for example the ETWG) we have not assumed any future impact.

2.20. In the absence of any evidence so the effect it would have, we have not assumed any direct effect on switching rates from the imposition of a future price cap or the Safeguard Tariff.

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https://www.ofgem.gov.uk/system/files/docs/2018/02/delivering_faster_and_more_reliable_switching_final_stage_impact_assessment.pdf, pp50-51

3. Identifying the benefits of our proposals

Chapter Summary

In this chapter we identify, at a high level, the expected benefits of our proposed approaches, and identify how we expect to obtain the necessary evidence to understand the extent of those benefits.

3.1. In the previous sections, and in our accompanying consultation document, we have detailed the significant consumer detriment arising from the continued incidence of delayed and erroneous switches, late credit repayments, and late final bills. We expect that successful and properly executed measures to address this detriment would therefore accrue significant benefits to consumers.

3.2. It should be noted that at this stage we have not attempted to calculate benefits based on a specific assessment of the value of consumer detriment experienced. Whilst we do have data that allows us to estimate the number of individual breaches of licence conditions that would trigger a Guaranteed Standard under our proposals, we do not have accurate data that would allow us to estimate the aggregate detriment suffered by consumers. It can be supposed that the extent of detriment suffered by consumers may vary in the circumstances that would trigger a breach of the Guaranteed Standards; for example, a customer receiving a repayment of a credit balance of £10 fifteen days after the issuance of a final bill (one day after the two-week supply licence requirements) would suffer less detriment than a customer receiving a repayment of a credit balance of £250 forty-five days after the issuance of a final bill. We would be grateful for any data that would help us better understand the extent of detriment under these circumstances.

3.3. In addition, any assessment of benefits should exclude incidences where suppliers are technically in breach of the Guaranteed Standards but where a supplier is deemed to be unable to avoid a poor outcome because of vexatious or inappropriate behaviour by the customer. In these circumstances, it would be reasonable for the supplier to conclude that a compensation payment is not appropriate, and as such there will be no benefit from the reduction of or compensation for consumer detriment.

Option 0: No action (the Counterfactual)

Direct benefits (reductions in number of delayed and erroneous switches)

3.4. Without direct remedial action, we expect that detriment to customers will continue at its current unacceptable level. Whilst some existing measures such as the deployment of existing Ofgem enforcement resources, and industry-led measures such as the Energy Switch Guarantee may cause some improvements in consumer behaviour, addressing this detriment is not the sole or exclusive intention of these measures. For this reason, we would expect that a high level of customer detriment would persist in the absence of direct remedial action.

Indirect benefits

3.5. As outlined above, we expect an unacceptably high level of detriment would persist in the absence of remedial measures. In the impact assessment we expect to derive a range of measures for the overall detriment experienced by consumers under this scenario. In order to help us to understand that level of detriment we would welcome any relevant evidence respondents might have.

Option 1: Enhanced enforcement

Direct benefits (reductions in number of delayed and erroneous switches)

3.6. We expect that an active targeted enforcement approach relative to that undertaken under the counterfactual scenario would reduce the incidence of delayed and erroneous switches in the long term, which would also reduce the incidence of consumer detriment from late repayment of credit balances.

3.7. Realisation of these benefits would occur later than in the case of an automatic compensation scheme. Any enforcement case would be based upon analysis of supplier performance against KPIs, and any enforcement case would take time to construct and prosecute against a supplier (depending upon the extent and nature of enforcement action taken). There is no guarantee that the supplier would take remedial action whilst the case was ongoing. In addition, cases would have to be taken against suppliers individually. Realistically resource constraints would mean that cases would have to be prioritised and it could take many years to work through the market.

3.8. It may be expected that the creation of an enhanced supervision and enforcement mechanism directly related to addressing delayed and erroneous switches, and the repayment of credit balances, would incentivise suppliers to address these issues, in order to avoid the direct costs of compliance and the reputational cost of enforcement action. Unlike the actual application of enforcement action, this deterrent effect would be likely to realise a benefit from the implementation of the policy (the current expectation of which would be at the start of 2019).

3.9. The enhanced supervision option would not realise any net consumer benefits in the form of transfers from suppliers to consumers to compensate for poor consumer outcomes, unless this was specified as a result of the enforcement action.

Indirect benefits

3.10. It is possible that more visible and high-profile enforcement action against non-compliant firms would be likely to have some form of impact on customers' willingness to engage with the retail energy market. However, it is difficult to estimate the extent of this impact with any certainty, and it is also possible that the presence of large scale enforcement action could be interpreted by some consumers as an example of ineffective working of the retail market, which would act as a downward pressure on consumer engagement.

