ofgem Promoting choice and value for all gas and electricity customers

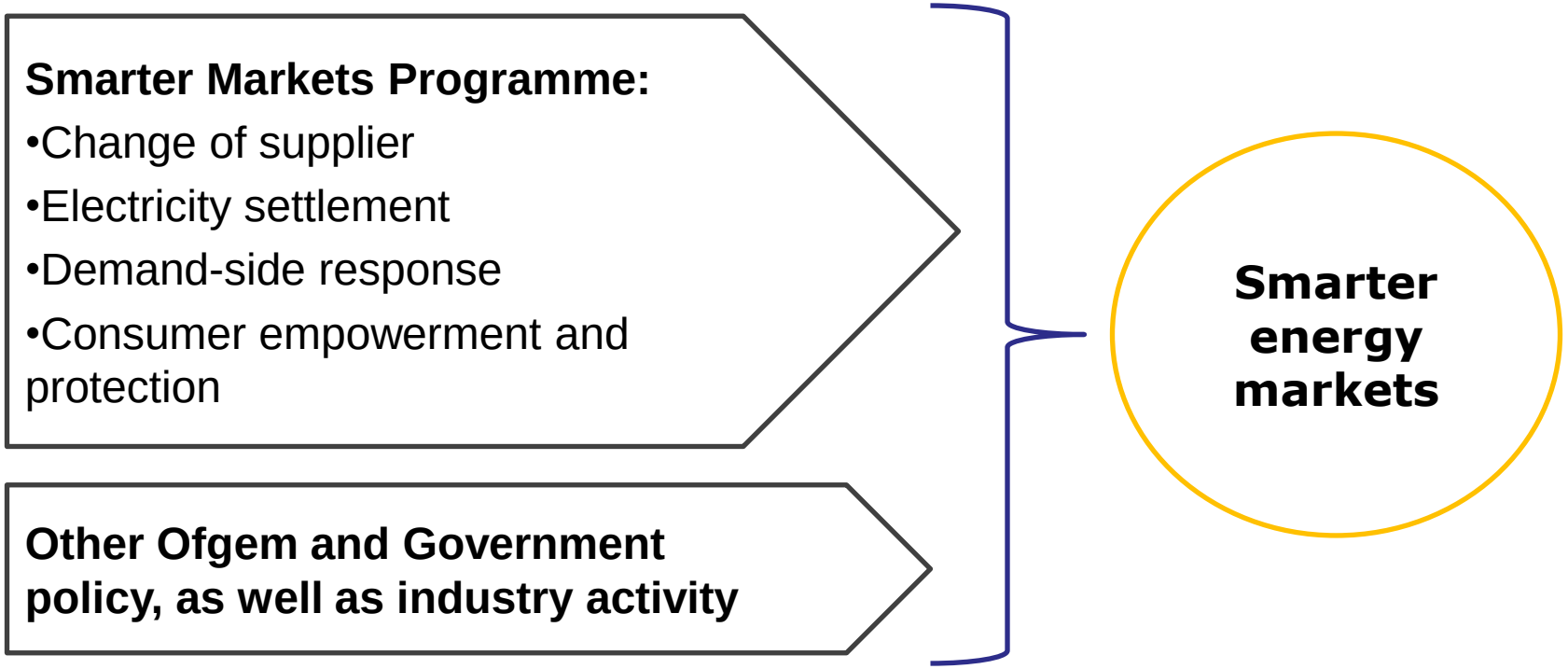
Change of Supplier Expert Group

20 May 2013

Grant McEachran – Programme Director

WELCOME & OPENING REMARKS

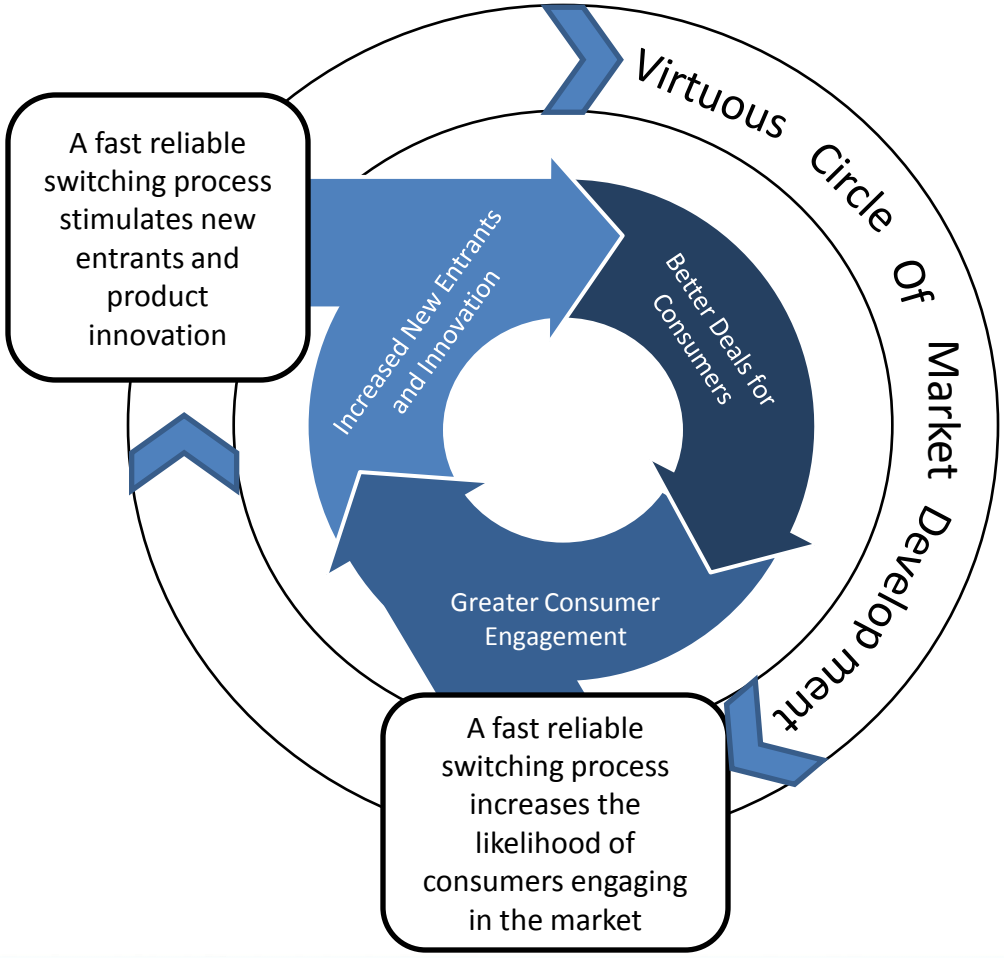
Overview of Smarter Markets Programme



We aim to have reforms in place as soon as reasonably practicable 2-3 years after DCC goes live

Longer-term objective

A fast, reliable and cost effective change of supplier process that will facilitate competition & build consumer confidence



In scope

- CoS process from customer decision to opening and closing bill
- Centralising registration services
- Access to metering data

Out of scope

- Marketing
- Merits of removing/retaining objections

The challenge

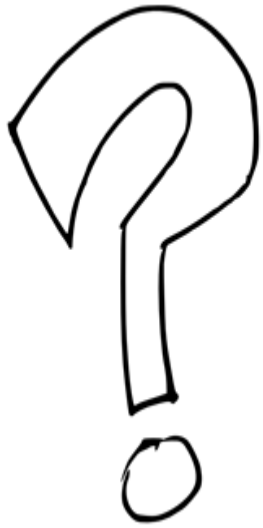
- Unique opportunity to redefine the Change of Supplier process
- Deliver a step change for consumers
- This will require us commit time and effort, challenge our assumptions and think creatively!

COSEG Members

ROUNDTABLE

Introductions and initial views

- Introduction to COSEG Members (name, organisation, who they represent and relevant background)
- Initial views on what you want COSEG to achieve
- Aims for the change of supplier project



Andrew Wallace

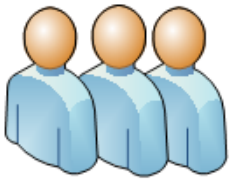
TERMS OF REFERENCE

Terms of reference

Membership and meetings

- Ofgem invitation only expert group
    - Membership linked to supplier and network trade associations, industry code experts, consumer representatives and government
    - Named membership and named alternates
- Meetings every three weeks
- Held at London and Glasgow offices

ICOSS
Gareth Evans
Peter Olson



Energy UK
Julian Anderton
2 x tbc

Supplier Forum
Jackie Street

DECC
Teresa Camey

AIGT and CNA
Gethyn Howard

Consumer Futures
Richard Hall
James Court

GDNs
Joanne Ferguson

Which?
Ashleye Gunn

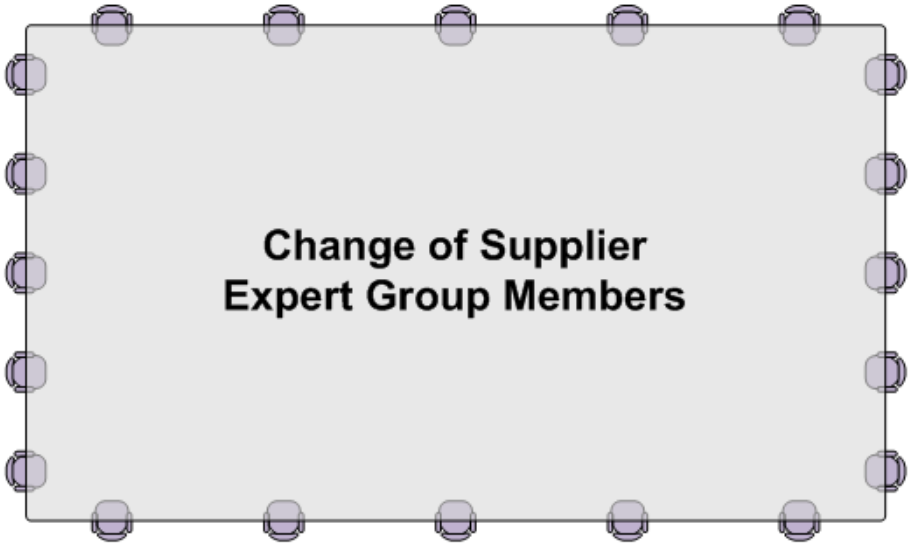
ENA
Paul Bircham

Xoserve
Steve Nunnington

Gemserv
Andy Knowles

Electralink
Mark Pearce

Elexon
Jon Spence



Change of Supplier Expert Group Members

Terms of reference

Role of CoSEG

- To assist Ofgem in meeting its longer-term objective, COSEG is required to:
    - Identify the key aspects of the CoS process that should be reviewed
    - Evaluate options presented by Ofgem for these areas
    - Identify and evaluate further options
    - Identify links and dependencies
    - Identify and evaluate end-to-end proposals

Terms of reference

Methodology

- Ofgem to present options papers
    - Seek agreement on any further options to be reviewed
- COSEG members to review with constituents
    - Further options?
    - Assessment against evaluation criteria
- Review at future COSEG meeting
- Ofgem to minute discussion and publish on website

Rowaa Mahmoud and Robyn Daniell

THE CASE FOR REFORM

Current switching activity

On average there have been 4.7 million and 3.7 million customer transfers in electricity and gas respectively each year since 2003

But the switching rate is in decline.

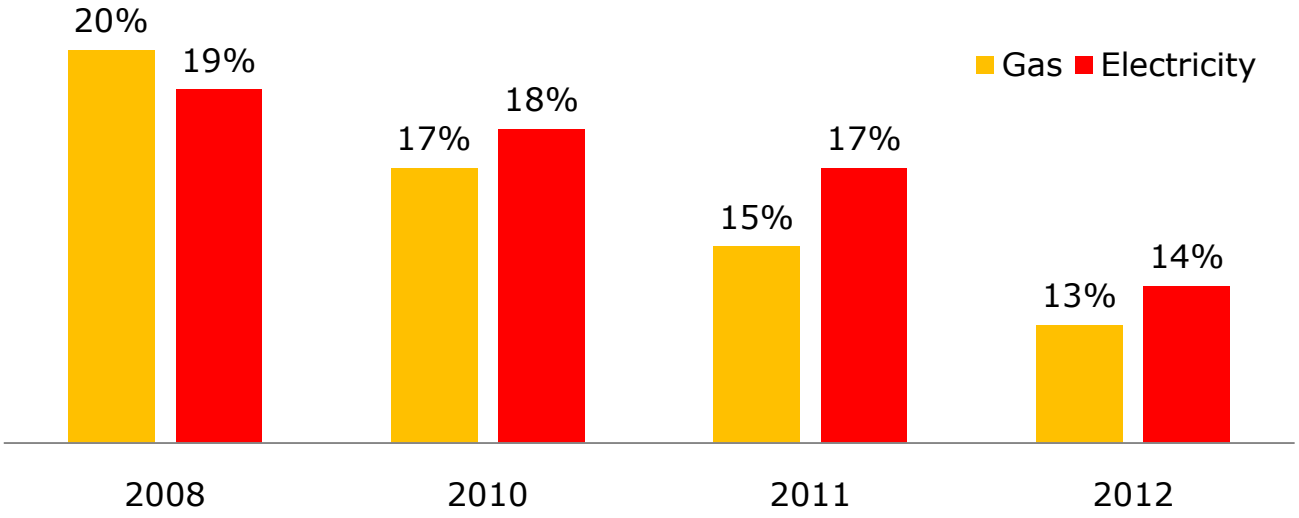


Figure 1: Domestic households that switched supplier in last 12 months (source: Ipsos MORI)

How long does it take?

