



**EREGE Best Practice Proposition  
Supplier Switching Process  
Ref E05-CFG-03-05**

## **Structure of this Response**

Sections 1 and 2 provide an introduction to Gemserv and some further comments/observations on Supplier Switching from our experience.

Section 3 provides specific responses to the consultation questions.

### **1. Introduction**

Gemserv specialises in the design, development and operation of European utility retail markets. Our experts understand best practice in supplier switching processes and the legal, governance, and technical processes that underpin them.

Gemserv supports the long term vision of European supplier switching processes and EREG's Best Practice Propositions are a practical step in developing benchmark architecture for the internal gas and electricity retail markets.

We always act to ensure that market infrastructures evolve in a transparent, open and non-discriminatory way. To ensure our neutrality, we do not undertake work with individual market participants but work with governments, regulators and industry agencies.

We hope that our observations on the Best Practice Proposition will be of interest to both EREG and stakeholders in Member States and we are happy that our response is published.

### **2. General Comments**

Utility retail markets only develop effectively if supplier switching processes are operated and developed in an independent way.

In many Member States the Distribution System Operator (DSO) manages customer switching processes that support customer registration, metering, data collection and settlement. In our experience, new entrant suppliers in particular apply pressure to improve these services.

Regulators must ensure that governance systems allow all suppliers, including new entrant suppliers, to influence how switching processes operate and are developed. The design and development of switching processes must be 'owned' by the suppliers and not be left solely to the DSO or any other incumbent monopoly service provider.

A properly governed retail market design must facilitate effective, timely and accurate exchanges of data and information. Legacy suppliers and new entrant suppliers must have timely and proper access to relevant data.



Governance must allow for the ongoing development of the market framework. Procedures should underpin the market, not constrain it, and should be adaptable to the maturing market.

Bearing in mind the adoption of the better regulation policy by the Commission for European Communities, market monitoring and performance analysis should be evaluated against the principles of good regulation to meet the 'less red-tape, more growth' objectives in Member States.

### **3. Gemserv's Views**

The responses below are divided by section, as set out in the Supplier Switching Process Best Practice Proposition.

#### **Supplier Switching Process**

##### **Summary**

Gemserv agree with the broad outline of the key factors underpinning the Switching process and practices described in the consultation document.

Having regard to the definition of switching, we have some comments on the criteria quoted in paragraph 3, which are covered in the next section. As a general observation, we believe that when a customer vacates a property the responsibility for the supply to that premises should not revert to the incumbent supplier. This is a false transfer that reinforces the market power of the incumbent supplier.

##### **Subject Matter and Scope**

Gemserv support the scope of the Best Practice Proposition being confined to domestic and small non-domestic customers. Larger enterprises often have complex installations and site configurations, therefore there are different commercial considerations.

##### **Definition & significance of Supplier Switching process in Electricity and Gas Markets**

In paragraph 3, under the heading 'Switching and moving' the definition notes that, in the case of a customer moving, a switch should only be recorded if the customer chooses a supplier other than the incumbent for the area into which he has moved.

The definition should be clear that the 'inheritance' of any supplier by virtue of a customer moving into premises does not constitute a switch (and indeed at best suggests a passive 'choice' not to change). However, if a customer moves into premises and changes supplier – be it to the incumbent or otherwise, this should constitute a 'switch' since it is indicative of the exercise of free choice.

In a fully implemented market all suppliers should be treated in exactly the same way. We do however recognise that in the early stages of market development there will be the notion of an incumbent supplier.

This definition should be reviewed in light of the maturity of the market.



### **Status of Supplier Switching in ERGEG Member Countries – ERGEG Report**

In order that all customers and suppliers can have confidence in supplier switching the following processes should be clear and transparent within all Member States.

- Transfer timescales.
- Transfer blocking/rejection rules.
- Data exchange and validation, including agreement to a transfer meter read (Close/Open) to ensure the customer is only charged once for consumption.
- The treatment of debt.
- Repatriation of erroneous transfers.

Processes and data structures must be allowed to evolve and improve. It is essential that the management of change is controlled in such a way that all market participants are able to have an appropriate input to the evaluation and adoption of change.

Regulators must ensure that governance enables full participation for all stakeholders in the change process. In particular the 'Design Authority' and change control process must be completely independent of incumbent suppliers and new entrants must have confidence in their ability to influence the process.

### **Strategic Priorities for Supplier Switching**

#### **Promote Easy, Cost-efficient and Standardised Switching and Activating / Deactivating Procedure**

Whilst we appreciate that the focus of this Best Practice Proposition is supplier switching, we think it would be useful to reference within this particular section that no customers, or class of customers, should be unduly disenfranchised from the opportunity to switch.