Option 2: Guaranteed standards and automatic compensation

Direct benefits (reductions in number of delayed and erroneous switches)

3.11. It is our view that an automatic compensation scheme would accrue considerable benefits for consumers. Aligning suppliers' incentives with those of consumers to ensure that detriment is avoided before it occurs is the most effective way of delivering benefits to consumers. Where the detriment is not avoided the compensation will reduce the actual detriment suffered by the customer by the value of the compensation paid.

3.12. We consider that each of the proposed new standards below addresses a separate source of detriment. The direct benefits that will accrue to consumers when compared with the counterfactual will be the aggregate of the detriment episodes that are prevented as a result of this measure, plus the value of compensation provided to consumers for each of the episodes set out below.

3.13. We have limited evidence on the actual value of the detriment suffered. We are therefore proposing to use the value of compensation payments under the existing Guaranteed Standard scheme, which we propose to adopt under the new scheme, as a proxy for a monetary value of the detriment suffered by consumers. This is consistent with the approach we took to valuing consumer detriment in relation to delayed and erroneous switches in assessing the impact of the Switching Programme. We would welcome assistance from respondents to the RfI to help us better understand the value of this detriment, potentially using existing redress schemes as a proxy.

3.14. According to Ofgem's 2016 data, supplier pre-tax margin amounts to 8.1% of a dual fuel bill, or £91, on average.[19] A £30 payment of automatic compensation for one of the Guaranteed Standards for a gaining supplier or a £15 payment by a losing supplier would therefore have a significant impact on the profitability of each customer. Compensation payments set at this level not only provide an appropriate redress for customers who suffer significant detriment, but represent an appropriate incentive for supplier firms to change behaviour which would otherwise result in detriment. This creates a powerful additional incentive for supplier firms to meet the

[19] Calculated from Ofgem data at https://www.ofgem.gov.uk/publications-and-updates/infographic-bills-prices-and-profits

terms of their licence conditions for all consumers, as is the case under the counterfactual.

3.15. In addition, unlike the proposals under option 1, an automatic compensation scheme would have an immediate impact in altering the incentives of suppliers to avoid such episodes of consumer detriment. Benefits would be enjoyed immediately from the adoption of the automatic compensation scheme.

3.16. Where the incidence of detriment is not avoided, under our automatic compensation proposals the consumer will be compensated for detriment arising from the poor outcome. This compensation will be automatically triggered by the occurrence of the detriment event.

3.17. Table 2 outlines the possible extent of payments to customers for those Guaranteed Standards where we have appropriate data.

Table 2: Potential compensation payments arising from new Guaranteed Standards

Proposed new performance standard	**Estimated incidence extrapolated from 2017 switching data**	**Potential total repayment to customers based on this figure (from gaining and losing suppliers)**
(A) To ensure a switch is completed within 21 calendar days from the date the consumer enters into contract with gaining supplier, or from date an erroneous switch is agreed, unless there are valid reasons for delay to switch	837,000[20]	£25.1m (Gaining) £12.6m (Losing)
(B) To agree whether a switch is valid or erroneous within 20 working days of identification of the	Not available	Not available

[20] Based on an assessment from Ofgem retail market monitoring data that 9% of switches are delayed for invalid reasons.

possible erroneous switch.		
(C) To ensure a consumer is not erroneously switched	89,000[21]	£2.7m (Gaining) £1.3m (Losing)
(D) To send the Erroneous Transfer Customer Charter "20 working day letter" to an erroneously switched consumer.	19,580[22]	£0.6m (Contacted supplier)
(E) To issue final bills within six weeks of a switch	744,000[23]	£22.3m (Losing)
(F) To refund credit balances within two weeks of sending the final bill	Not available	Not available

3.18. The analysis above indicates a potential transfer of £64.6 million per annum from suppliers to consumers for four of the Guaranteed Standards above where we have been able to produce a calculation. We do not have relevant data which would allow us to calculate the transfer of benefits arising from the remaining Guaranteed Standards.