- Licence obligations, introduced in 2011 as part of the third package (three weeks after any cooling off period).
- Findings from a Consumer Focus survey suggest that 15% of customers believe that their transfer takes longer than five weeks.
- Central systems in electricity permit next day transfers, although complexity prevents this from occurring in practice.
- Gas central systems do not allow three week switching in all circumstances and are being amended to achieve this in November 2013.

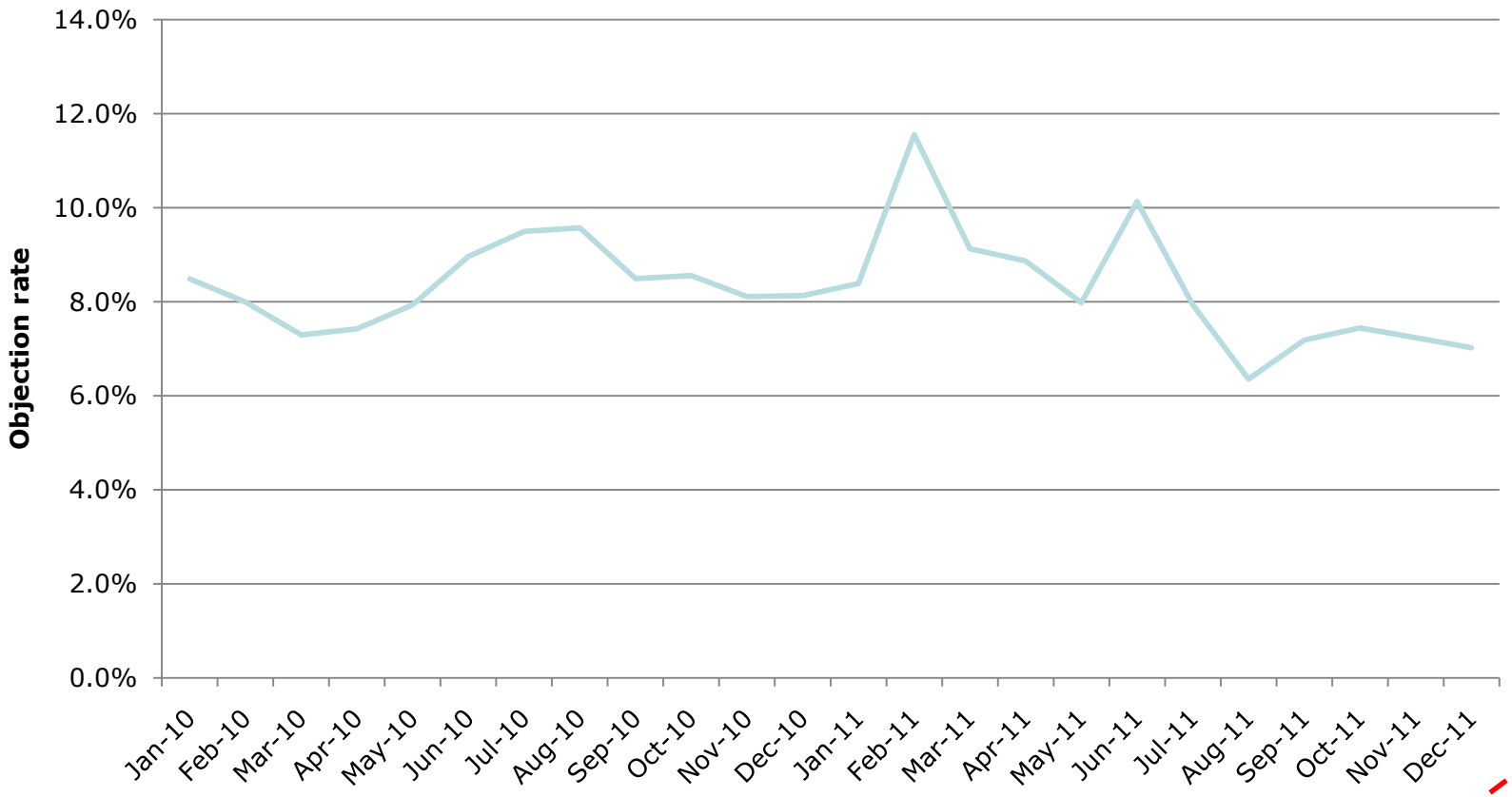
Time from request to completion	%
Up to 21 days (2.5) (3 weeks)	42.9
22 days to 28 days (3.5) (3 to 4 weeks)	27.1
29 days to 35 days (4.5) (4 to 5 weeks)	9.6
36 days to 42 days (5.5) (5 to 6 weeks)	7.0
43 days to 49 days (6.5) (6 to 7 weeks)	2.7
50 days to 56 days (7.5) (7 to 8 weeks)	3.9
More than 56 days (8.5) \more than 8 weeks	2.4
Don't know (0)	4.1

Figure 2: Customer perception on how long it takes to switch (source: Consumer Focus)

Errors and other problems for consumers

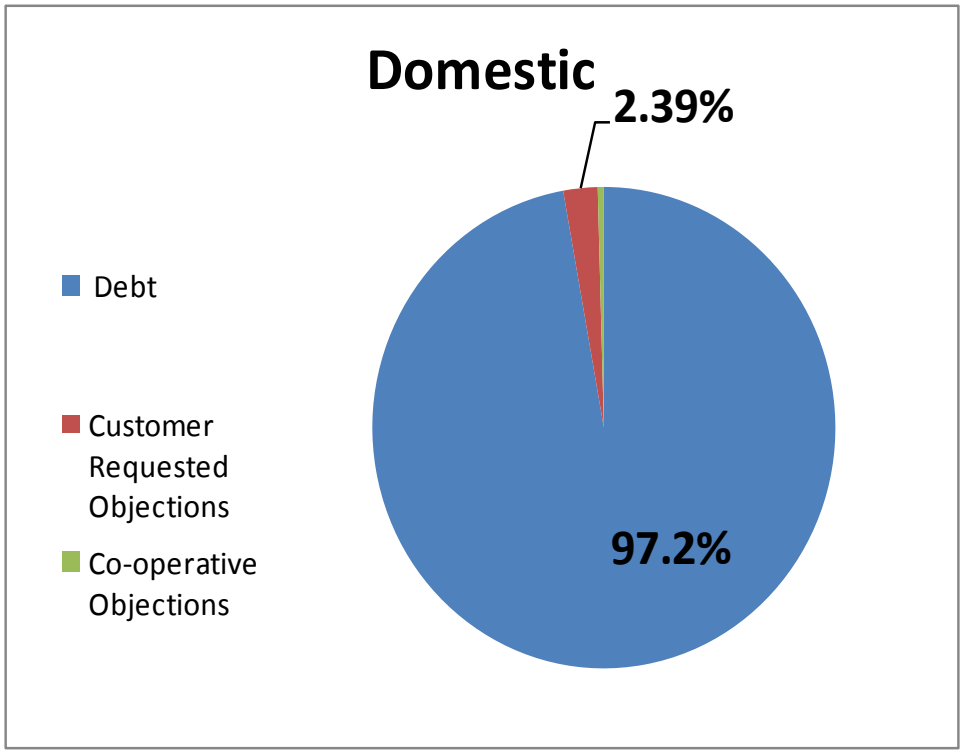
- Around **1%** of transfers by the Big Six are recorded as being made in **error** (an erroneous transfer). Estimate that administering this process costs suppliers at least **£10m per annum**.
- Around 8% of domestic transfers and around 25% of non-domestic transfers are **blocked** by the losing supplier.
- Approximately 10% of domestic transfers require the old and new suppliers to exchange data outside of the standard process to correct problems with the change of supplier **meter read**. This can delay final bills. This should be addressed by the roll out of smart meters.
- **Delays** in receiving final bills and setting up new accounts

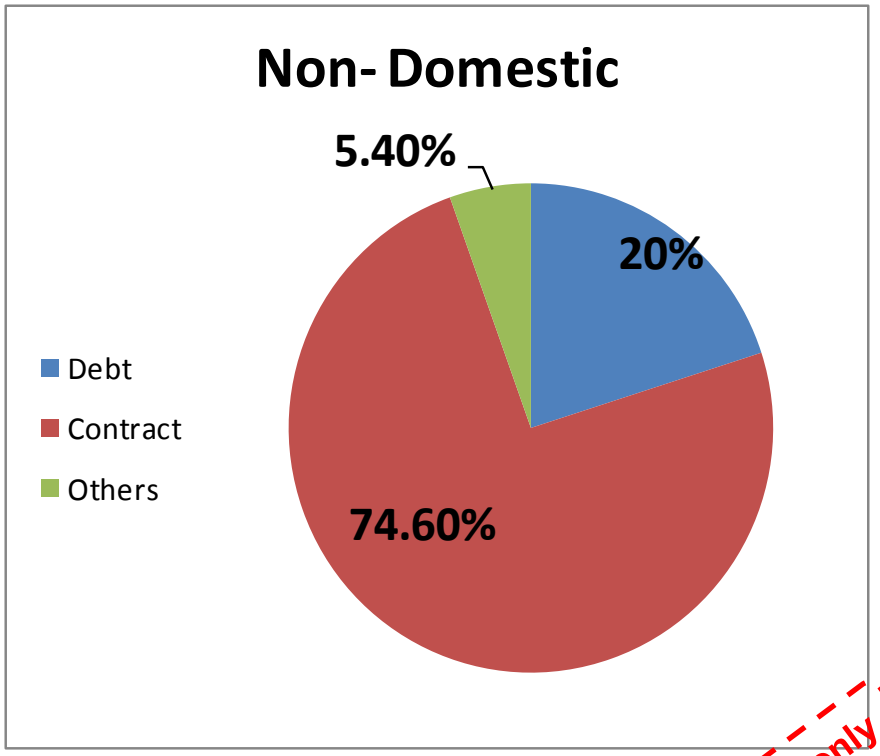
Trends (1) Objection rate (domestic)