Vulnerable customers, in particular, should be able to access benefits from switching. As a principle, supplier transfers should not be activated without the customer's express permission. We appreciate that it is not possible to completely eradicate transfers processed in error, but the switching process must be able to quickly repatriate the original supplier to customers when there has been an erroneous transfer.

#### Clear Roles and Responsibilities

The DSO may be a logical central point since their association with the supply/metering point is long term. However, other options to procure services should not be precluded.

When services are procured on a competitive basis there is more commercial pressure on both price and service quality. Gemserv has found that procuring utility retail market services competitively, rather than leaving it to the monopoly service provider, forces the market participants to accurately determine and describe the processes and this in turn makes the market work much more effectively.

Where the DSO is part of a vertically integrated energy company, proper ring-fencing of retail market services should ensure that any potential abuse of market power is mitigated.



Rather than the proposition stating that the DSO 'usually acts as a hub as they have primary access,' the Best Practice should state that there will be a Primary Access Facilitator, which might be the DSO in some circumstances.

#### Data

A data hub is essential so that market participants can obtain information in a timely and non-discriminatory manner. Independent governance should ensure that data owners should be identified and have defined duties to keep information accurate and updated in a timely manner.

#### Access to Information

Governance must ensure that market participants have access to information on a non-discriminatory basis. Where information needs to be shared, for example site meter and technical data, the duty to provide that information should be clear.

If any agents are involved in the switching process, for example for obtaining a meter reading, they should be given access to information so that the process is not delayed or compromised.

#### Governance

An effective governance framework, incorporating regulator and self governance by market participants, should be encouraged in all Member States.

The governance arrangements and rules for change control should be operated for the benefit of all market participants and without undue influence from any one of them.

All forms of governance, whether through authorisations, regulation or intra-market, should be operated in line with the policy for better regulation.

#### Metering Arrangements and Settlement procedures

Paragraph 15 notes that DSOs must document their meter reading estimation methodology. As noted above, we would prefer that the DSO is not directly referenced in the role of providing/receiving the meter reading.

The exchange of a meter reading at this stage ensures that there is a continuance from the closing and opening point from the old to the new supplier. This ensures that the customer is not billed twice for any consumption. However, we believe that the customer interface for this reading should be with the new supplier alone, since involving third parties is inefficient and may confuse customers.

Estimation may be used in the absence of any reading. This should be derived in accordance with appropriate estimation methodologies can only be a 'reasonable estimate' in any event. Having appropriate practices in place such that a customer can dispute a reading, which may ultimately revise that reading, should resolve issues regarding the use of estimated reads.

Monitoring the volume of disputed reads should deter practices where inappropriate reads are submitted.



## **Ensure Customer Confidence and Sound Market Monitoring**

### **Customer perspectives**

In addition to those noted within the document, we would also highlight the following as key to customer confidence.

- The market design must ensure that a customer can switch supplier by communicating exclusively with their new chosen supplier.
- All supplier switching processes must be transparent, understandable and controlled by proper inclusive governance.
- Marketing codes of practice should be introduced in each Member State to reduce mis-selling. These should comply with national law and EU directives (e.g. Unfair Commercial Practices) as a minimum, but can also serve as best practice codes of conduct, providing assurance to customers.

Paragraph 24 notes that costs should be spread through DSOs to all network customers. We believe such a statement should recognise that this can only occur to the extent that DSOs are providing services supporting the switching process. In any event we concur that no direct charges should be placed on the switching customer and costs for the switching process should be deemed 'business costs' and recovered through overall pricing. Transactional charging for switching should be discouraged since this penalises those who are active in customer acquisition and is cost-neutral for Suppliers who operate customer retention policies.

Paragraph 28 refers to Suppliers and DSOs having a 'clear obligation for problem resolution'. We agree that problem resolution processes need to be in place, and that these should be equitable, consistent and appropriate to the scale of the issue/problem. In addition, market participants should have problem resolution procedures for inter-operational issues, and DSOs should have a duty to co-operate where they are impacted, or where the problem has arisen through their error.

### **Sound Market Monitoring**

Market monitoring should encompass information both on switching and the operation of market practices which impact on the process. For example, erroneous transfers; disputed reads; and transfers frustrated through blocking/rejection should also be monitored.

In addition, whilst defining a 'switch', which may or may not be consistent with the 'Universal Indicator of Customer Switching Activity', monitoring should not exclude data as to the volume of customers who have never switched. This data may assist in detecting trends that could indicate either an abuse of market power or failure of the competitive market.