3.19. However, the figure of £64.6 million implies that there is a significant amount of detriment to consumers which is currently not being compensated for, and which

[21] See Switching Programme Impact Assessment, at https://www.ofgem.gov.uk/system/files/docs/2018/02/delivering_faster_and_more_reliable_switching_final_stage_impact_assessment.pdf, p18
[22] Based on an assessment from Ofgem retail market monitoring data that this 20 working day letter is not sent to consumers in 22% of reported ETs.
[23] Based on an assessment from Ofgem retail market monitoring data that final bills are not issued within six weeks of completion of 8% of switches.

this proposal would return to consumers rather than being retained by suppliers, as would be the case under the counterfactual.

3.20. As outlined above, we recognise that these compensatory payments will represent a transfer from suppliers to consumers, and not a gross economic benefit. However, for the purpose of this assessment, we will consider these transfers as a net benefit for consumers. In addition, since the intent of the creation of new Guaranteed Standards is to realign the incentives of suppliers to reduce the incidence of episodes of detriment of the kind covered by the Guaranteed Standards, we would expect that their introduction would mean that more benefits were realised from the prevention of episodes of detriment, and fewer from the transfer of compensation to customers.

3.21. A further direct benefit of this measure will be a potential for reduced burden on the energy Ombudsman Service if consumers are experiencing fewer problems related to switching, and a consequent reduction in fees to the Ombudsman Service (and upon costs incurred by customers for the effort of contacting the Ombudsman). However, there may also be a rise in the burden on the energy Ombudsman if there is an increase in disputes over whether compensation is due, or has been appropriately paid.

Indirect benefits

3.22. As is the case as under Option 1, it is reasonable to believe that a reduction in the incidence of the kind of licence breach that will cause an improvement in consumer perception of the retail energy market, and therefore a tangible benefit from consumers' willingness to engage with the market. The provision of automatic compensation is likely to make this effect more pronounced when compared with Option 1 or the counterfactual, as it will be apparent to consumers that they will receive compensation directly if they are inconvenienced as a result of a breach covered under the Guaranteed Standards.

3.23. A further benefit of this proposal will be the improvement of industry data held on erroneous switches. At present, many suppliers use the Erroneous Switch mechanism to return customers who decide to reverse a switch in the 'cooling off' period. Implementation of a Guaranteed Standard with automatic compensation would incentivise suppliers to ensure that only genuine erroneous switches are recorded as such.

Request for Information

3.24. As referenced throughout this chapter, we propose to ask RFI questions in order to develop our understanding of the benefit of our proposals. These RFI questions, which we plan to discuss with suppliers ahead of formally issuing, are set out below.

3.25. In particular, we would like to obtain data that will help us understand the benefits of implementation of the Guaranteed Standards set out above in isolation. This will help us to understand the likely benefits of each of the individual Guaranteed Standards alongside the whole package.

Proposed optional questions

RFI question 1: Do you offer redress to customers if they suffer any of the issues that the proposed Guaranteed Standards seek to address when switching to or from your company? If so, what value do you put in this redress?

RFI question 2: Based on your own data, how many customers would have been due for a compensation payment under the terms of proposed Guaranteed Standards (B) and (F) above in 2017?

RFI question 3: How many complaints are referred to the Energy Ombudsman from your firm related to the switching issues as set out by the proposed Guaranteed Standards above? Please indicate for each of the proposed Guaranteed Standards.

RFI question 4: How many complaints were referred to the Energy Ombudsman from your firm related to failure to pay compensation under the existing Guaranteed Standards?

4. Identifying the costs of our proposals

Chapter Summary

In this chapter we attempt to identify where we expect that costs might arise as a result of the implementation of our proposed options.

4.1. At this time we have not sought to articulate the costs of these proposals. Instead, we have attempted to articulate where costs will occur as a result of implementation of our proposals, and have set this out below. We will aim to gather evidence with which we can calculate the costs through the request for information to be issued shortly. A full impact assessment will inform our decision on whether and how to move forward with these proposals and will be published alongside our eventual decision.

4.2. Many requirements set out within the Gas and Electricity Supply Licences are subject to a 'reasonable steps' test, where compliance with the proposal is deemed if the supplier has taken reasonable steps to comply with the terms of a licence. The introduction of the Guaranteed Standards implicitly means that suppliers would be strictly liable for ensuring that these outcomes are met, regardless of whether they have undertaken reasonable steps. We do not have data on the proportion of these poor outcomes that would be expected to occur notwithstanding the supplier having taken reasonable steps to comply with the requirements. We will be inviting evidence on this in the request for information.

Option 0: No action (the Counterfactual)

Direct costs and indirect costs (costs of implementing proposals)

4.3. No additional costs would be incurred as a result of continuing with existing mechanisms for managing delayed and erroneous switches. However, we expect that suppliers should already be deploying resources to address these issues and contributing to existing industry initiatives.