Gas only

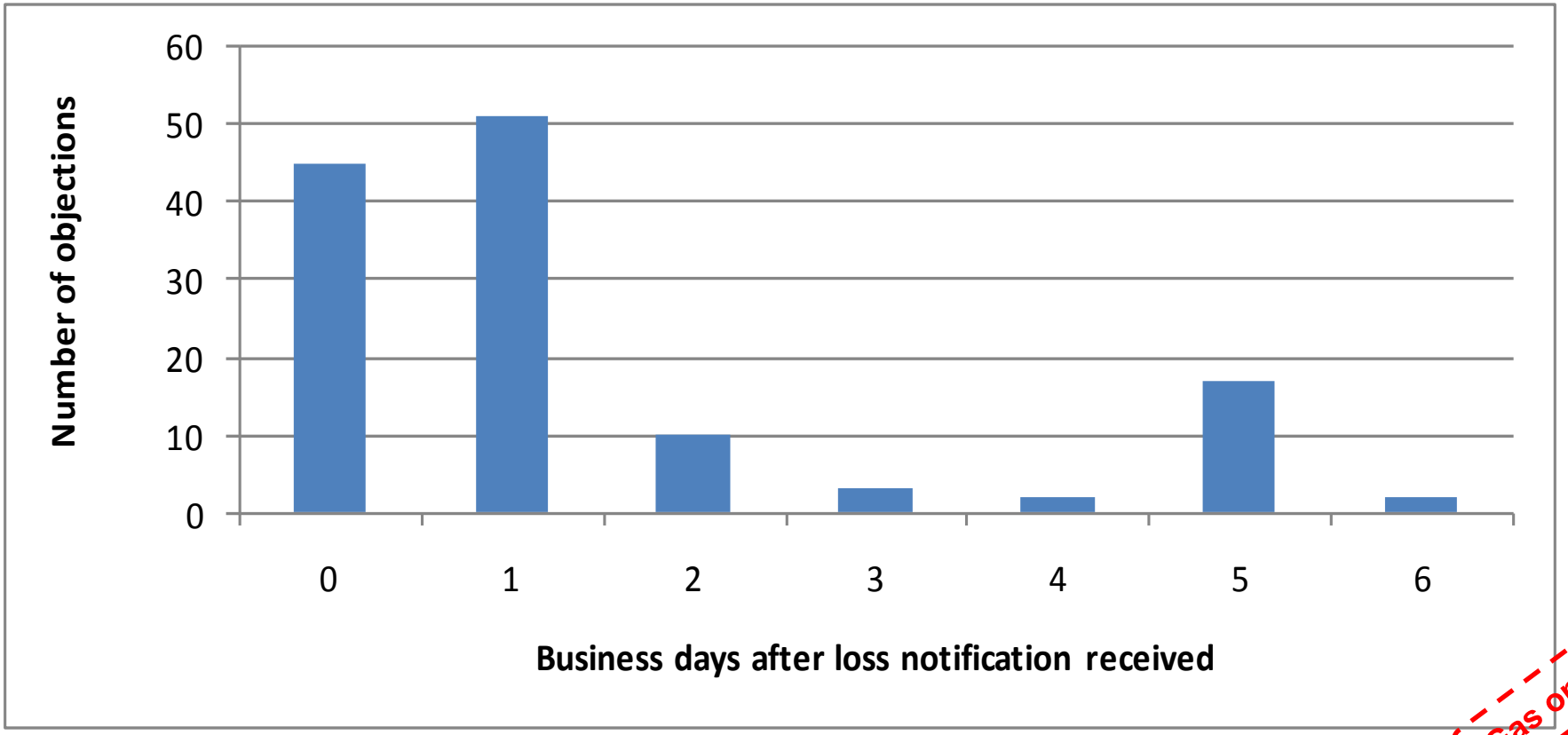
Trends (2) Objections by reason





Gas only

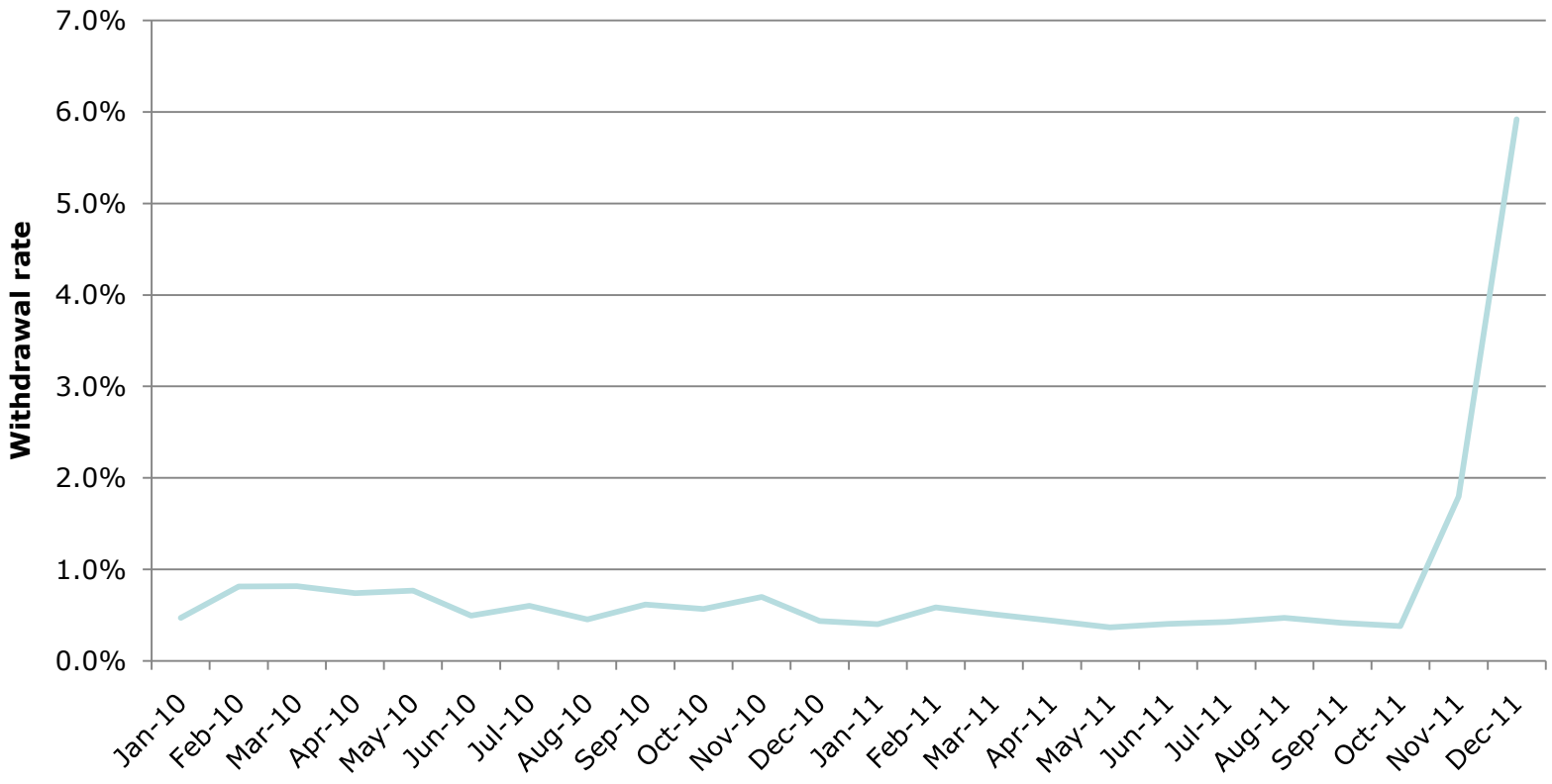
Trends (3) Time taken to raise an objections (non-domestic)



Gas only

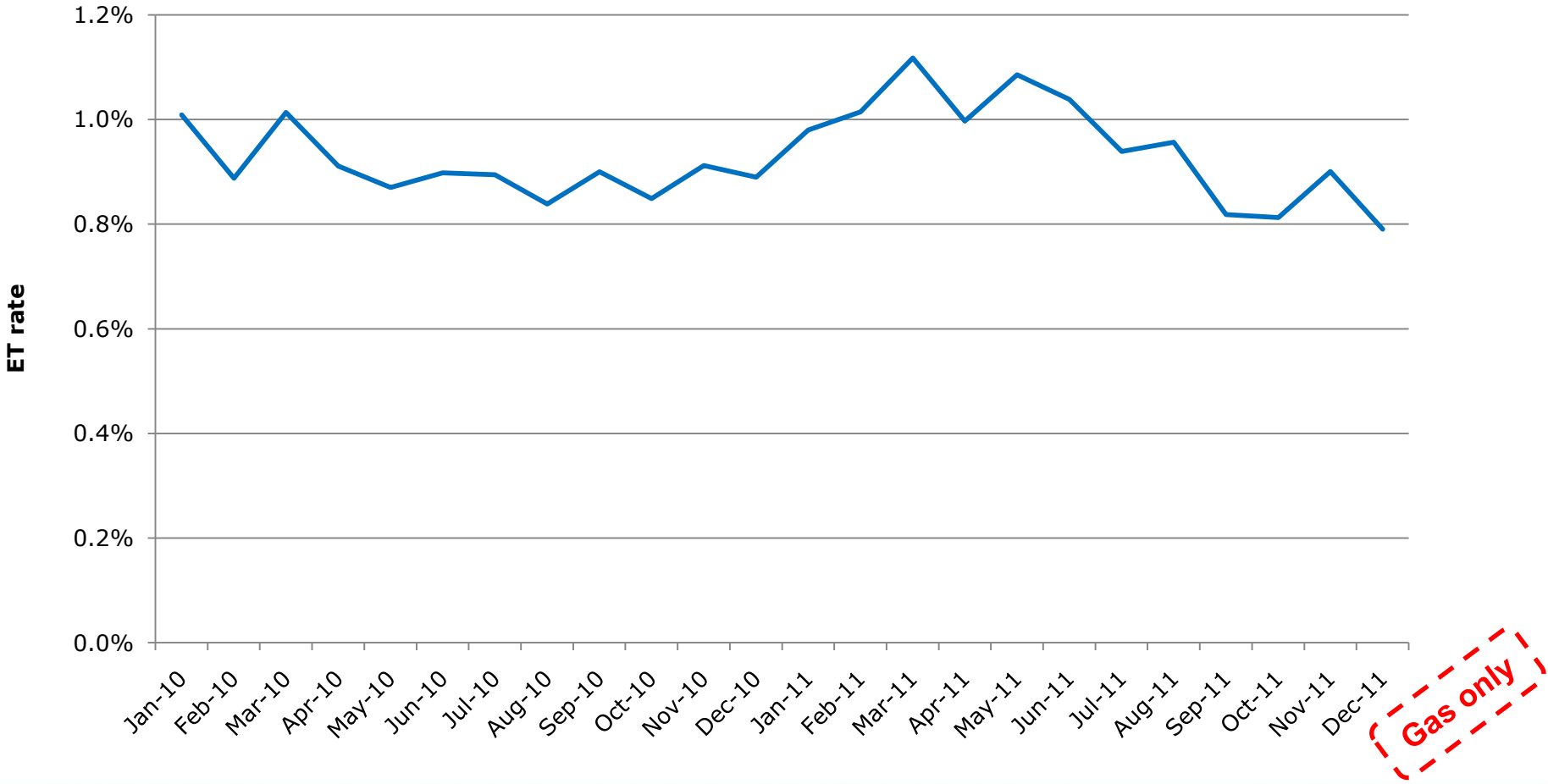
source: Ofgem's sample on 24 February 2011.

Trends (4) Objection withdrawal (domestic)

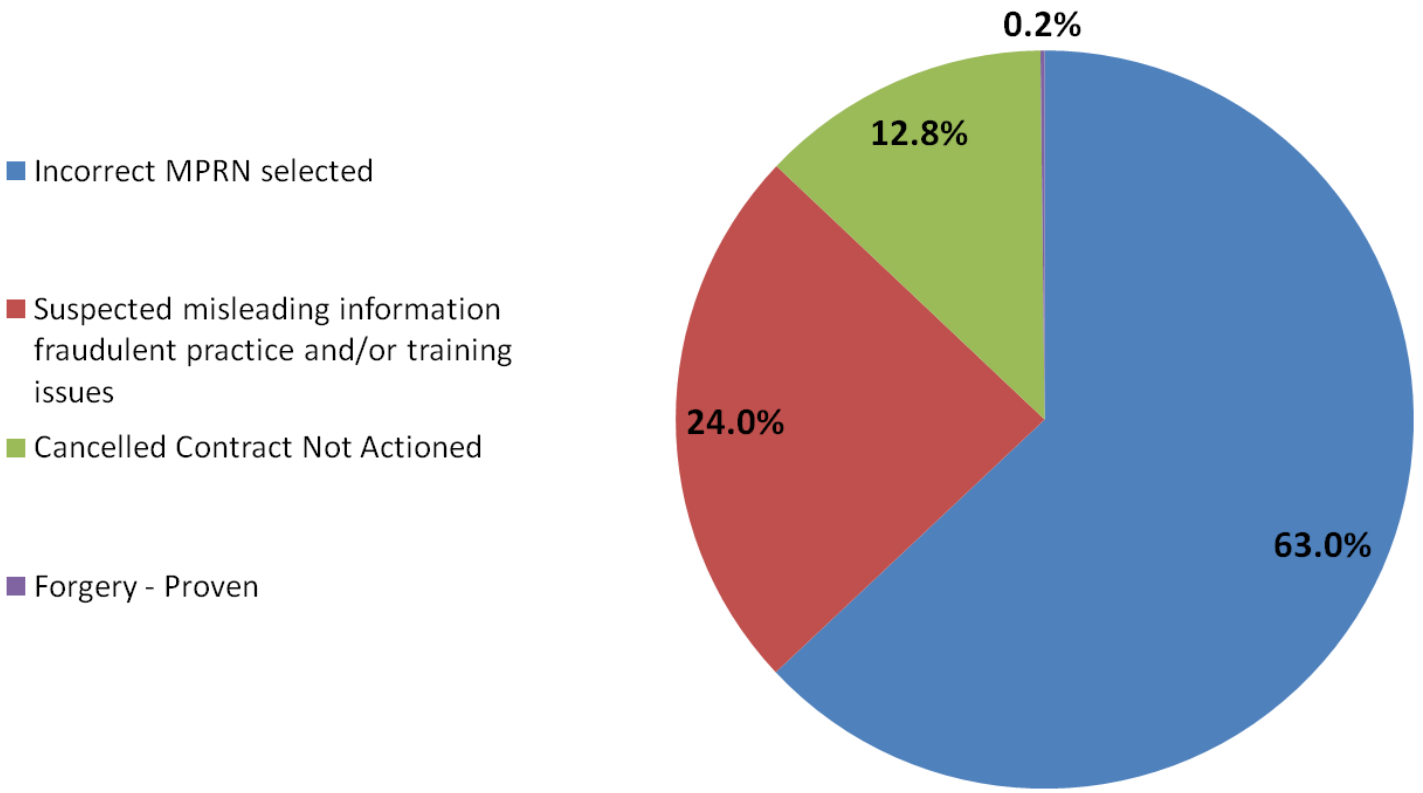


Gas only

Trends (5) Erroneous transfer rate (domestic)

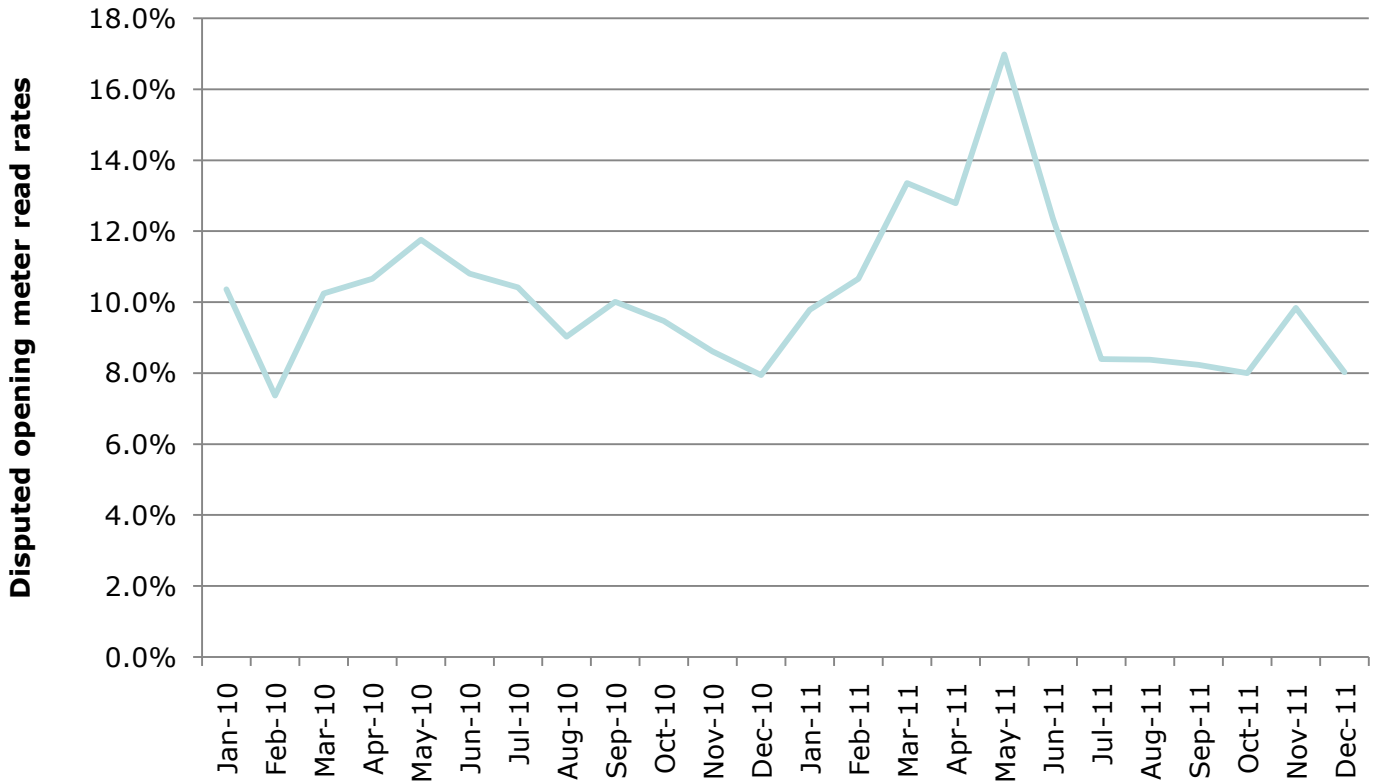


Trends (6) Erroneous transfers by reason (domestic)



Gas only

Trends (7) Disputed meter read rates (domestic)



Gas only

How do other countries and GB sectors compare?

