Supplier Switching Process

Best Practice Proposition

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Summary

ERGEG has identified two strategic priorities for the supplier switching process. These are (1) Promote easy, cost efficient and standardised switching and activating/deactivating procedure and (2) Ensure customer confidence and sound monitoring systems.

- The customer's right to switch supplier should be statutory.
- The process of switching supplier has to be easy from the customer's point of view and the customer shall not pay any direct fees for changing supplier.
- The process of data exchange has to be cost efficient and standardized for the suppliers and the distribution system operators.
- Clear roles and responsibilities among actors are of vital importance throughout the entire procedure.
- The switching period should be as short as possible. There should not be any unnecessary obstacles for switching from the customer's point of view.
- The customer should only need to be in direct contact with one party, preferably the new supplier, when initiating the switch. Contracting should be in writing, but should be available electronically.
- There should be easy access to relevant and correct information for the customer prior to switching. The regulator or some other competent body should ensure the availability of a list of alternative suppliers.
- Regulators and/or other authorities should ensure sound market monitoring. Information about various market indicators should be available in order to make national analyses and comparisons between countries and markets. Harmonization on the definitions of switching and the statistics needed should be sought across markets and countries.

Subject matter and scope

1. The aim of this best practice proposition is to set recommendations and basic principles for the supplier switching process in the retail electricity and gas markets. The proposition focuses on the easiness of switching from the customer's point of view. Furthermore it is important that the procedure is manageable and efficient for all parties involved. The proposition also contains elements concerning the significance of market monitoring for the efficiency of the market.

2. The best practice proposition intends to cover rules and practices concerning supplier switching in the retail electricity and gas markets throughout Europe. For this purpose, the retail market is defined to be the market for household customers and small enterprises.[1]

3. The Proposition has as its purpose to assist with the implementation of the Electricity (2003/54/EC) and Natural Gas (2003/55/EC) Directives as well as to assist the application of national legislation in practice to energy companies. Both the Electricity and Gas Directives include a separate annex (Annex A), which includes measures on consumer protection to be applied at least to household customers.

Definition of supplier switching process in electricity and gas markets

4. Switching supplier is defined as the action through which a customer changes supplier. More detailed: A switch is essentially seen as the free (by choice) movement of a customer (defined in terms of an overall relationship or the supply points and volume of energy associated with the relationship) from one supplier to another.

5. The possibility to switch to a new supplier within a short period of time and without obstacles and disadvantages for the customer is an essential pre-requisite for a functioning and efficient market.

6. Margins in any given market will only stay low if customers challenge suppliers by switching to competitors with lower margins. In addition other aspects, such as service level, may be of importance for the customers when choosing their electricity/gas supplier. In order to make this response possible it must, among other things, be simple for the customer to switch to another supplier, and the switch should take place within a relatively short period of time. The procedure should be as straight-forward as possible.

[1] Directive 2003/54/ECconcerning common rules on the internal market in electricity states in its Article 3, paragraph 3 that member states shall ensure that all households and where Member States deem it appropriate, small enterprises (namely enterprises with fewer than 50 occupied persons and an annual turnover or balance sheet not exceeding EUR 10 million), enjoy universal service.

Status of supplier switching in ERGEG member countries – ERGEG report

7. In the autumn of 2005, the ERGEG published a status report on the supplier switching process[2]. The report covers the rules and practices characteristic of the supplier switching processes in the ERGEG member countries.

8. The report illustrates the reality that although Europe is deregulating at differing speeds and to differing extents, conversion is taking place as July 2007 approaches when all customers shall be able to switch supplier. Nevertheless, the report finds that despite many similarities between the processes in the various respondent countries, there remains substantial variation. Key differences relate, for instance, to: the time it takes to switch; the number of parties who need to be contacted by the customer in the event of a switch; the ability of the customer to switch at a suitable time without the hindering need for additional meter readings; the capabilities of the switching process IT infrastructure; the quality of consumption / load profiling and essential switch-related information and its availability to competing suppliers.