Option 1: Enhanced supervision

Direct costs (costs of implementing proposals)

4.4. We do not consider that it is appropriate to consider any additional costs of (enhanced) supervision borne by firms against existing licence conditions as part of our assessment of the impact of the adoption of this policy.

4.5. A more intensive supervisory and enforcement approach relative to that undertaken under the counterfactual scenario would cause direct costs to be incurred by Ofgem. These costs could include the cost of employing additional staff to undertake enforcement action and regulatory investigation and non-staff costs incurred in undertaking this action (for example costs arising from data collection and storage by the regulator). Ultimately, any additional staff costs would need to be agreed the Government as part of Ofgem's funding agreements, and would be recovered via the industry levy. We propose to make an estimate of these costs for the full impact assessment.

Indirect costs

4.6. If new resources were not provided, enhanced supervision would require supervisory and enforcement resources to be funded or diverted from other regulatory projects. This would incur an opportunity cost in the form of a reduced level of compliance and potential for consumer detriment in other areas within the regulatory vires of Ofgem.

Option 2: Automatic compensation

Direct costs: Cost of meeting existing supply requirements and compensation

4.7. The majority of our proposed Guaranteed Standards under this Option relate directly to a responsibility upon suppliers to comply with existing requirements contained within the supply licences and industry codes. For this reason, where this is the case have not included costs incurred by suppliers in meeting these requirements, as their cost will have been factored into cost-benefit analyses undertaken when assessing the appropriate licence conditions. We do not therefore intend to include the cost of complying with existing requirements in our cost analysis.

4.8. Table 3 below summarises whether there is a direct read-across from supply licence requirements into the Guaranteed Standards.

Table 3: Requirements found in supply licences and industry codes and in new Guaranteed Standards

Guaranteed Standard	**Existing requirement in supply licences or Industry Codes**
(A) To ensure a switch is completed within 21 calendar days from the date the consumer enters into contract with gaining supplier, or from date an erroneous switch is agreed, unless there are valid	Reflected in supplier licence condition 14A.1. However, this licence condition requires completion within 21 days of a 'relevant date' which could be 14 days later than the date on which the contract is entered into. Signatories to the ESG commit to achieve 98% of switches within 21 days of the contract date. Under our

reasons for delay to switch	proposal compensation will not be due where there would be a valid reason for the delay, with valid being defined in the same way as it is currently defined in the licence. Hence the switches that fall within the standard are those covered by the licence obligation, but the time limit we are proposing is different, depending on how suppliers approach the cooling off period.
(B) To agree whether a switch is valid or erroneous within 20 working days of identification of the possible erroneous switch	A requirement exists in the in the Erroneous Transfer Charter contained within MRA and SPAA to write to an erroneously switched customer within 20 working days of their original contact to let them know that they will be returned to their original supplier. We consider that this implicitly, if not explicitly, requires the supplier to have reached a conclusion on whether an erroneous switch has occurred within that 20 days in order to allow them to send a letter to the customer that meets the requirements of the Charter.
(C) To ensure a consumer is not erroneously switched	Reflected in existing supply licence condition 14A.10 for a gaining supplier. Supplier have a responsibility to maintain accurate data in industry systems, so where an erroneous switch is caused by inaccurate data this will reflect a failure on the part of the losing supplier to maintain accurate data.
(D) To send the Erroneous Transfer Customer Charter "20 working day letter" to an erroneously switched consumer	This new performance standard is based upon an existing mandatory requirement within the MRA and SPAA (Erroneous Transfer Charter), arising from the Erroneous Transfer Working Group. Inclusion of a compensation element in this standard has been agreed in principle by the respective Code bodies but referred by them to Ofgem for inclusion in the guaranteed standard regime.
(E) To issue final bills within six	Reflected in existing supply licence condition

weeks of a switch	27.17
(F) To refund credit balances within two weeks of sending the final bill	Supply licence condition 27.16 requires suppliers to refund credit balances in a timely manner when requested to do so for customers who pay by Direct Debit.

4.9. Guaranteed Standard (F) (the requirement to refund credit balances within two weeks of sending the final bill) is not an existing requirement contained within the supply licences or industry codes. However, it is a requirement of the Energy Switch Guarantee, which as of June 2018 includes 24 signatory suppliers representing over 90% of the domestic retail market (by market volume). We are seeking views on whether it is reasonable to infer from that fact that the vast majority of the industry have voluntarily agreed to be bound by this requirement that it is not unreasonable to expect a supplier to make a credit refund within two weeks of a final bill.

