



WATER ACT 2003  
WATER SUPPLY LICENSING

**Customer transfer protocol**

**Consultation responses and RIA**

November 2005

# **Customer transfer protocol – eligibility, licensing, customer transfer protocol and strategic supplies consultation**

## **Summary of responses and final regulatory impact assessment**

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# 1. Introduction

In October 2004 we consulted on our draft customer transfer protocol (CTP)<sup>1</sup>.

From 1 December 2005, non-household customers who are likely to be supplied with at least 50 megalitres (Ml) of water a year at eligible premises will have the option of transferring from their existing water undertaker to an alternative water supply licensee (referred to in this paper as a 'licensee'). Licensees will be able to compete by purchasing a wholesale supply of water from an existing water undertaker and retailing it to a customer (a retail supply), or by introducing water into a water undertaker's supply system and selling it to a customer (a combined supply). Water undertakers must provide access to licensees on terms that comply with the licensing provisions of the Water Industry Act 1991<sup>2</sup> (WIA91) and our guidance on access codes.

The CTP provides a clear, simple and standardised process for the timely and efficient transfer of customers from one supplier to another. It sets out the customer information to be exchanged between water undertakers, licensees and sewerage undertakers, how the information should be exchanged and within what timescales. We have developed the CTP to prevent, or at least minimise, the effect of problems encountered in the gas and electricity industries during customer transfers.

We asked for views on our proposed CTP. In particular, we wanted to know if our proposals were practicable or were likely to cause problems, and if so, what these problems were, and how they might be addressed.

This paper summarises the consultation responses that we received on the CTP and explains how we took account of them in the final CTP. If you wish to discuss any aspect of this paper or the CTP, please contact Christina Chadwick on 0121 625 3652 or e-mail [christina.chadwick@ofwat.gsi.gov.uk](mailto:christina.chadwick@ofwat.gsi.gov.uk).

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<sup>1</sup> Water Act 2003: Water Supply Licensing. Eligibility, licensing, customer transfer protocol and strategic supplies (October 2004).

<sup>2</sup> In this paper, references to WIA91 refer to WIA91 as amended by Water Act 2003 (WA03).

## **2. Responses to the consultation**

### **2.1 Summary**

We received responses from 34 stakeholders, including 17 statutory water undertakers operating in England and Wales, Drinking Water Inspectorate (DWI), Water UK, WaterVoice<sup>3</sup> and four potential licensees. Bristol Water, Folkestone & Dover Water Services, Portsmouth Water, Scottish Water, Sutton & East Surrey Water and Tendring Hundred Water Services confirmed their support of the response submitted by Water UK, rather than providing individual responses to the consultation. There is a list of respondents in appendix 1. Copies of all replies are available to read in our library.

Generally, respondents agreed with the draft CTP and several provided additional comments for consideration. The section below summarises the key points that were made in reply to the consultation and explains our response to these issues. We have summarised individual responses to each of our questions and set out how we have addressed the points in the section headed 'Our conclusions'.

Since the consultation, there have been further extensive discussions on the CTP between the water supply licensing (WSL) technical advisory group (TAG)<sup>4</sup> and us. These discussions have addressed many of the comments about broadening the CTP and its processes.

### **2.2 Key points raised in the responses to the consultation**

#### **a) Customer transfer protocol registration system**

Five respondents commented on the proposal for each water undertaker to manage a registration system of customers at eligible premises in its area of appointment. WaterVoice and three other respondents supported a central registration system that might be managed by an independent company. They stated that the proposed system of separately managed registration systems would increase the scope for data transfer error, and believed that a central system would reduce interfaces, be scaleable, ensure consistent data and be more transparent. However, a water undertaker agreed that a central system managed by a third party on behalf of water undertakers and licensees would not be appropriate at this time.

We have discussed the different options for managing the registration system at length with the TAG and its CTP sub-group<sup>5</sup>. Following discussion, we have decided to continue with our proposal that each water undertaker should manage a CTP

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<sup>3</sup> WaterVoice, the water customers' watchdog, provided comments on the CTP before it was succeeded by Consumer Council for Water (CCWater) on 1 October 2005. CCWater represents customers' interests in respect of price, service and value for money; it also investigates complaints from customers about their water companies.

<sup>4</sup> The industry advisory group which was set up to advise on and take forward the technical implementation of the water supply licensing policy.