Many **international energy markets** facilitate a quick customer switching processes:

- It takes an average of 6 working days to transfer gas supplier in New Zealand. There is no objection process.
- Victoria, Australia has next day electricity transfers and 5 working day gas transfers. There is no objection process.
- Ireland has an 8 working day transfer process for electricity customers and next day switching in the gas market.

GB customers experience faster switching in **other market sectors.** For example:

- In banking, the switching process for current accounts has been reduced from 28 days to 7 working days.
- Ofcom obliges mobile operators to provide the Porting Authorisation Code (PAC) within a maximum of 2 hours
- Switching mobile providers can happen within day in some international markets

Current customer engagement

- **63** per cent of gas and **65** per cent of electricity consumers say that have **never** switched supplier
- **1 in 5** of those who have never switched say it is because switching is a **hassle**
- Previous commissioned research suggests:
  - For many, the switching process is unclear.
  - Confusion around the length of time involved.
  - Problems = disincentive to switch?
  - Would need strong reassurance to go through process again.

Latest Consumer First Panel

- Initial topline messages:
  - Concern around navigating a complex market that few trust to deliver savings
  - Range of views on how quick a transfer should be
  - Suppliers should better use available technology to reduce the length of the transfer
  - Positive about the opportunity smart meters could provide to improve the process

Potential benefits - individuals

		Direct Debit	Standard Credit (inc Prompt pay discount)	Standard Credit (without Prompt pay)	Prepayment
		Maximum savings within payment method (£/yr)			
Annual saving (current rules)	Electricity	£28.10	£30.61	£34.28	£31.44
	Gas	£16.67	£14.07	£17.87	£23.44
	Dual fuel	£13.11	£9.94	£23.31	£19.24
		Instant saving (5 weeks to just the cooling off period)			
Further saving from 2 week switch	Electricity	£1.62	£1.76	£1.97	£1.81
	Gas	£0.96	£0.81	£1.03	£1.35
	Dual fuel	£0.75	£0.57	£1.34	£1.11
		Instant saving (5 weeks to overnight switching period)			
Further saving from next day switch	Electricity	£2.62	£2.85	£3.19	£2.93
	Gas	£1.55	£1.31	£1.66	£2.18
	Dual fuel	£1.22	£0.93	£2.17	£1.79

Source: Ofgem monitoring, April 2013

DECC IA

- 2010 information request – costs and benefits from smart metering system and DCC
- Benefits - reducing the complexity/cost associated with the various data flows and interactions with registration agents when a customer changes supplier.
- Model – registration added to remit of DCC 2016, DA added 2019
  - Before the establishment of the DCC - £0.8 per meter per year
  - Initial scope DCC only – additional £0.78 per meter per year
  - Initial scope **plus registration** – additional £1.42 per meter per year
  - Initial scope **plus registration plus data aggregation functions** -additional £2.31 per meter per year
- The latest IA states that in total present value terms, switching savings would generate **£1,594m** in gross benefits.

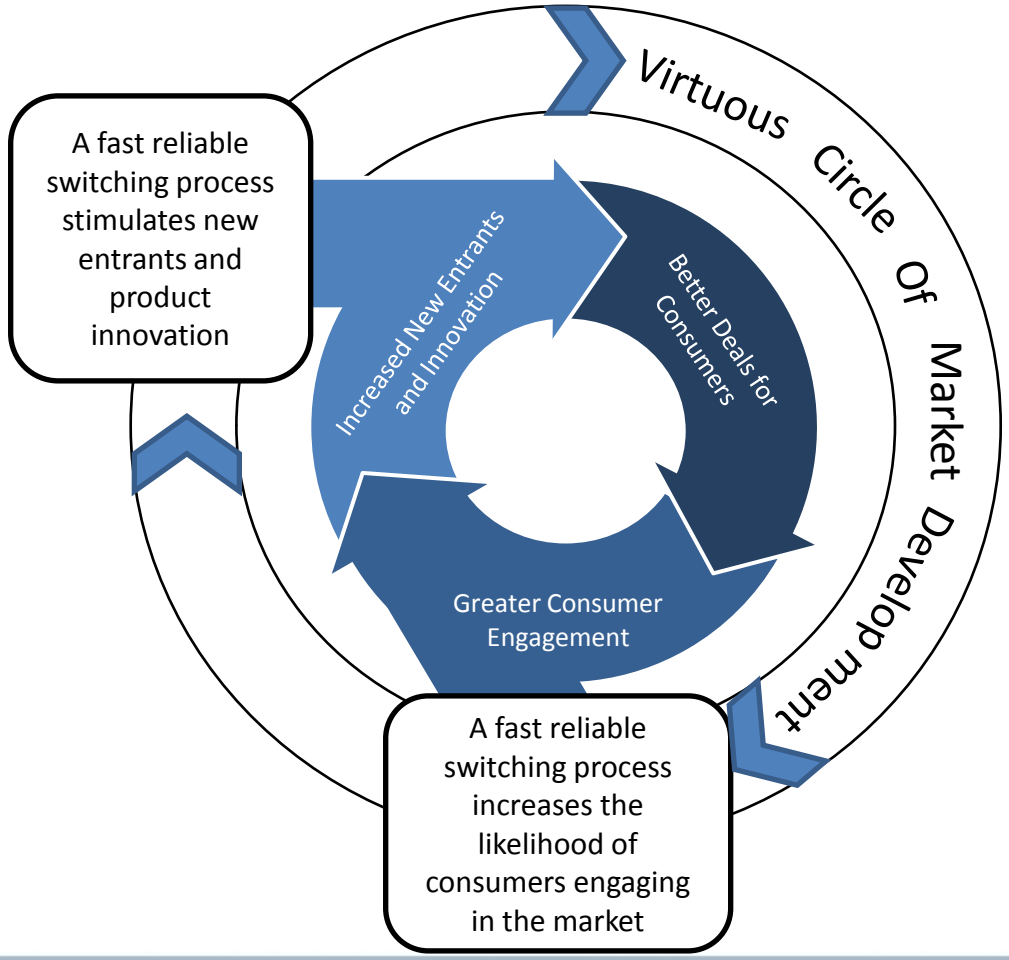
Potential benefits - industry

Initial discussions suggest that the biggest benefits will be:

- Reduced resource required for dealing with ETs (~£10m)
- Dual fuel efficiencies

- To be explored further in this group

Competition



Supporting research

What does Behavioural Economics mean for Competition Policy?
OFT, March 2010

What can behavioural economics say about GB energy consumers?
Ofgem, March 2011

Our approach – assessing costs and benefits

Range of direct and indirect potential benefits demonstrate case for reform

- Options analysis
  - initial views of costs and benefits (sources and data where available)
- Impact assessment
  - Evidence gathering
  - Potential info request

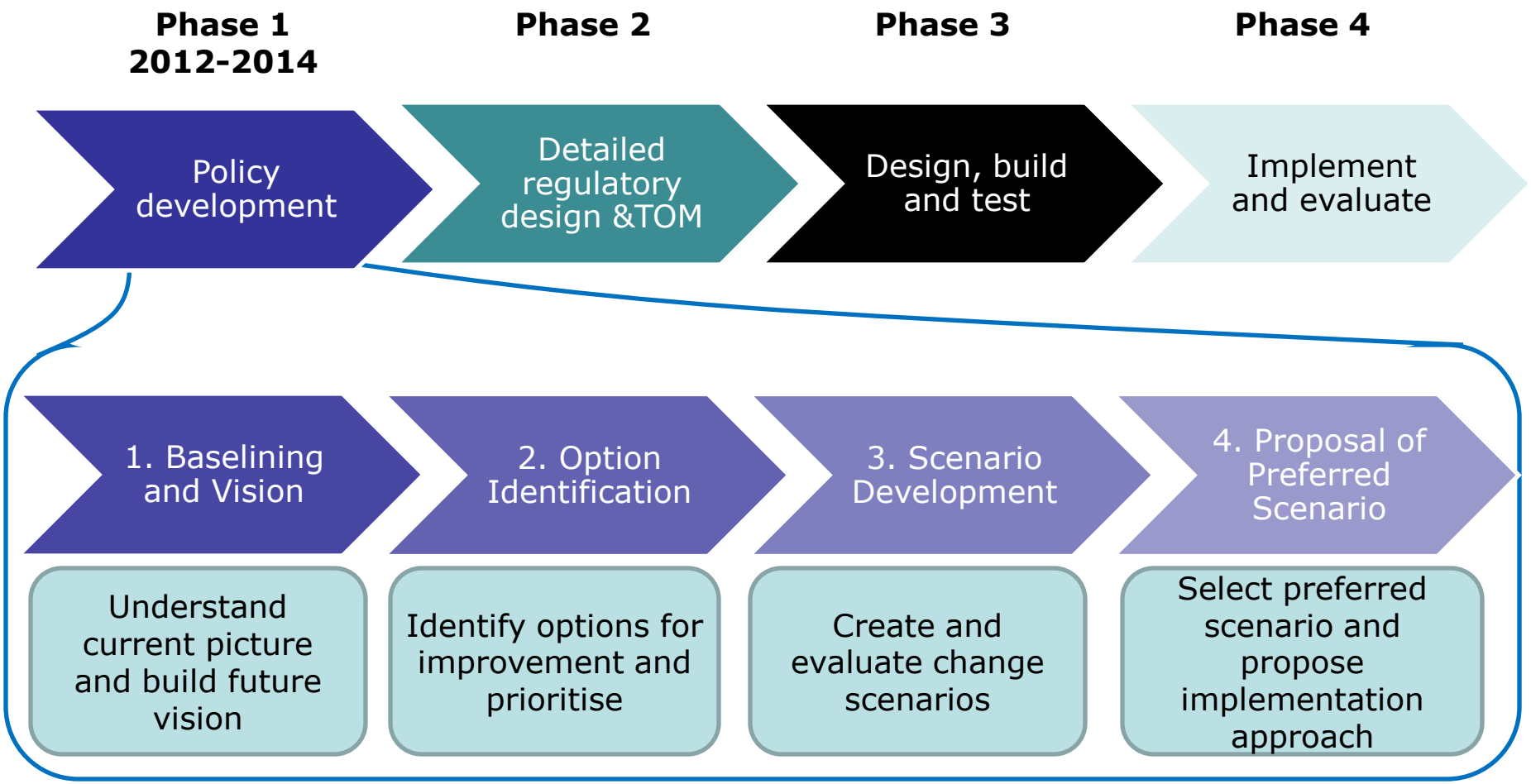
Kevin Werry & James Wilde - Laurasia

GUEST SPEAKER

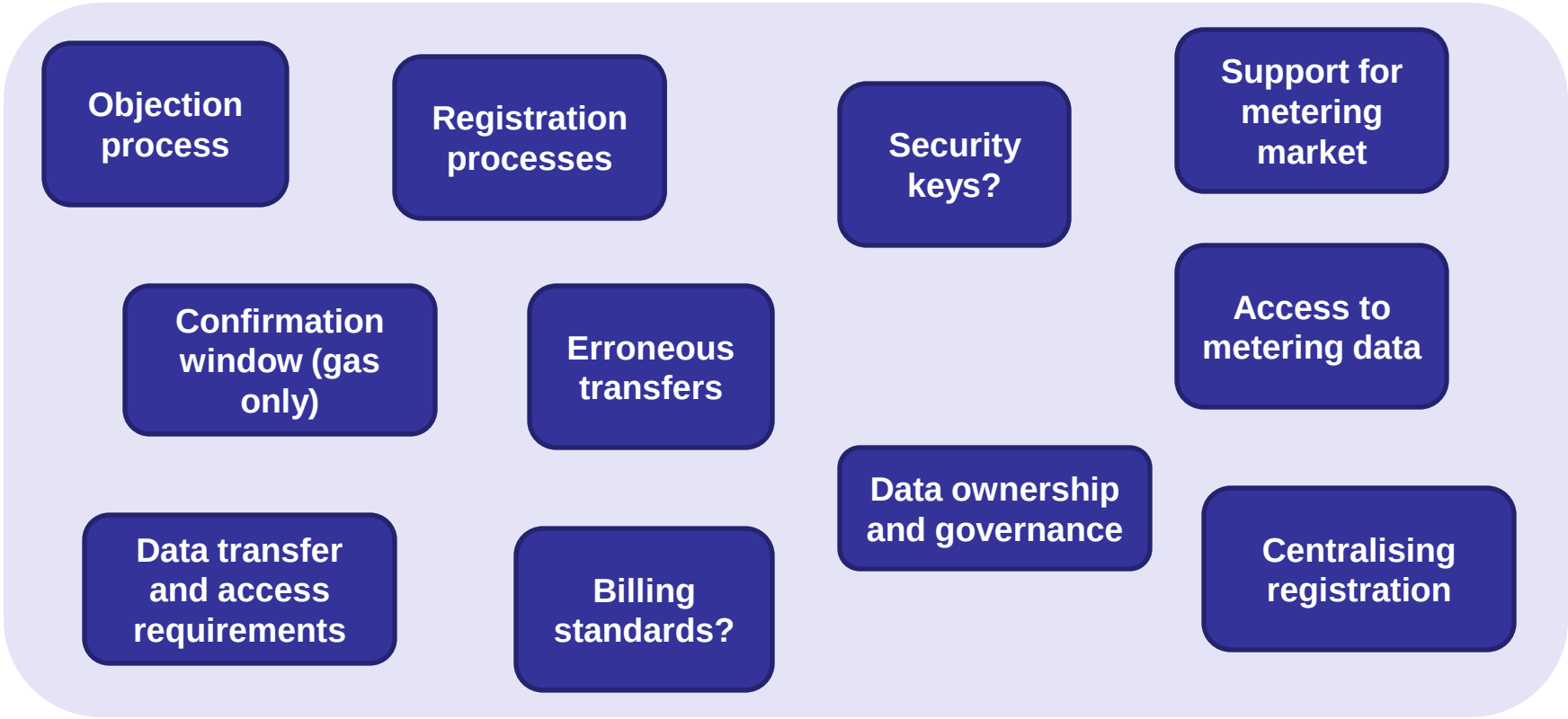
Rowaa Mahmoud

WORK PLAN

Change of supplier timetable



Areas in scope



…any others?