4.10. We believe the costs of making this explicit requirement mandatory should not represent a disproportionate cost for the whole industry. Overall, we believe the additional costs associated with making these compensation payments as a result of introducing these new performance standards is likely to be reasonably low.

4.11. We have not considered the value of the compensation payments for Guaranteed Standards A-E above as a cost upon suppliers. As we have outlined above, compensation equates to a payment to customers as redress for detriment suffered as a result of failure to meet the requirements of existing licence conditions.

4.12. To the extent that Guaranteed Standard F does not reflect an existing licence condition, we would consider the costs of meeting this condition, including compensation payments, as an additional cost on suppliers.

Direct costs: Implementation and administration costs

4.13. Whilst we intend to exclude the cost of compensation payments (with the exception of those for Guaranteed Standard F) form our assessment of cost of these proposals, suppliers will incur additional cost arising from maintaining the compensation system. These costs will include:

- **Maintaining a system to ensure that compensation is paid to customers where they are in breach of Guaranteed Standards.** All suppliers are already subject to the existing GSOP regime which requires the payment of compensation when standards are breached. In addition many suppliers have mechanisms for making ex gratia compensation payments to customers. Consequently we would expect the additional fixed costs of extending such a system to cover compensation in relation to these standards to be relatively low. However, the number and value of compensation payments might be expected to be greater. We will seek evidence from suppliers regarding whether they currently have established a compensation mechanism, and if so what the fixed and variable costs are, and whether those mechanisms could be extended to be used for compensation payments in relation to the proposed new Guaranteed Standards;

- **Monitoring performance against the Guaranteed Standards, including audit costs and reporting to Ofgem.** We consider that suppliers should already monitor compliance with licence conditions and industry codes to ensure that they are fulfilling their regulatory obligations, so we do not expect these costs to be significant. However, there will be an element of additional cost arising from providing a report on Guaranteed Standard compliance in an agreed format to Ofgem. We will ask suppliers to provide estimates for these elements of cost.

- **Updating marketing materials and customer facing materials to make customers aware of the new Guaranteed Standards and the supplier's obligations under the new Guaranteed Standard mechanism.** Suppliers may need to update customer facing materials to make customers aware of the new Guaranteed Standards, as well as contacting the customers when a breach has occurred. We believe the costs for suppliers to update the existing Guaranteed Standard consumer awareness materials and providing details to the new Guaranteed Standard when requested will be small. We would like suppliers to think about what the appropriate touch points are where information about the new Guaranteed Standard should be provided, and update materials used at those touch points. We will seek information from suppliers on these costs and any other additional communication costs that we have not identified.

4.14. Monitoring additional Guaranteed Standard performance data will impose a cost upon Ofgem and Citizens Advice. However, at present our expectation is that these costs will be met by existing monitoring functions within the organisations and therefore do not propose to include an additional cost element in our calculations.

Direct costs: Appeals and dispute resolution

4.15. We propose to retain the existing dispute resolution procedure used for existing Guaranteed Standards. This means that the Energy Ombudsman and other dispute resolution bodies as appropriate will be able to consider any disputes between suppliers and consumers related to these Guaranteed Standards. We do not have a clear view on whether the creation of the new Guaranteed Standards will increase or decrease the number of disputes brought to dispute resolution. On the one hand we would expect the automatic compensation regime to reduce the number of customers finding themselves in dispute with an energy supplier as a result of switching related issues. On the other hand, disputes may arise as to whether compensation should have been paid. We will be seeking evidence on the likely impact on the number of disputes as a result of introducing these new Guaranteed Standards.

Indirect costs

4.16. As we have identified in the section above, we would expect that automatic compensation payments for failure to meet Guaranteed Standards could comprise a significant portion of the margin accrued by a supplier for gaining customers. It is possible that if an entrant supplier was uncertain about their ability to prevent the detriment episodes covered by the Guaranteed Standards as a gaining supplier, it might decide not to enter the market, with a resultant potential loss to consumers from the benefits of enhanced competition.

4.17. We recognise that the difficulty of attributing responsibility for any individual breach, and our proposals for responsibility sharing, mean that some suppliers who are not contributing to breaches will nonetheless pay out compensation where they are involved in breaches caused by other suppliers. This means that the incentive effect is not perfectly targeted and in some cases will simply impose a cost on those who cannot respond by improving processes or procedures to remove or reduce the cost. We recognise that this is imperfect, but it is a result of the difficulty in attributing responsibility for many of these breaches. We expect this impact to be low, but we would welcome any suggestions for how we could better target the incentivising impact of these proposals.