<sup>5</sup> The sub-group of the industry advisory group, made up of water undertakers, potential licensees and Ofwat. The members of the sub-group have extensive experience of customer transfer in the gas and electricity industries.

registration system separately. We believe that for a relatively small initial market, a centrally managed system would be overly complex and costly.

The registration system should not impose major burdens on water undertakers' existing IT systems, as information will be sent by e-mail. We have developed a process for maintaining and updating customer details so that information in registration systems is up-to-date. This will reduce the scope for data transfer errors.

#### **b) Involvement of customers**

A number of respondents said that customers should be involved throughout the customer transfer process.

We have expanded the CTP to include customers in the transfer process. We recognise that the new supplier needs to inform customers when the transfer has started, and how it progresses. It is also important that customers are able to inform their old or new supplier if they believe they have been transferred in error, and if they do not agree with the meter reading on the date of transfer.

However, customers' involvement in the CTP should remain at a relatively general level. This is to stop them getting involved unnecessarily in the minor details of the transfer process.

#### **c) Customer transfer protocol link with the access code guidance**

Several respondents suggested that we should review how the CTP integrates with the access code guidance. A water undertaker thought that the CTP should not take effect until access agreements have been implemented. Two potential licensees suggested that consideration should be given to the links between the CTP and the access application stage. WaterVoice thought that access code agreements between water undertakers and licensees should set out the process for dealing with disputes about meter readings.

We have looked further at links between the CTP and the access code guidance, particularly where information about the customer is duplicated. To enable the CTP to include all the information required to transfer a customer, we believe that some of the information contained within the access agreement needs repeating. This will ensure that all information is correctly communicated.

We have expanded the CTP to include a process on disputed transfer meter readings. Licensees and water undertakers can refer to this process in the CTP when they are negotiating their access agreements.

#### **d) Recovery of costs associated with the customer transfer protocol**

A number of water undertakers who had concerns about the potential costs associated with the CTP requested that costs should be kept to a minimum. They suggested that costs associated with providing a registration system should not adversely affect household customers and said that this could be achieved if water undertakers were able to recover costs through access charges. Another suggestion

was that the costs of developing and maintaining the CTP should be borne by licensees and new entrants, and that until licensees enter the market, these costs could be funded through access charges.

The price limits we set in 2004 did not include an explicit allowance for the costs of administering the new competition regime. However, the costs of developing and maintaining the CTP should be relatively small.

To the extent that administering the new regime does add to a water undertaker's operating expenditure, this will be incorporated as part of the water undertaker's base operating costs when price limits are next set in 2009.

#### **e) Ofwat's membership within the customer transfer protocol forum**

Four respondents thought that we should be more than just an affiliate member of the CTP forum. They suggested that we should be a full member and play a leading role.

As suggested, we have amended the final CTP so that we are not an affiliate member. However, as we have a different role to that of a full member due to our right to veto proposed changes to the protocol, we are also not a full member.

Full members are all water undertakers, on which we formally serve the CTP, and licensees. They will be able to raise, comment upon and vote in respect of change proposals to the CTP and operational codes of practice. Our role allows us to veto changes that full members have agreed on or to determine whether the change can be made where full members are in deadlock. We will also provide the secretariat function to the CTP forum initially and determine other CTP disputes that are referred to us.

Our different role regarding voting arrangements in the CTP forum is set out in figure 12 (chapter 10) of the final CTP.

#### **f) General comments on the customer transfer protocol**

Respondents made a variety of comments, raising issues that they felt needed consideration or did not think that the CTP had covered. Where relevant, we have addressed these points in the CTP or in this summary. Full copies of replies to the consultation are available to read in our library.

## **2.3 Concurrent consultations**

In 2004 we consulted on the following licensing issues.

- Water undertakers' new conditions of appointment and potential licensees' water supply licence conditions.
- Policy proposals on exceptions regulations and exemptions.
- Access code guidance.

We have reviewed the responses to all the consultations for links and related issues. We have also reviewed our final guidance and the CTP to ensure consistency. In addition, drafts of our final guidance and the CTP have been reviewed and commented on by TAG members. After these documents are published, we will monitor how the market develops and consider if we need to revise them.

## **2.4 Responses to individual questions within the customer transfer protocol**

### **2.4.1 Scope of the customer transfer protocol**

**Question 19: Do you agree with the above CTP principles? If not, please give reasons why.**

Nearly all respondents agreed with our principles for the CTP. Some of the respondents who agreed had the following caveats.