9. There is then a need to find a common platform for supplier switching in the electricity and gas retail markets.

Strategic priorities for supplier switching

10. There are two strategic priorities for the supplier switching process in the electricity and gas retail markets. These are:

- Promote easy, cost efficient and standardised switching and activating/deactivating procedure
- Ensure customer confidence and sound monitoring systems

11. The strategic priorities have been developed on the basis of ERGEG report on Customer Switching Process and discussions in the ERGEG Customer Focus Group.

Promote easy, cost efficient and standardised switching and activating/deactivating procedure

12. In order to achieve a well functioning retail market the process of switching supplier has to be easy from the customer's point of view and the customer shall not pay any direct fees for

[2] Report on the ERGEG Customer FG Questionnaire on the Customer Switching process.

changing supplier. It also has to be cost efficient and standardized for the suppliers and the distribution system operators (later referred to as DSOs).

Clear roles and responsibilities

13. Clear roles and responsibilities among actors are of vital importance throughout the entire procedure. The proposition is that the DSO generally acts as a data information hub and a market facilitator given that the DSO in most cases has primary access to customer data. In some countries however, the metering activities are exposed to competition. Consequently, other parties than the DSOs have primary access to the data needed in the switching process.

14. The new supplier contacts the DSO or where applicable a different party, in order to carry out the switch. The DSO then confirms the supplier switch both to the new and the old supplier. This is illustrated below.

