

# Joint supplier response to consultation on switching compensation

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Dear Rachel,

Thank you for the opportunity to respond to your consultation, and for allowing extra time for suppliers to pool expertise in order to come to a robust joint response.

This joint response demonstrates that there is willingness among challenger suppliers to proactively work in a collaborative manner to support the Regulator, and represents the unified position and thinking of a group of five challenger suppliers on the complex subject of switching compensation.

The group consists of:

- Co-Operative Energy
- ESB Energy
- Octopus Energy
- Ovo Energy

The group supports the introduction of automatic switching compensation via the Guaranteed Standards of Performance.

We understand that Ofgem has two primary objectives that it wants to be delivered by the introduction of Guaranteed Standards detailed in this consultation:

1. Reducing instances of harm to customers
2. Providing customers redress where they have experienced harm

While the current proposal provides customers with redress, we believe that it risks adding costs - ultimately borne by consumers - without providing incentives for suppliers to reform and reduce instances of harm.

To achieve a reduction in harm, we believe the following principles must be applied:

- Penalties should be borne by the party at fault
- Penalties should be set at a level at which the cost of reform is not higher than the cost of the penalty

This approach will help ensure that the proposed Guaranteed Standards serve as a true incentive to move to better performance and not simply become “the cost of doing business”.

We also support the introduction of a cap on compensation payments made to customers during a single switch which we believe will protect suppliers from customers who may disengage with the market to receive payments, as well as cause severe financial detriment for suppliers. Instead we believe Ofgem should align with the current GSOP guidance and introduce a cap on compensation.

We would like to suggest an alternative implementation approach which will incentivise good behaviour, identify the root cause of poor switching experiences, and ensure customers are compensated for any harm.

This implementation approach aims to deliver the smooth introduction of the proposed guaranteed standards. We suggest alternative implementation dates as the group has concerns about the volume of operational processes and financial restrictions, such as the introduction of the Default Tariff Cap being imposed on suppliers within such a short timeframe.

We believe introducing a number of complex changes into suppliers operations in December, a time where industry has historically tried to minimise change, increases the risk of rushed implementation ultimately leading to a poor customer experience. We urge Ofgem to consider a staged approach to implementation starting early 2019.

## Alternative implementation approach

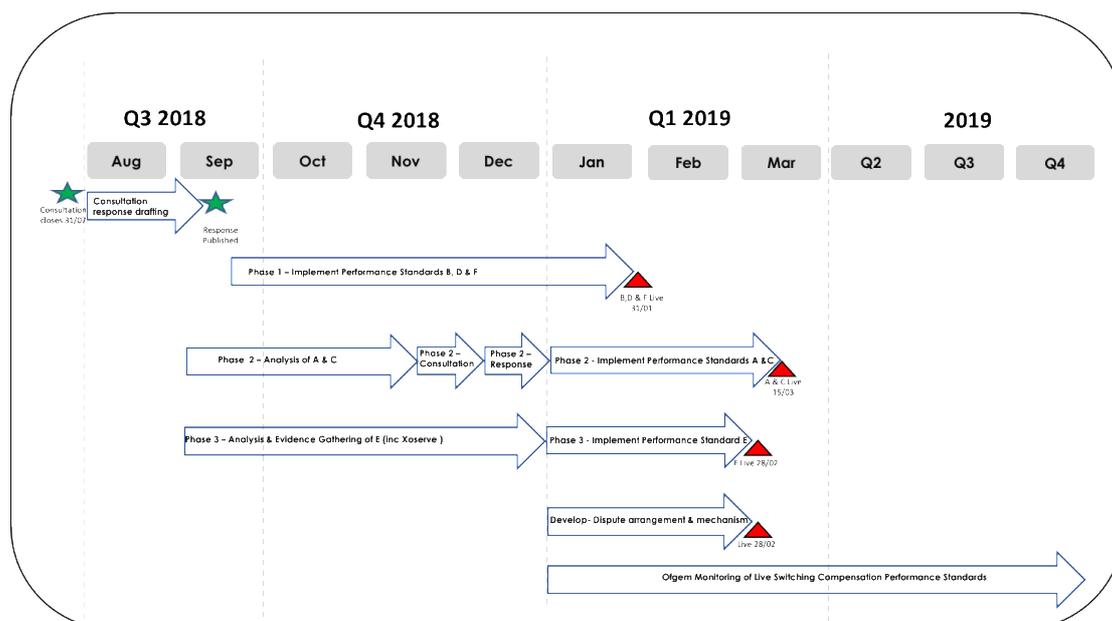
Some of the processes outlined in the consultation require further analysis and refinement whereas others are clearly defined and practicable.

The group would like to suggest a phased approach, which identifies 'easy wins' for implementation by early 2019, then breaks down some of the more contested elements in to component parts, identifying the data and analysis required to solve them.

This approach aims to identify systematic approaches to identify those cases, which are in the majority, where it is possible to attribute fault. This would have the effect of narrowing down to a tiny minority of cases that are un-attributable or disputed.

We suggest the following but are open to further discussions with Ofgem and the wider industry in order to refine.

## Proposed Timeline



## Phase One – “Quick Wins” for implementation by early 2019

Service Area	Proposed new performance standard	Customer coverage	Who makes payment	Payment amount
Erroneous switches	(B) To agree whether a switch is valid or erroneous within 20 working days of identification of the possible erroneous switch	Domestic Customers only	Gaining Supplier & Losing Supplier	£30 each
Erroneous switches	(D) To send the Erroneous Transfer Customer Charter “20 working day letter” to an erroneously switched consumer	Domestic Customers only	Contacted Supplier	£30
Credit refunds after a switch	(F) To refund credit balances within two weeks of sending the final bill	Domestic Customers only	Losing Supplier	£30

The group support the above proposed standards and believe that they will be easily implemented by all suppliers by early 2019. They most likely will require relatively minor changes to a supplier’s business processes, internal monitoring procedures, customer contact templates (letters, email template, website updates, etc.) and customer service training materials.