- A water undertaker thought that the role of the CTP was not clearly defined with regard to access issues. It assumed that eligibility, water regulations, the access agreement and charges would be settled before the CTP applies.
- The same water undertaker suggested that the CTP does not recognise the roles of the sewerage undertaker or the secondary undertaker, where they are applicable.
- A water undertaker suggested that to develop the CTP, it would be necessary for water undertakers, licensees, regulators and potential licensees to agree a set of principles in order for rules and processes to be measured.
- One water undertaker believed that greater clarity is needed on what areas of the CTP fall under licence and appointment conditions and what will be included in a code of practice.
- A water undertaker supported the CTP principles, but thought it important that they were cost-effective and offered value for money.
- Another water undertaker believed that companies should be able to develop their own systems, following the principles of the CTP. This way, they could take account of their expected and actual volume of applications. It also wanted clear definitions on what actions were enforceable as a condition (SLC 6 and condition S) and those that could be covered in other ways, such as a code of practice. As to who should 'run' the CTP, it agreed that a centrally controlled system, managed by a third party on behalf of water undertakers and licensees, was not appropriate at this time.
- One water undertaker generally agreed with what the CTP was trying to achieve, but thought it had grown in a manner that was disproportionate to the number of eligible customers. Whilst agreeing with a scalable system, it suggested that it is unnecessary to have an elaborate CTP.
- A respondent supported the objectives of the CTP and agreed with the assumptions made regarding timescales and data flows. However, the respondent thought that it would be possible to reduce the number of data flows if objections were dealt with under access code arrangements.
- WaterVoice strongly recommended that the registration system should enable monitoring of the market and switching rates.

- A respondent suggested that for clarity the CTP should include common data rather than a large number of potential individual definitions of data, time to fix service level agreements, checks on the quality of data and automatic acknowledgement when data is received correctly, or a rejection when it is outside the agreed timescales.

## **Our conclusions**

Throughout the preparation of the final CTP, we have considered all consultation responses and cross-referenced other guidance to ensure consistency. We agree that eligibility, water regulations, access agreements and charges should all be in place prior to a customer transfer being registered. It is a criminal offence for a licensee to supply an ineligible customer; therefore eligibility will already have been assessed and confirmed. Water regulations will be met as part of the assessment when granting a licence and agreeing access terms. The access agreement and access prices must also be complete, as a transfer will be rejected without these.

We recognise that sewerage undertakers and secondary water undertakers may need to be informed if a customer plans to switch supplier. We have expanded the CTP to ensure that information is passed on to them.

As detailed in section 2.2, we have further considered whether the CTP registration system should be managed centrally or separately. We have decided that each water undertaker should manage a registration system holding information on customers at eligible premises that have transferred in its area of appointment. This will be a cost-efficient method while the market is relatively small. It will allow us to monitor the number of customer transfers and it is proportionate to the current number of eligible customers.

As a respondent suggested, the CTP is based around common data that is held in a data dictionary with data fields<sup>6</sup> within data flows<sup>7</sup>. When a data flow is sent, it will be acknowledged by another data flow.

Water undertakers and licensees are required to follow the CTP as part of their appointment and licence conditions. Therefore, we recognise the need to set out clear information in the CTP. The final CTP has been expanded. It now includes a detailed transfer process, a clear explanation of the data dictionary, information regarding the CTP forum, and detailed operational processes on erroneous transfers, disputed transfer meter readings, and maintenance of customer details. The data dictionary is set out in appendix 2 of the CTP.

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<sup>6</sup> Data fields are the individual items of data which need to be transferred as part of the CTP.

<sup>7</sup> A data flow is a flow of information between market participants and is defined in terms of its constituent data fields.

## 2.4.2 Assumptions of the customer transfer protocol

**Question 20: Do you agree with the key assumptions of the CTP? If not, please explain why and whether additional emphasis is required.**

The majority of water undertakers supported the key assumptions of the CTP. We also received the following other comments.