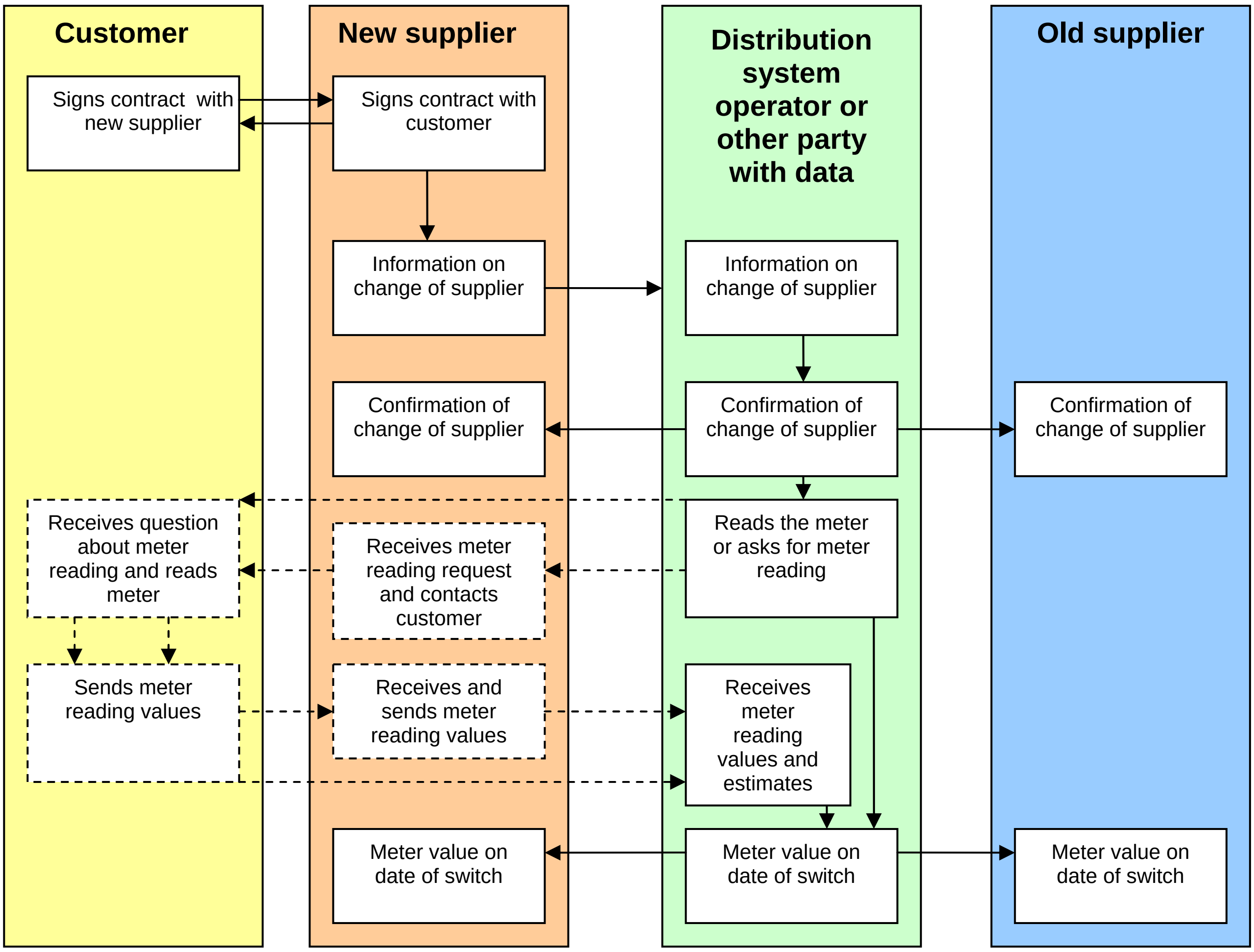

Figure nr 1: Illustration of Best Practice for Switching Procedure

15. Clear roles and responsibilities are especially important when errors occur, so that these can be solved as quickly as possible, in the interest of the customer.

Metering arrangements and settlement procedures

16. Advanced meters which are automatically read should not be a prerequisite for the customer's eligibility to switch. Metering should not be an obstacle for switching. In a dynamic retail market with high mobility, however, it is recommended that the meters are read upon switching. In most member states the DSO is responsible for meter reading. It is however possible for the customer or other party to read the meter and send the meter value to the DSO either through a web page, by SMS, telephone or ordinary mail. If the meter is not read due to certain circumstances, the meter value may be estimated by the DSO. When the DSO has read the meter, accepted or estimated the meter value, it is subsequently sent to the old and the new supplier for settlement issues. DSOs must document their estimation methodology.

17. A load profile system should be in place to manage settlement of customers who are not hourly metered (or more frequently than that, depending on the dissolution in the specific market). This could either be category profiles for various customer groups or area (distribution network) profiles which are the same for all profile-customers in that area.

18. To operate the switching process efficiently electronic data interchange is required. The data exchange should be on a standardized electronic format between the DSO, the new and the old suppliers to obtain automatic, cost-efficient, timely and reliable data exchange. The standardization could either be achieved based on voluntary agreement in the industry or through legal obligation.

19. It should not be possible for the DSOs to charge the suppliers for providing the necessary data as this may be an obstacle to switching.

20. Furthermore every metering point should have a unique identification number (e.g. based on the EAN standard Global Service Relation Number, GSRN) to facilitate data exchange and avoid misunderstandings. The identification number should be known to the customer, for example through the electricity/gas bill and on a label next to the meter.

Ensure customer confidence and sound market monitoring

Customer perspectives

21. The customer's right to switch supplier should be statutory.

22. The switching period should be as short as possible and the restrictions regarding the dates when a switch can take place, should be minimized. There should not be any unnecessary obstacles for switching from the customer's point of view. These may include the restrictions limiting the number of switches per year.

23. The type of contract cannot prevent the customer from switching supplier (e.g. fixed price contracts). There could however be a reasonable fee for withdrawing from contracts with fixed terms.

24. The customer should only need to be in direct contact with one party, preferably the new supplier, when initiating the switch. There should normally be a written contract between the customer and the supplier. Contracting should however be possible electronically, e.g. through the internet, to facilitate switching. There should be regulations on the information needed to be able to switch, for instance name, address and metering point identification number.

25. There should not be any direct fees related to switching supplier. The costs related to enabling an efficient market, including an efficient switching process, should be spread on all customers. In addition if these costs were covered by the individual customer, this could prevent many customers from switching, thus preventing an efficient market. The proposition is that these costs are covered by the DSOs and subsequently spread on all network customers.