Request for Information

4.18. To inform our assessment of the cost of these proposals, we will be asking suppliers to provide us with appropriate information which will allow us to assess costs. This are set out in the questions below.

Proposed Mandatory questions:

RFI Question 5: Please indicate the expected (fixed and variable per annum) costs of complying with, and monitoring performance of a requirement to refund credit balances within two weeks of issuing a final bill? Please provide evidence based on your compliance with the Energy Switch Guarantee if available**.**

RFI Question 6: What costs will you incur if you were required to ensure that a switch is completed within 21 days from the date the consumer enters into contract with gaining supplier, or from date an erroneous switch is agreed, rather than within 21 days of the ‘relevant date’? Please provide evidence based on your compliance with the Energy Switch Guarantee if available.

RFI Question 7: What would be the cost to your organisation of establishing, or extending a mechanism for providing compensation or redress to consumers for the Guaranteed Standards as outlined above? Please provide both the fixed costs of establishing this function and the variable costs of operating it for a year, including both personnel and system costs.

Proposed Optional questions

RFI Question 8: For each of the issues below and for switches where you a) the losing and b) the gaining supplier, please indicate the number of times in 2017 that each of the events below occurred. Please also provide the total number of switches during 2017 you were a) the losing and b) the gaining supplier.

A. Switches which are not completed within 21 calendar days from the date the consumer enters into contract with gaining supplier, or from date an erroneous switch is agreed, unless there are valid reasons for delay to switch;
B. Failure to agree whether a switch is valid or erroneous within 20 working days of identification of a possible erroneous switch;
C. Occurrence of erroneous switches;
D. Failure to send the Erroneous Transfer Customer Charter "20 working day letter" to an erroneously switched consumer;
E. Failure to issue final bills within six weeks of a switch; and
F. Failure to refund credit balances within two weeks of sending the final bill.

RFI Question 9: For each of the events below please provide the number, where you were a) the losing and b) the gaining supplier, where you would have considered that the event could not have been prevented had all reasonable steps been taken. Please provide an explanation of how you determine what constitutes all reasonable steps for you in relation to each of the events:

A. Switches which are not completed within 21 calendar days from the date the consumer enters into contract with gaining supplier, or from date an erroneous switch is agreed, unless there are valid reasons for delay to switch;
B. [Not applicable]
C. Occurrence of erroneous switches;
D. Failure to send the Erroneous Transfer Customer Charter "20 working day letter" to an erroneously switched consumer;
E. Failure to issue final bills within six weeks of a switch; and
F. Failure to refund credit balances within two weeks of sending the final bill.

RFI Question 10: Please indicate an estimate of the expected cost (fixed and variable per annum) of reporting performance (the number of incidents and compensation payments made) against these Guaranteed Standards to Ofgem and Citizens Advice. (Use the reporting requirements of the Energy Switch Guarantee as a proxy if necessary).

RFI Question 11: Please indicate an estimate of the expected cost (fixed and variable per annum) of updating marketing materials and customer facing materials to make customers aware of the new Guaranteed Standards and the supplier's obligations under the new Guaranteed Standard mechanism. Please identify any other communication costs you consider you would incur in relation to these proposed Guaranteed Standards.

5. Next steps

Chapter Summary

This chapter summarises the next steps for the development of our Impact Assessment.

5.1. As detailed throughout this draft Impact Assessment, we will issue a Request for Information (RFI) in order to further develop this Impact Assessment. This RFI will be based upon the questions outlined in the document and will be sent in draft to relevant parties shortly.

5.2. Data received through the RFI will allow us to develop a more detailed understanding of the benefits and costs associated with the implementation of our proposals, as well as the enduring costs of administering the extended Guaranteed Standard regime. This will enable us to assess the costs against the benefits of our proposals in order to make a decision on the implementation of all, or some, of our proposals.

5.3. Once we more fully understand the impact of our proposals, and the level of change required by suppliers to comply with them, we will also be able to determine the implementation period required after the Regulations are made.

5.4. Responses to the policy consultation are invited by 31 July 2018.

5.5. After we have considered the responses to our consultation and RFI, we hope to issue the final Impact Assessment along with our decision on the way forward and a Statutory Consultation on the drafting of an order introducing new Guaranteed Standards in late summer 2018.