Based on our high level impact assessment we can see no change to industry systems or data flows are required to incorporate these new standards into our operations. We would suggest that Ofgem validate this with other suppliers.

By implementing these three standards early, customers will receive early benefits of switching compensation payments while industry and Ofgem can focus on stage two.

## Phase Two – Process analysis to determine responsible supplier for standards A & C

- **Analysis & consultation – Sept 2018 – Dec 2018**
- **Implementation of A & C - End Q1 2019 (dependent on consultation responses)**

We support the Ofgem view that, despite numerous opportunities to address the known issues with erroneous switches and delayed switches, industry has made little headway in reducing the percentage of customers who experience these.

We agree that there needs to be a financial incentive on suppliers to drive appropriate behaviour, but we believe that the proposals outlined for standards A and C are blunt and heavy handed and will not lead to the desired outcome of improvements in both supplier behaviour and reduction in erroneous switches and general delays in the switching process.

We believe that by conducting short, “time boxed” and focused analysis of both of these scenarios specifically looking at:

- Where failures/delays occur;

- Who is the responsible party (gaining supplier, losing supplier, TPI, etc.); and
- What triggers the failure (missing data, data mismatch, poor quality address data),

Industry, alongside Ofgem, will be able to develop a very nuanced but clear set of criteria as to which party must compensate the customer via a guaranteed standard.

This approach will also provide data which will allow the Ofgem to review the currently proposed payment amounts and ensure that they are proportional to failure reason and the cost of implementing any system changes to remove the root cause of the exception.

### Potential Solution

We believe it is possible to reduce address errors during a switch by cross checking registration address data against Post Office Postcode Address File (PAF) data when a customer switch is triggered. This would require system development, but this functionality would allow dramatically reduce one of the known causes of a delayed switch and would correct industry data at source, a practical case of “fix once, use many”.

By accurately determining which party is at fault for either the delayed switch or the erroneous switch and levying the appropriate financial penalty Ofgem will be able to both drive improved behaviour into the industry as a whole and also monitor individual parties on their adherence to their obligations.

The group firmly believes taking this extra time to conduct the above would be widely supported by industry and will lead a smoother implementation of the standards in early 2019.

### **Phase Three – Introduce split responsibility payments for standard E.**

- **Evidence gathering, Analysis & consultation - Sept 2018 – Dec 2018**
- **Implementation of E - Jan 2019 – Feb 2019 (dependent on speed of Xoserve work)**

We agree with the principle that there should be a guaranteed standard payment made to a customer where they have not received a final bill within six weeks. However, we do not support that this payment is solely borne by the losing supplier.

Analysis performed within the group across their data has found that there are numerous challenges created by the existing dataflow regimes in both Electricity and Gas that frequently impact a losing supplier’s ability to produce a final bill in a timely manner.

We believe that there are instances of poor industry behaviour in both the gaining and losing suppliers’ processes. The proposed standard currently only addresses one half of the problem, and therefore only encourages process and operational improvements for the losing supplier.

We believe expanding shared responsibility between gaining and losing suppliers, and therefore the accuracy of final bills issued to customers.

We support two separate standards for delayed final bills:

- The gaining supplier to issue a validated meter read within 28 days
- The losing supplier to issue a final bill within 42 days (subject to a delay exemption)

We suggest that compensation value for each of these two proposed standards be the same.

We would also want an exemption from the guaranteed standard for the losing supplier which would extend the six week time frame where the losing supplier does not receive a reading from the gaining supplier within the 28 day period. The exemption would simply extend the losing suppliers' timeframe by the length of the delay. For example, if the gaining supplier issued the final validated read on day 30, the losing supplier must have issued the final bill to the customer within 44 days or be liable to pay the guaranteed standard.

This will ensure that no suppliers pay compensation to consumers where the shortfall is not a result of their own processes.

### Broader issues within Gas

The responsibility of producing a gas change of supply reading is not the sole responsibility of suppliers, as Xoserve bears the responsibility of generating a validated opening/closing reading. Therefore, we believe it is unfair to penalize either the gaining or losing supplier via the proposed standards if they have not been able to issue a final bill due to not receiving a validated read from Xoserve (via a shipper).

Once again, we believe that a short but focused period of evidence gathering/monitoring surrounding the issue of these meter reads would be useful. Once the analysis has been completed it should be possible to understand the scale of any issue and then be in a position to identify where, if anywhere, the issue within the process is occurring.

### **Supporting Dispute arrangement and mechanism**

As mentioned in Phase 3, where a supplier has paid a customer compensation but feels that the fault for the process failure lies with another party then there should be a mechanism to "dispute and reclaim".

Our suggestion is that industry looks to replicate a simple dispute process that works in a similar manner to the one most suppliers have in place with their MOP for disputes arising around the payment of GSOS on missed appointments.

We would envisage the Ombudsman only becoming involved as a "last resort" measure to be used when all other resolution options have failed.

We understand that Ofgem would need to test our proposals with wider industry, but we believe that when these options were verbally outlined on the Ofgem Stakeholder call on Tuesday 25<sup>th</sup> July that were generally and widely supported as worthy of further, more detailed discussion.

Should you require any further detail or clarification please contact Clementine Cowton at [clementine.cowton@octoenergy.com](mailto:clementine.cowton@octoenergy.com) directly.

Yours sincerely,

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