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| Modification proposal: | Uniform Network Code (UNC) 477: Supply Point registration – facilitation of faster switching | | |
| Decision: | The Authority ¹ directs that UNC477 be made ² | | |
| Target audience: | The Joint Office, Parties to the UNC and other interested parties | | |
| Date of publication: | 30 April 2014 | Implementation date: | 7 November 2014 |

Background to the modification proposal

Consumer switching is an important driver for a competitive energy supply market. By switching supplier, consumers can both individually realise cost savings and exert competitive pressure on the market. This competitive pressure can keep prices lower than they would otherwise be, improve customer service standards and drive innovation.

However, many consumers find the transfer process to be a source of frustration and confusion. Around 80% of gas transfers currently take longer than five weeks, with many transfers being abandoned or failing to complete. Improving the change of supplier process is a key part of Ofgem's smarter markets strategy.

In 2013, Ofgem established the Change of Supplier Expert Group (COSEG)³ to inform our work to deliver a fast, reliable and cost-effective transfer process. One of COSEG's recommendations was to reduce the period between the objection window⁴ closing and the effective transfer date. This period, generally referred to as the confirmation window currently adds a minimum of seven further working days to the transfer process.

The modification proposal

Responding to the recent challenge for the energy industry to speed up the switching process, Energy UK⁵ has, on behalf of its members, committed to halve the switching period by the winter of 2014. This would ensure that a consumer transfer is completed within three working days after the two week cooling off period⁶.

In order to meet this commitment, several proposals have been put forward to streamline the transfer procedures set out in both gas and electricity industry codes. One of these is UNC477, which proposes to reduce the confirmation window from seven to two working days. The triggers for transmission of files such as those containing meter technical details would also be aligned with this revised timetable.

UNC Panel⁷ recommendation

At its meeting of 17 April 2014, the UNC Panel voted unanimously to recommend the implementation of UNC477.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ The COSEG summary of findings is published at: www.ofgem.gov.uk/ofgem-publications/84903/cosegsummary.pdf

⁴ The objection window is the period in which an existing supplier is entitled to object to a consumer's request to transfer to a new supplier when permitted under the terms of its licence, such as an outstanding debt.

⁵ Energy UK is a trade association that represents the majority of UK energy suppliers: www.energy-uk.org.uk

⁶ Under the EU Directive on Consumer Rights (2011/83/EC), which comes into effect 13 June 2014, consumers will have 14 calendar days to change their mind on a purchase, including an energy contract.

⁷ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

The Authority's decision

The Authority has considered its statutory duties and functions in reaching its decision. The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 17 April 2014. The Authority has also considered and taken into account the responses to the Joint Office's consultation on the modification proposals which are attached to the FMR⁸. The Authority has concluded that:

1. Implementation of UNC477 will better facilitate the achievement of the relevant objectives of the UNC⁹; and
2. Directing that UNC477 be made is consistent with the Authority's principal objective and statutory duties¹⁰.

Reasons for Authority decision

We note that UNC477 had the support of seven of the eight respondents to the Joint Office's consultation. Each of those respondents, together with the proposer and the UNC Panel focused on the potential impacts of UNC477 upon effective competition. We agree that UNC477 should be assessed against relevant objective d) and that it would have a neutral impact upon the other relevant objectives.

Relevant Objective d) – the securing of effective competition between relevant shippers and relevant suppliers

As the recent State of the Market Assessment¹¹ identified, the unreliability and speed of the switching process is inhibiting competition and is creating barriers to entry and expansion. Last December, we set out a road map for incrementally improving the change of supplier process¹².

This modification, and others raised as part of Energy UK's work, will cut the switching time in half by the end of 2014. This should increase levels of consumer engagement and as such promote competition between shippers and suppliers, drive improvements to service standards and support innovation. Improving the switching experience will play a fundamental role in improving the operation of the retail market.

Data quality

The respondent who opposed implementation of UNC477 was concerned about the impact upon suppliers' commercial arrangements with Meter Asset Managers (MAMs). In particular they considered it may lead to inaccurate asset data being transmitted as there would be less time to identify and correct errors.

We understand that poor data quality, particularly of meter asset details, can lead to failed transfers or billing problems for the incoming shipper and supplier. We intend to explore the issue of data quality further and will work with industry parties in the coming months to remedy some of the root causes. However, we do not consider that this

⁸ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁹ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

¹⁰ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

¹¹ www.ofgem.gov.uk/ofgem-publications/86804/assessmentdocumentpublished.pdf

¹² www.ofgem.gov.uk/ofgem-publications/85203/openletteronpotentialreformstothechangeofsuppliermeterreadprocessforsmartgasmeters.pdf

should of itself justify any industry processes, such as the change of supplier process, taking any longer than necessary. We therefore welcome the changes that are being progressed through the UK Link¹³ committee to ensure that upon implementation of UNC477, Xoserve will issue shippers with a 'K14 Additional Metering Details' record within 2 days of it receiving a supply point confirmation file. This will ensure that shippers have all available meter details early in the transfer process.