COSEG WORK PLAN

Purpose	20/5	10/6	01/07	22/07	28/08	09/09	01/10
Initial discussion on options	Objection process Confirmation window (gas only)	Erroneous transfers Data transfer and access requirements	Centralising registration services Registration processes (inc cooling off period and gas nomination	Data ownership and governance Access to metering data and support for metering market	Security keys? Billing standards?	Outstanding issues Review of end-to-end process	
Further discussion on options and evaluation		Objection process Confirmation window (gas only)	Erroneous transfers Data transfer and access requirements	Centralising registration services Registration processes (inc cooling off period and gas nomination	Data ownership and governance Access to metering data and support for metering market	Security keys? Billing standards?	Outstanding issues Review of end-to-end process

Andrew Wallace

EVALUATION CRITERIA

Evaluation criteria

Impact on consumers

Speed	The transfer process should be as quick as possible consistent with protecting and empowering consumers – currently and in the future.
Ease	Once a customer has chosen a new supplier, the process should be transparent and achieved with the minimum of effort for the consumer and for all parties who have an interest in the switch.
Accuracy	All switches should occur on time and reflect the stated choices of the consumer. Supporting information to facilitate a smooth switch should be conveyed accurately and in a timely manner.
Coverage	There should be no systematic differences in consumers' access to a quick, easy and accurate switching process.
Consumer expectations	The transfer process should meet consumers' expectations in terms of speed, ease, accuracy and coverage.

Evaluation criteria

Impact on market participants

Design – flexibility	The end-to-end solution should be capable of adapting to changes in the regulatory framework. It should also be capable of accommodating the needs of new business models affecting how consumers engage with retail energy markets, e.g. through Third-Party Intermediaries.
Design - robustness	The end-to-end solution should be technologically robust and capable of ongoing maintenance without significant regulatory input – including in respect of protecting the privacy and security of personal data.
Integration	The design should integrate efficiently with other related systems – current and future – such that potential synergies in cost/performance are captured.

Evaluation criteria

Costs and risks

Solution cost/benefit	The design should promote the delivery of the required functionality in a manner that maximises the net benefits for consumers.
Implementation	The plan for delivery should be robust, and provide a high degree of confidence – with clear and appropriate allocation of roles and responsibilities, and effective governance.

Nigel Nash

OBJECTIONS

Objections

Introduction

- Our aim is to reduce the impact of objections on the length of time it takes to transfer and the uncertainly this causes for customers
- 7% of domestic and 25% of non-domestic gas transfers blocked, 14% of electricity transfers blocked
- Permission to object and customer information requirements set out in supply licence
- Practical operation and timings set out in industry codes

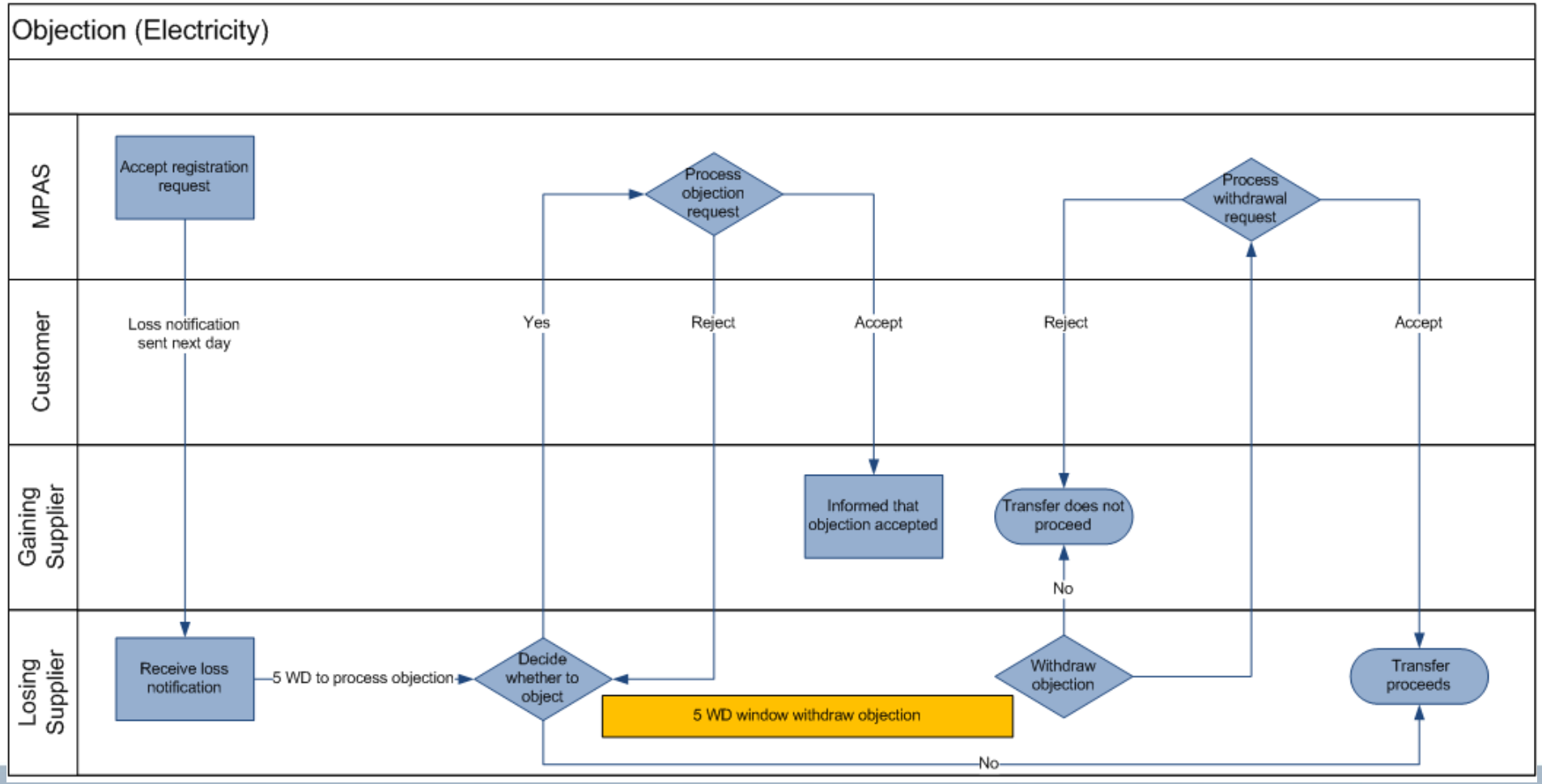
Objections

Supply SLC 14 – permission to object

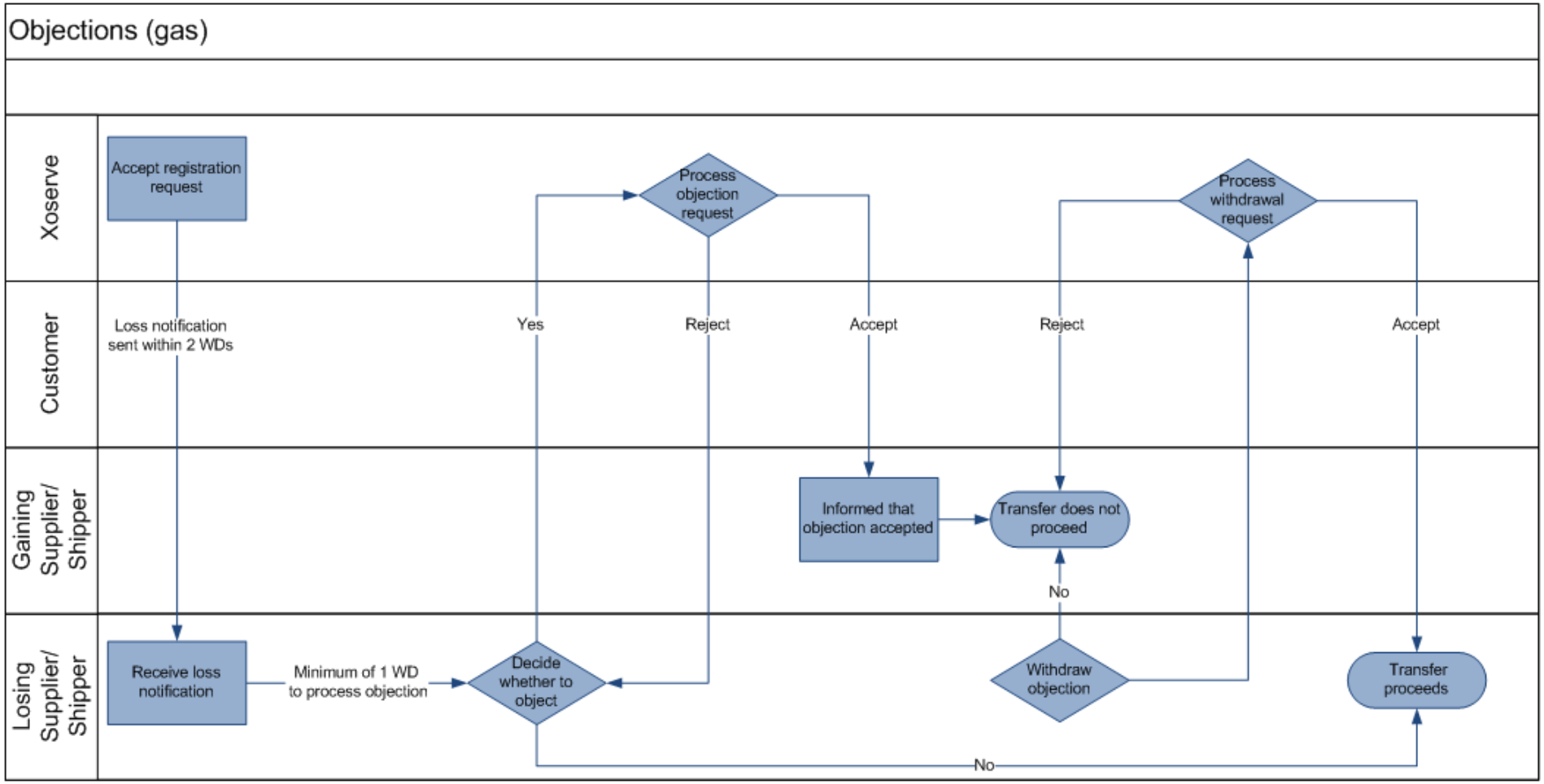
	Gas	Electricity
Domestic	•Debt •CRO •Co-operative	•Debt •CRO •Co-operative •Related MPAN
Non-Domestic	•Contract •Co-operative •Legacy	•Contract •Co-operative

Customer must be notified of the objection, the reason for it and how to resolve it.