26. In order to have a well functioning retail market customers need to have confidence in the market, the market participants and the switching process. Information is important for customer confidence. There should be easy access to relevant and correct information for the customer prior to switching. The customer should for example be informed about which suppliers he/she can choose from. The regulator or some other competent body should ensure the availability of a list of alternative suppliers. DSOs should be obliged to provide relevant information to all customers. A price calculator should be made available.

27. Protection (rules and measures) against misselling is needed to safeguard customers from unprofessional market players.

28. There need to be clear rules and information in the event of supplier withdrawal. There also need to be clear and common definitions of supplier of last resort and default supplier.

29. Suppliers and DSOs need to have a clear obligation for problem resolution.

Sound market monitoring

30. Well functioning liberalized electricity and gas retail markets require active following-up from the regulators in terms of monitoring the efficiency and mobility in the market and to bring about measures to improve the functioning of the markets.

31. In the monitoring of the end user market, certain indicators are important for the assessment of functioning of the market. Information about various market indicators such as switching information, prices and price spread for various contracts, margins and market shares should be available in order to make national analyses and comparisons between countries and markets. The information should be available for various customer groups.

32. The definition of a supplier switch and statistical definitions today vary between countries and this hinders comparability of figures. A common understanding on the definitions of switching and the statistics needed should be sought.

Appendix – Definitions

Terms extracted from directives 2003/54/EC and 2003/55/EC

Contract: Written agreement between the client and the supplier, or between the client and the transmission/distribution operator for the provision of a certain service or product.

Customers: "Wholesale and final customers of energy" (2003/54/EC art.2 §7 and 2003/55/EC art.2 § 24).

Distribution: The transport of energy through local or regional networks with a view to its delivery to customers, but not including supply (2003/54/EC and 2003/55/EC art.2 §5).

Eligible customers: "Customer[s] who [are] free to purchase energy from the supplier of [their] choice" (2003/54/EC art.2 §12 and 2003/55/EC art.2 § 28). "From 1 July 2004, […] all non-household customers" (see this definition). "From 1 July 2007, all customers" (see this definition) (2003/54/EC art.21 and 2003/55/EC art.23).

Final customers: "Customers purchasing energy for their own use" (2003/54/EC art.2 §9 and 2003/55/EC art.2 §27).

Household customers: "Customers purchasing energy for their own household consumption, excluding commercial or professional activities" (2003/54/EC art.2 §10 and 2003/55/EC art.2 §25).

Small enterprises: "Enterprises with fewer than 50 occupied persons and an annual turnover or balance sheet not exceeding EUR 10 million" (2003/54/EC art.3 §3).

Supplier: Seller or reseller of energy to customers (see Supply).

Supplier of last resort: A supplier of last resort is obliged to provide energy to final customers in emergency situations according to national legislation when the chosen supplier does not serve or cannot serve.

Supplier switching: The action through which a customer changes supplier.

Supply: "The sale, including resale, of energy to customers" (2003/54/EC art.2 §19 and 2003/55/EC art.2 §7).

Universal service: "Right to be supplied with electricity of a specified quality within their territory at reasonable, easily and clearly comparable and transparent prices" (2003/54/EC art.3 §3).

Vulnerable customers: Customers defined by national laws as persons to be protected in their relations with energy suppliers (example: disabled, chronically sick, pensioners, living on low-incomes and living in remote areas).

Other relevant terms:

Alternative supplier: Any different supplier from the incumbent supplier within the considered distribution area (and, for gas, within the market segment considered).

Customer switching: Same definition as Supplier switching.

Default supplier: The Supplier (see this definition) to which the customer is attributed when he does not choose a supplier.

End-user: Same definition as Final customers.

Incumbent supplier: The historical supplier in a specific geographical area (sometimes with the obligation to supply energy to local customers).

Meter: An instrument for measuring the energy transmitted or consumed. If installed at the point of supply (see this definition), data are primarily used to invoice the customer.

Regulated tariff (or Regulated price): A price or price-cap set by a regulator or a government on the basis of administrative criteria. Regulated tariffs apply to non-eligible customers and may as well apply to eligible customers (including vulnerable customers) regarding network charges and supply by default supplier or supplier of last resort or incumbent supplier.