Implementation costs

On 28 February 2014 we directed the implementation of UNC432¹⁴ and UNC434¹⁵, the first two modifications to emerge from Project Nexus, which will replace Xoserve's current UK Link systems. The modifications and associated system changes are scheduled to be implemented on 1 October 2015¹⁶. Whilst the changes needed to implement UNC477 can be incorporated into those new systems at no additional cost, Xoserve has indicated that the cost to introduce the changes in 2014 by updating the existing legacy systems will be around £1million.

Therefore, the UNC477 workgroup focused on assessing the benefits of implementing the modification by the end of 2014, in line with suppliers' commitment to the government. The analysis was based on the principle that a faster change of supplier process would allow those switching to take advantage of the cheaper prices and/or other offerings of their chosen supplier at an earlier stage, thereby realising greater savings.

The workgroup report suggested that by implementing the changes in 2014 and not 2015, around 2,500,000 customers would receive a benefit of £0.67 from being able to switch one week earlier to a tariff £35 per year cheaper. The workgroup report assumes that this figure should then be scaled by 0.5 to reflect an assumption that customers remain on that tariff for 6 months. The report therefore suggested direct benefits of around £837,500 per year (i.e. 2,500,000 x £0.67 x 0.5) with a further £175,000 if the shortened timescales persuaded an additional 10,000 customers to switch. However, in practice, the overall benefits of improving the change of supplier process will be far greater than this analysis considered, although they are difficult to quantify.

While recognising this is a narrow approach to considering the benefits of faster switching, we consider the workgroup's assumptions to be reasonable for the purpose of considering the impact of implementing the changes ahead of wider changes needed for Project Nexus. For instance, DECC's¹⁷ quarterly energy statistics, published March 2014¹⁸, show that 2,223,000 gas customers transferred during 2013 and that a standard credit customer who had switched was on average £55 better off than a customer who had not switched¹⁹.

However, we agree with the respondent who suggested that the benefits of UNC477 are realised in full irrespective of how long the customer spends on their new tariff. Removing the scaling factor would suggest direct benefits of UNC477 of more than £2 million per year.

As such, we consider that the consumer benefits of implementing UNC477 this year on existing UK Link systems will outweigh the central system costs identified by Xoserve. We also note that those implementation costs will be recovered via the User Pays

¹³ UK Link is the IT interface between GTs and shippers. Changes to the UK Link systems are overseen by the UK Link committee.

¹⁴ www.ofgem.gov.uk/ofgem-publications/86214/unc432d.pdf

¹⁵ www.ofgem.gov.uk/ofgem-publications/86216/unc434d.pdf

¹⁶ NGG has raised a proposal, UNC491: 'Change implementation date of Project Nexus to 1 April 2016', seeking to delay the implementation date of Project Nexus. We expect to issue our decision on UNC491 shortly.

¹⁷ The Department of Energy and Climate Change

¹⁸ www.gov.uk/government/uploads/system/uploads/attachment_data/file/296011/QEP_March_2014.pdf

¹⁹ The figures for Direct Debit and Pre-Payment Meter customers were £75 and £46 respectively.

charges directly from gas shippers, who, taking this and their own costs into account are overwhelmingly supportive.

Conclusion

As set out above, UNC477 is one of a number of changes across the gas and electricity industry codes which will halve switching times from around five weeks, to just over two. We have today also published our decisions to accept modification to the independent Gas Transporters UNC²⁰ and the electricity Master Registration Agreement²¹.

Improving the change of supplier process is a core element of our strategy to create smarter markets which are more efficient, dynamic and competitive.

As we set out in our change of supplier roadmap in December last year, these modifications to half the switching time are an important intermediate step on the path to reliable next day switching. We will be consulting on further proposals next month.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters' Licence, the Authority hereby directs that modification proposal UNC 477: '*Supply Point registration – facilitation of faster switching*' be made.

Rob Church
Associate Partner, Smart Metering and Smarter Markets

Signed on behalf of the Authority and authorised for that purpose.

²⁰ iGT059: 'Supply Point registration – facilitation of faster switching'

²¹ MRA CP 210: 'Allowing registration to start in the cooling off period' and MRA CP 211: 'New clauses to Section 15 of the MRA to allow a registration to be withdrawn'