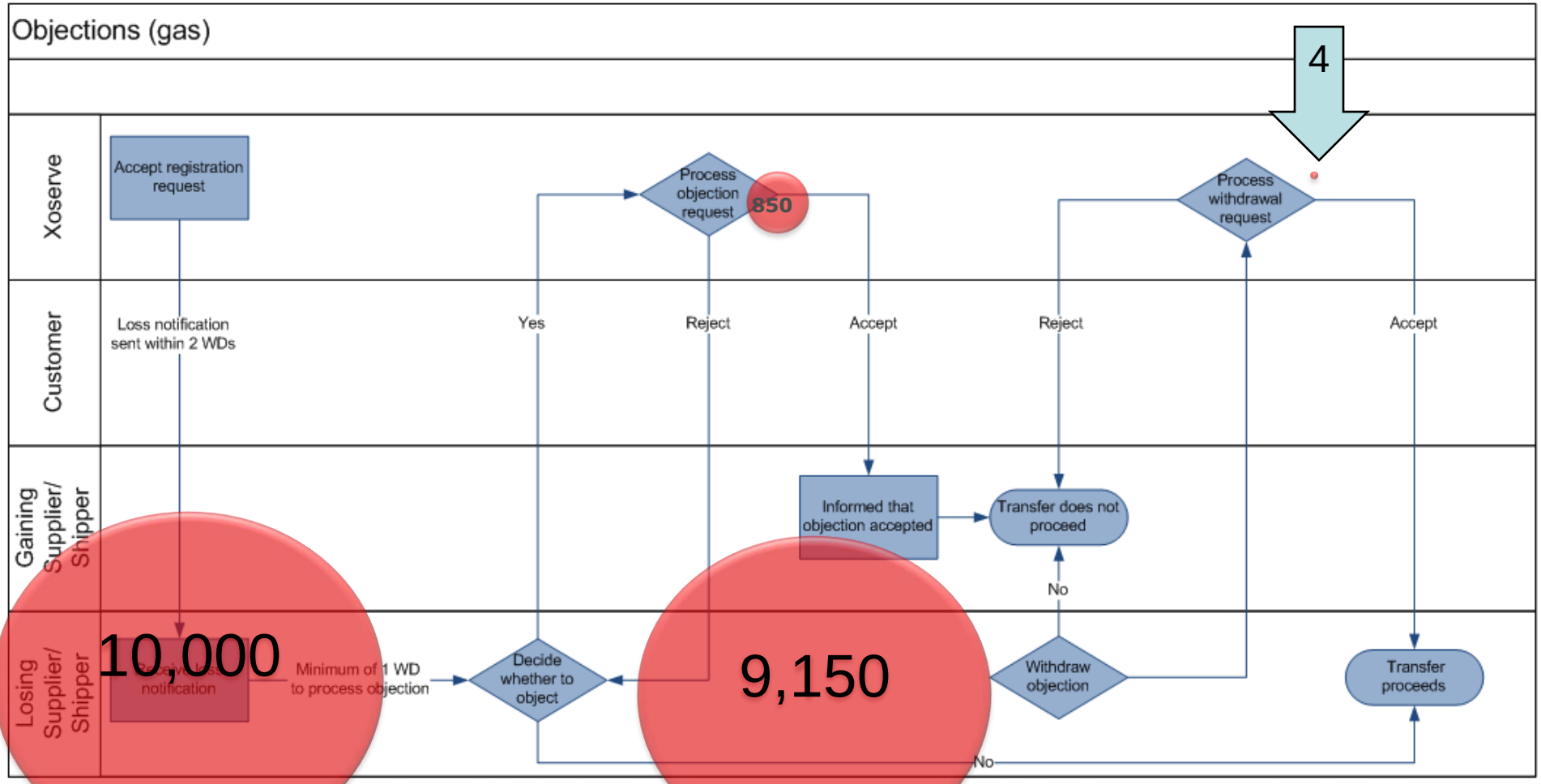
Current process - electricity



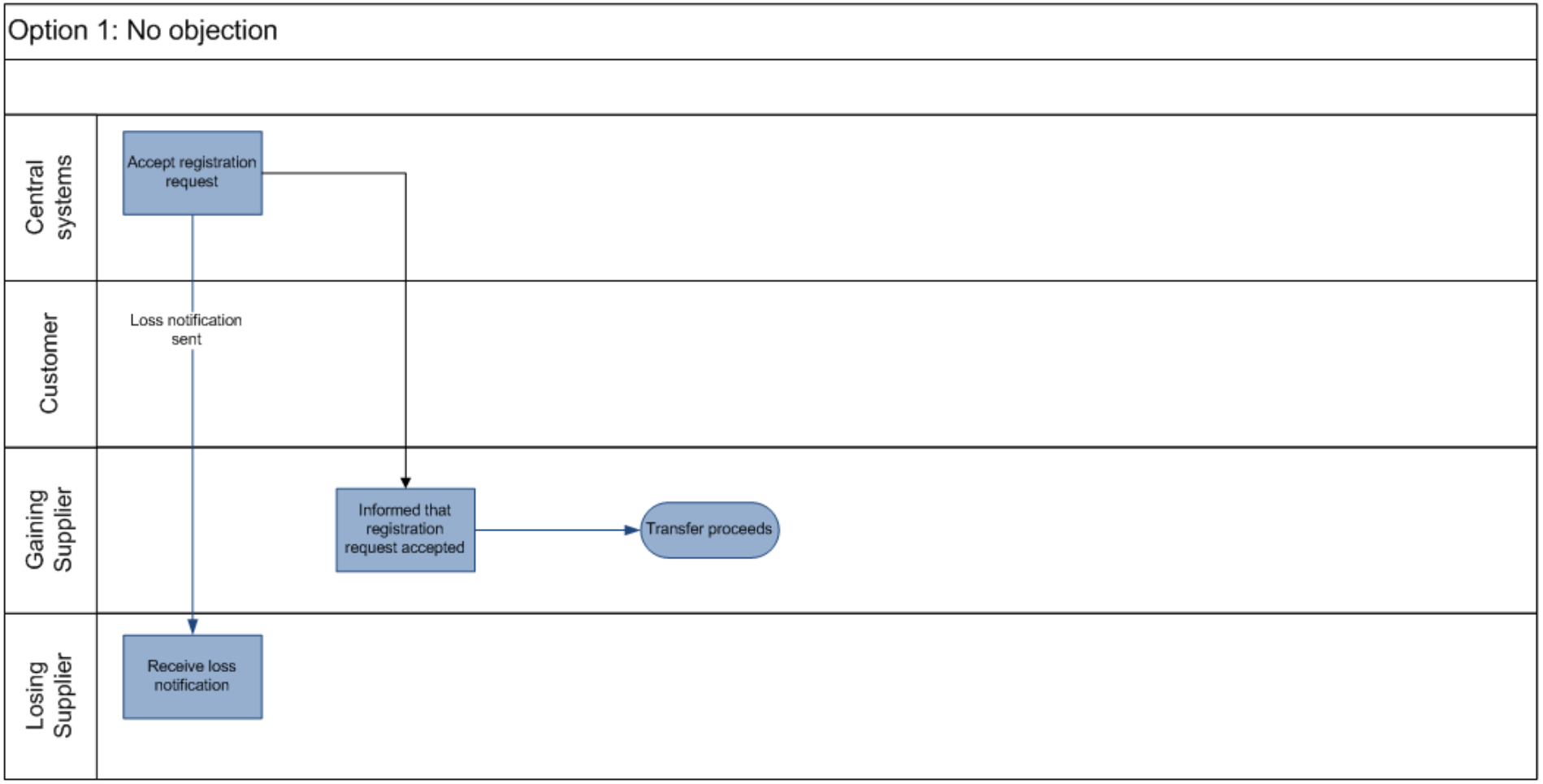
Current process - gas



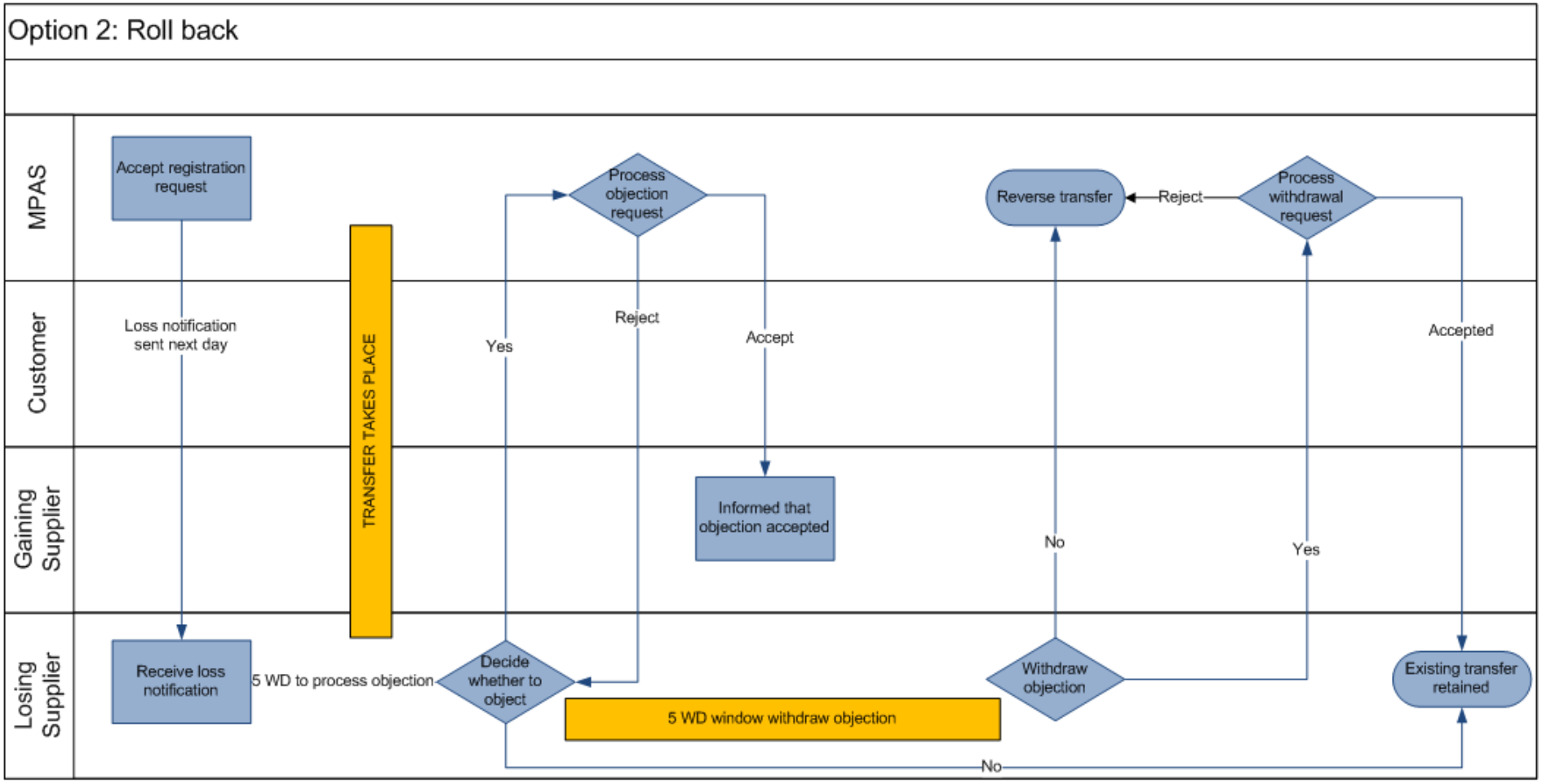
Current process - gas



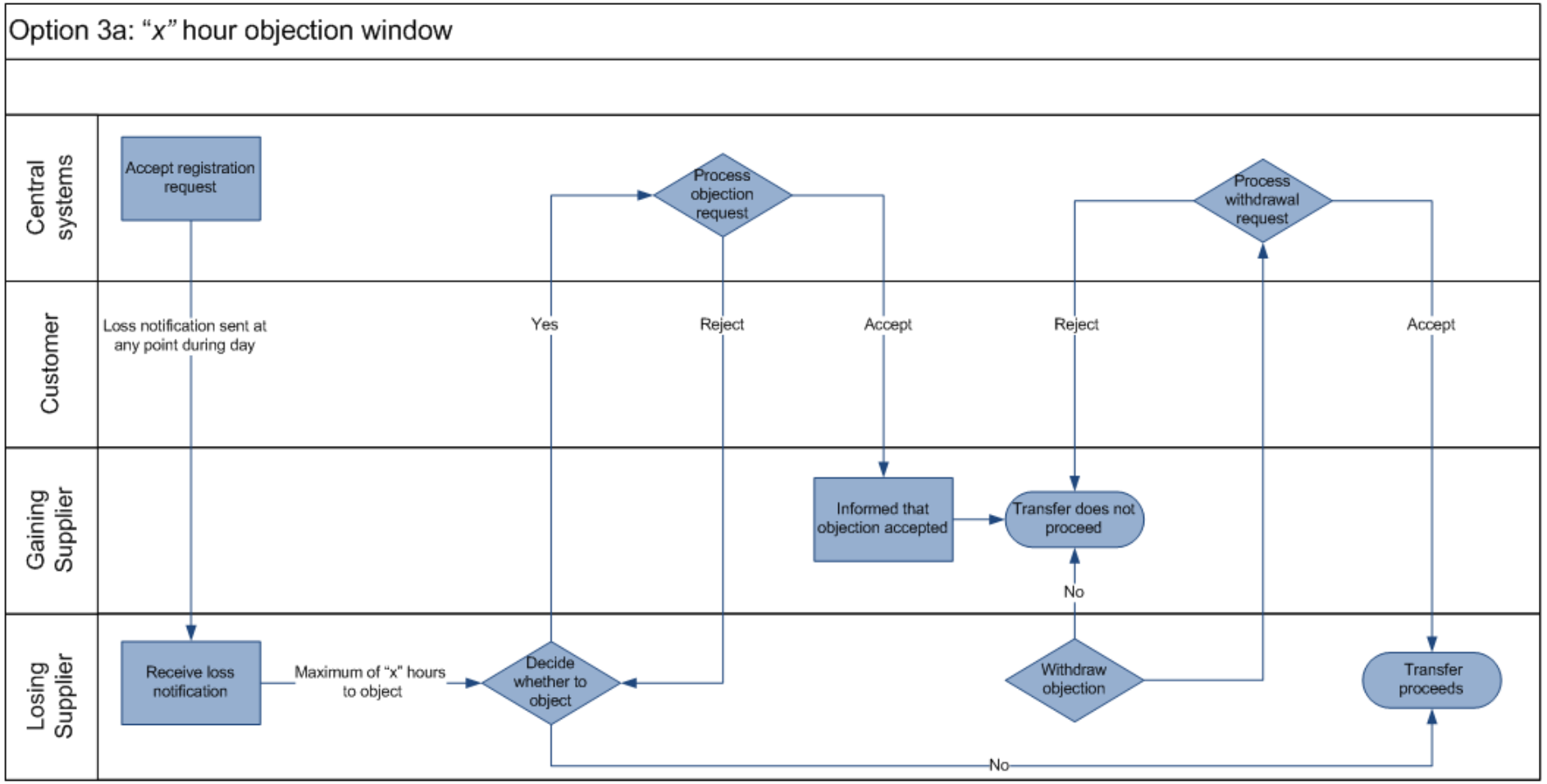
Option 1: No objection process



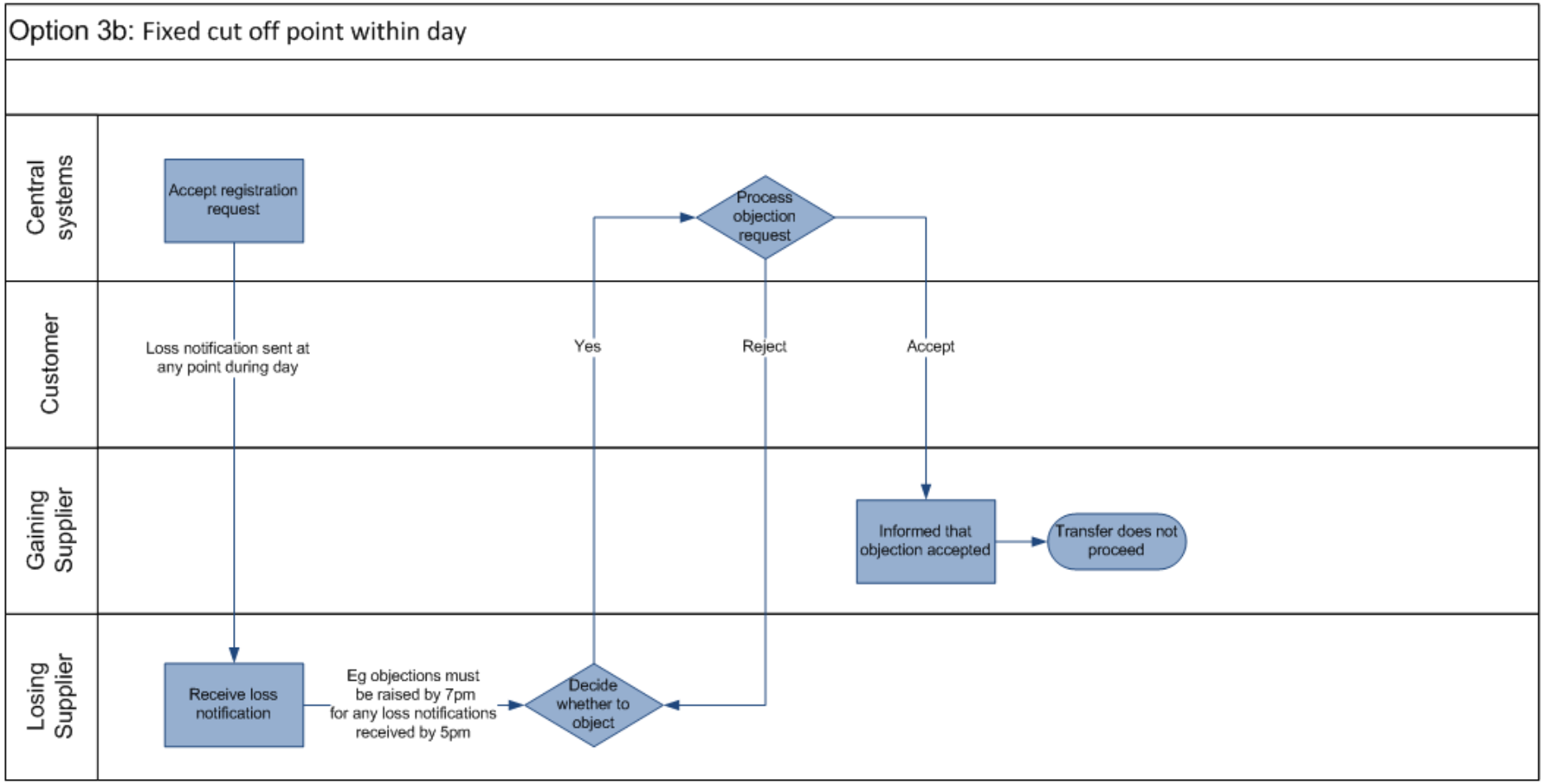
Option 2: Roll-backs



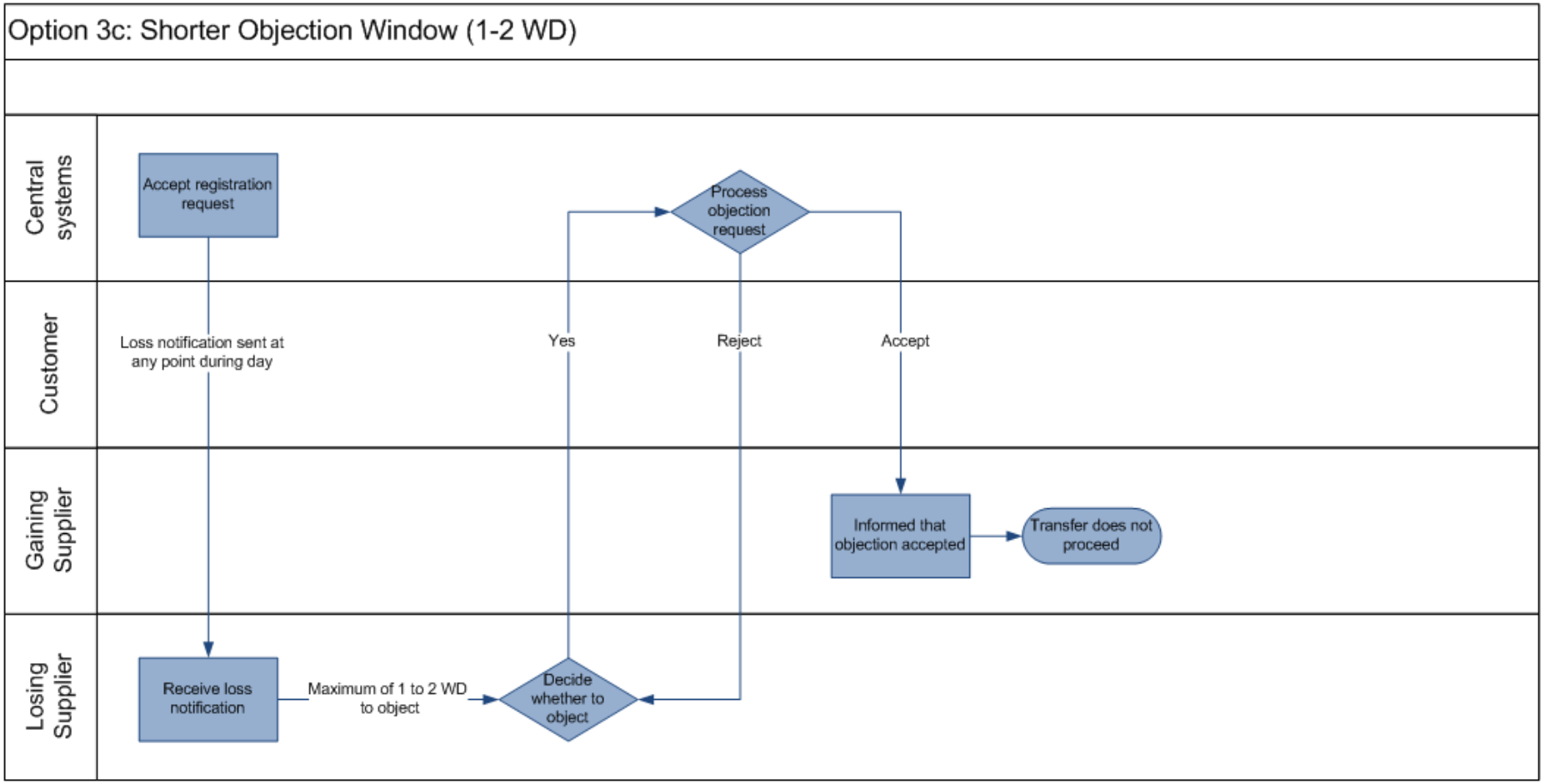
Option 3a: Shorter objection window – "x" hour objection window



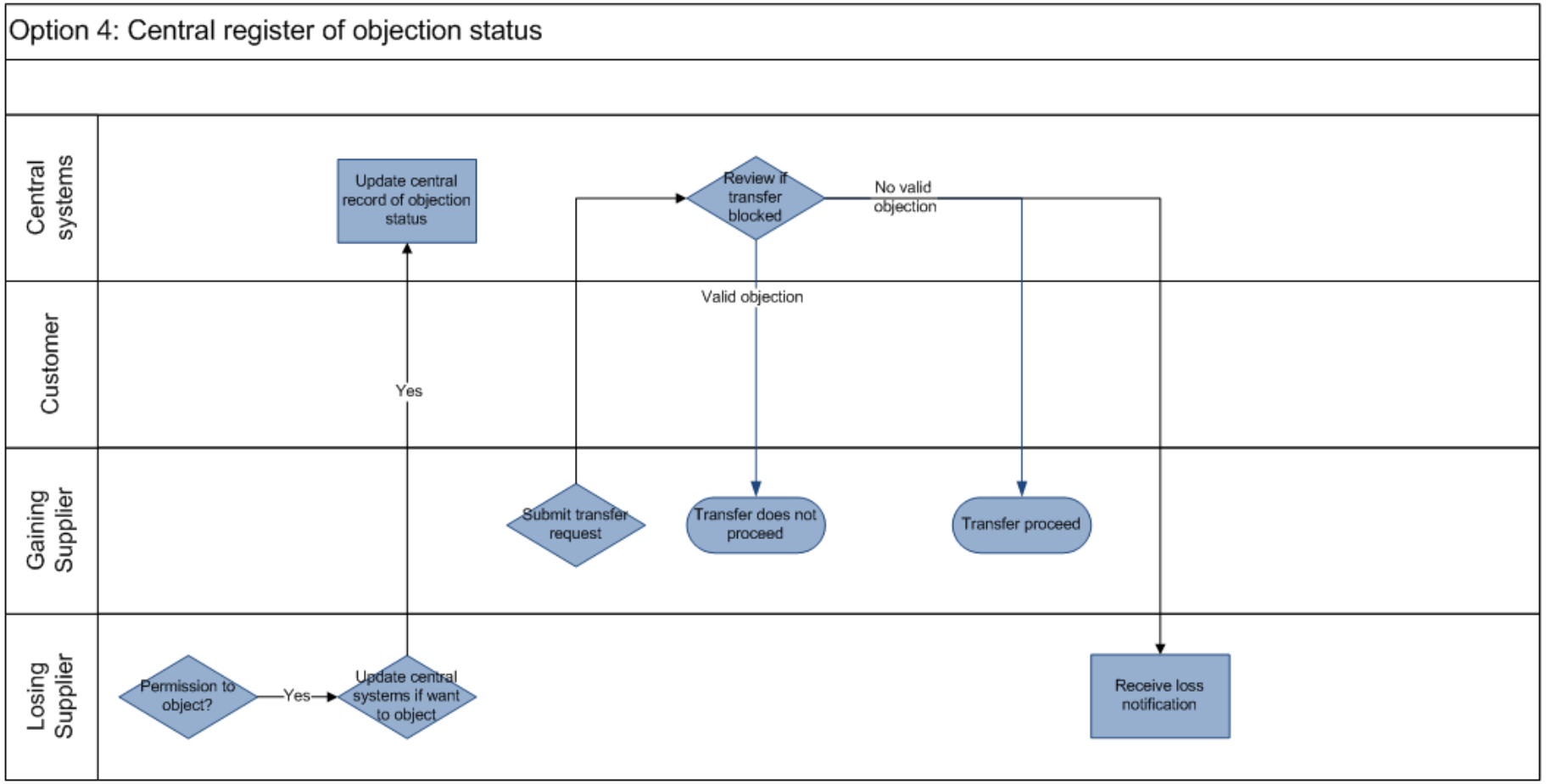
Option 3b: Shorter objection window - fixed cut-off within day



Option 3c: Shorter objection window – one/two days



Option 4: Central register of objections



ofgem Promoting choice and value for all gas and electricity customers

Objections

Criteria	Option1 – remove	Option 2 - Roll back	Option 3a - x hour	Option 3b - within day fixed cut-off	Option 3c - 1 or 2 day window	Option 4 - Central register
Speed	Transfer quicker	No impact for elec but could speed up gas	Transfer quicker	Transfer quicker	Transfer quicker	Transfer quicker
Ease	More certainty on transfer	Confusion to consumers	Minimum effort for consumers	Minimum effort for consumers	Minimum effort for consumers	Minimum effort for consumers
Accuracy	More ETs	ETs could be prevented	ET could be flagged but limited opportunity	ET could be flagged but limited opportunity	ET could be flagged	Might not catch ETs
Coverage	Applicable to all customers	Applicable to all customers	Applicable to all customers	Applicable to all customers	Applicable to all customers	Applicable to all customers
Consumer expectations	Faster transfers	Effort and confusion to consumers	Faster transfers	Faster transfers	Faster transfers	Faster transfers
Design - flexibility	No longer need to consider this part of CoS process	Complex design	tbc	tbc	Similar to gas	tbc
Integration	No impact on other systems	Complex design	tbc	tbc	No impact	tbc
Design – robustness	No regulatory input required	Complexity makes it potentially difficult to regulate	Require Ofgem to monitor and enforce	Require Ofgem to monitor and enforce	Require Ofgem to monitor and enforce	Transparency on objection status improve ability to monitor and challenge
Solution cost/benefit	tbc	tbc	tbc	tbc	tbc	tbc
Implementation	tbc	tbc	tbc	tbc	tbc	tbc

Objections

Questions

- Are there any further options that should be considered?
- Are there differences in approach required between
  - Smart and traditional meters?
  - Domestic and non-domestic?
  - Electricity and gas?
- Retain objection resolution period?
- Any links and dependencies that we should be aware of?

Further evaluation of options identified at next meeting

Andrew Wallace

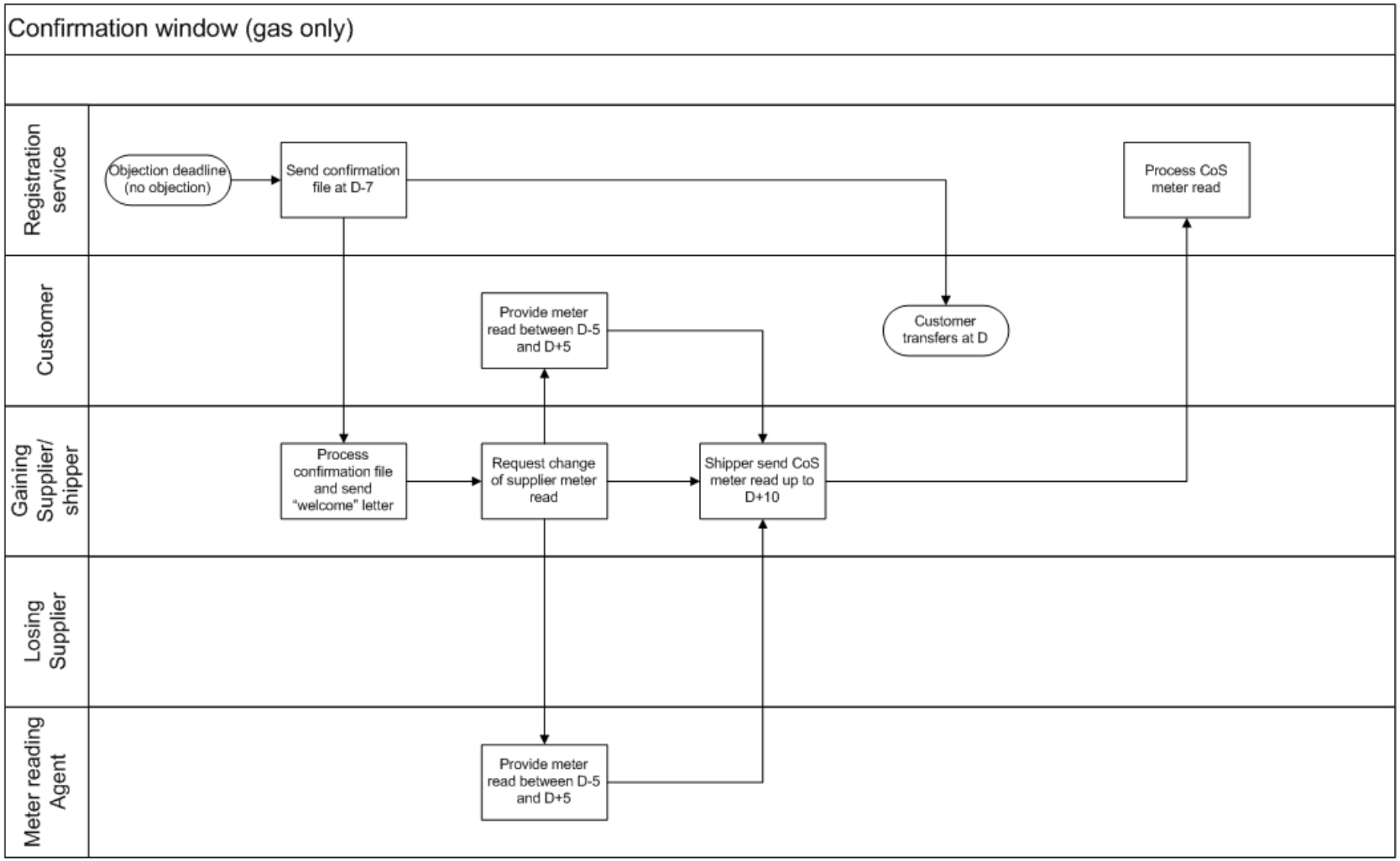
CONFIRMATION WINDOW - GAS ONLY

Confirmation window (gas only)

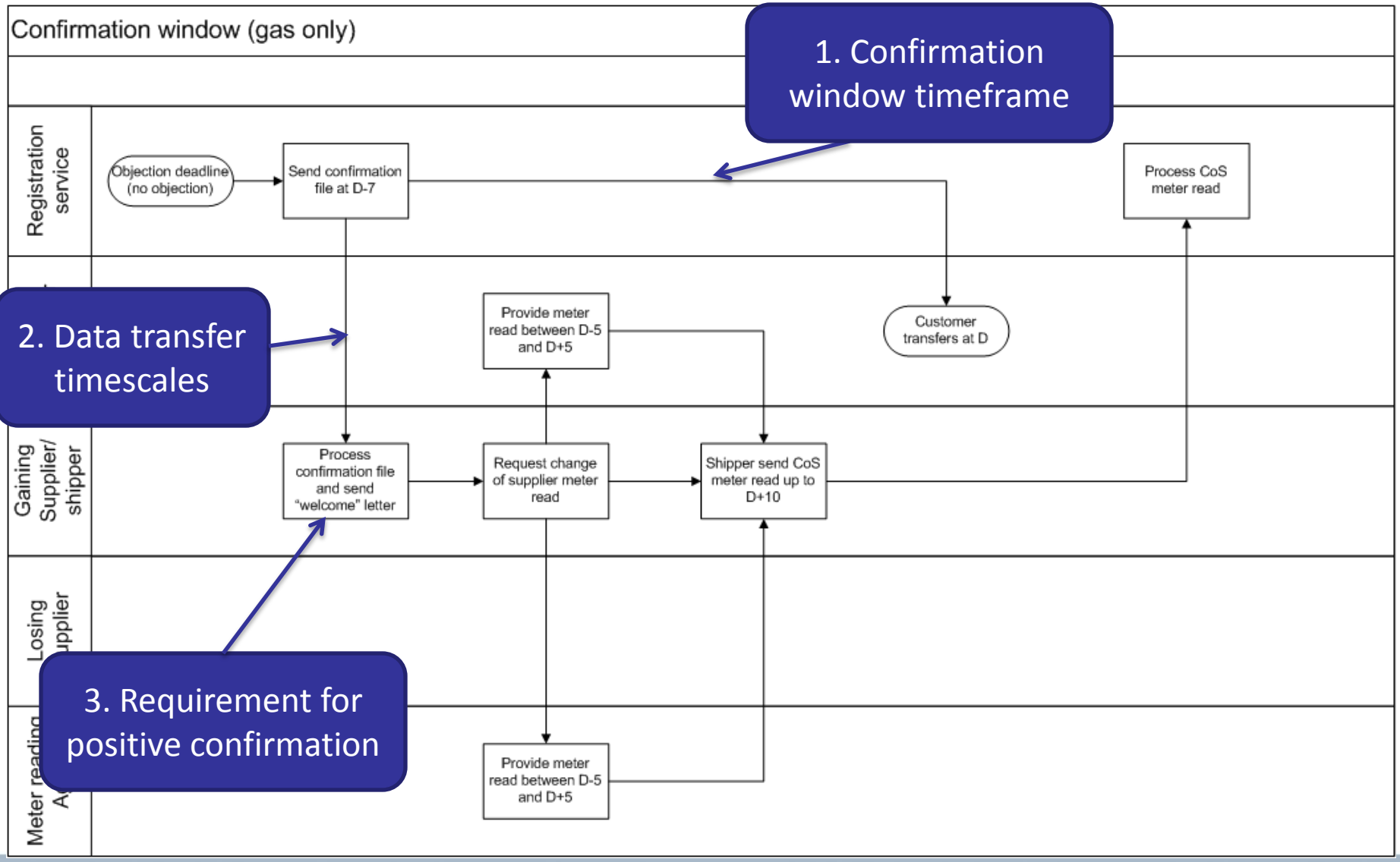
- Our high level aim is to promote faster switching and alignment with electricity by removing or reducing the 7 WD timeframe between the objection window closing and the customer transfer date

- Draft supporting paper from Xoserve circulated

Confirmation window

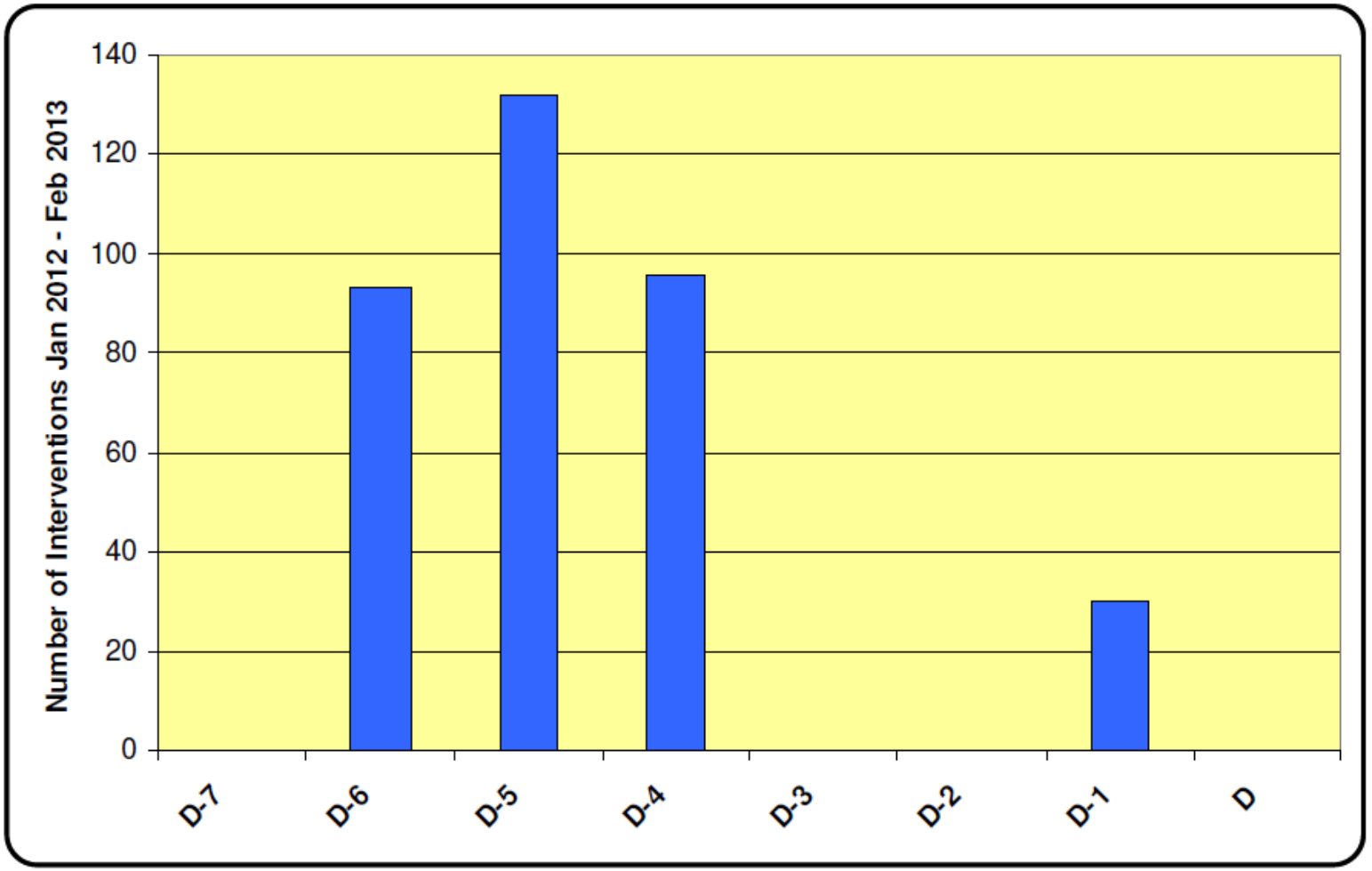


Confirmation window



Confirmation window

Xoserve interventions on demand attribution



Confirmation window timeframe

- **Option 1. Reduce confirmation window**
- **Option 2. Remove confirmation window**
    - Xoserve confirmed that a move to from D-7 to D-3 expected to limited material impact on demand attribution
    - Conducting analysis on impact of further reductions
    - Impacts on obtaining CoS read for traditional meters (managed by gaining supplier?)
- Data access and processing to be covered at a future meeting

Confirmation window

Criteria	Option1 – reduce confirmation window	Option 2 – remove confirmation window
Speed	Transfer quicker	Transfer quicker (better met than option 1)
Ease	No impact	No impact
Accuracy	No impact (CoS read for customers with traditional meters)	No impact (CoS read for customers with traditional meters)
Coverage	Applicable to all customers	Applicable to all customers
Consumer expectations	Faster transfers	Faster transfers
Design - flexibility	No impact on current position – potential to restrict future business models and alignment with electricity	No longer need to consider this part of CoS process
Integration	tbc	No longer need to consider this part of CoS process
Design – robustness	No regulatory input required	Complexity makes it potentially difficult to regulate
Solution cost/benefit	tbc – Xoserve provided initial cost of £500k on reducing confirmation window from D-7 to D-5 for UNC 396.	tbc – what is the impact on the quality of demand attribution?
Implementation	tbc	tbc

Objections

Questions

- Are there any further options that should be considered?
- Are there differences in approach required between
  - Smart and traditional meters?
  - Domestic and non-domestic?
  - Electricity and gas?
- In addition to demand attribution and meter reading for traditional meters, are there any further links and dependencies that we should be aware of?

Further evaluation of options identified at next meeting

WRAP UP

Wrap up

- Review of membership
- Review of work plan
- Date of next meeting
- AOB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