- A potential licensee thought that the CTP in its current form does not sufficiently cover exchanges of data. It believed that it should be broadened to govern all data exchanges within the initial access application, as this should make the process cheaper by eliminating the potential for some errors.
- A water undertaker wanted greater clarity in three areas. It suggested that the relationship between the CTP and Data Protection Act needed exploring more fully. It also wanted to know how costs for providing CTP services would be recovered (for example, costs associated with resolving disputes) and stated that the relationship between the licensee and the sewerage undertaker needed defining (for example, responsibility for wastewater services billing).
- Water UK was concerned that the draft CTP is written as if the water undertaker has two different entities, the water undertaker and the 'old supplier'. It highlighted that there would be cases when the 'old supplier' is different from the water undertaker, such as when the customer has already transferred to a licensee.
- Two respondents suggested that a unique reference number should be allocated to supply points, as it is in the electricity market, to inform the key identifier of each supply being transferred. One of the respondents said that the number should be carefully agreed in terms of content and format, with a common national coding system, so that this did not become a barrier to competition in the future.
- One respondent was confused at how a winning 'supplier' would know which registration system to contact for detailed information on the customer if details for the eligible premises were gathered prior to initiating the transfer process. It was their view that some of this data should be included in the CTP to ensure that both parties know beyond doubt that they are talking about the same customer. This should lead to a robust industry design that is scalable, and will reduce the number of erroneous transfers, which may occur as the market threshold is reduced.

### **Our conclusions**

As explained in section 2.2, the CTP sub-group has reviewed the CTP where customer data is duplicated in the access agreement. Sharing the data again will not cause errors nor should it generate additional costs. It will serve to inform both parties that they are talking about the same customer as part of the CTP, addressing the stakeholders' concerns highlighted above.

We have considered the Data Protection Act when reviewing the CTP. The data dictionary provides all necessary information about the customer. Where the information in the data dictionary is confidential, the data flow serves as a flag for

further investigation and does not contain confidential information, for example, about special consumers.

We have addressed the relationship between the licensee and sewerage undertaker and have expanded the CTP to ensure information is shared between parties.

We do recognise that the water undertaker may not always be the old supplier. The original diagrams have been changed in the final CTP. These now clearly show the roles of the water undertaker, old supplier, new supplier, sewerage undertaker and customer.

Finally, we accept the need for a unique premises reference number. This was explained in appendix 10 of the draft CTP and the information now forms the main body of the final CTP. A diagram has also been added to chapter 4 of the final CTP to explain the relationship between eligible premises and site address(es).

### **2.4.3 Transfer process**

**Question 21: Are there any other data flows that you feel should be added to the transfer process? If possible, please provide examples.**

The majority of respondents thought the data flows detailed in the CTP were sufficient to enable the process to work efficiently. Several respondents had suggestions for changes and these are shown below.

- One water undertaker suggested that as the market develops it might be necessary to create additional data flows to accommodate new developments in the CTP and codes of practice.
- A water undertaker said that the CTP process needed to include secondary water undertakers and relevant sewerage undertakers. It also suggested providing a 'help desk' facility, which is aware of what stage a customer transfer has reached, to:
  - define more clearly the process to deal with customer dissatisfaction resulting from the CTP;
  - generate a process for documenting customer requests to switch, requiring written confirmation from that customer that it wishes to switch; and
  - create process checks to avoid transferring the wrong customer, or overlooking special consumers.
- Two water undertakers suggested that a practical test of the transfer processes would highlight any issues.
- Another water undertaker offered the minor amendment of including the date a meter reading is taken, in addition to the reading itself, to ensure that bills are calculated for the exact period for which consumption has been measured. It also recommended creating a data dictionary.
- One respondent stated that meter maintenance had not been addressed in the CTP and put forward the following process flows to be included in the CTP:
  - billing data;
  - meter technical details;

- debt assignment and agreement details;
- pollution information;
- emergency information;
- security of supply; and
- erroneous transfers.

## **Our conclusions**

We accept the need to create additional data flows as the market develops and will make provisions to do so.

The final CTP has taken account of the requirements of sewerage undertakers and has been expanded to address the above concerns where applicable.

To track the progress of customer transfer, a customer should contact its old or new supplier. We do not plan to create a help desk for this service. A customer must provide written declaration of its desire to change supplier as part of the access agreement. Therefore this has not been included in the CTP. Meter maintenance is the responsibility of the water undertaker and this is covered in our access code guidance.

An operational process has been developed for the maintenance of customer information set out in the data dictionary. This includes the obligation for the new supplier to tell the primary water undertaker of any change to its customers' details and for the primary water undertaker to maintain and update records of the customers that have transferred under the CTP in its area of appointment.

Stakeholders will develop operational codes of practice as and when needed. Information on the types of codes of practice that may be required has been added to section 9.5 of the CTP. The list, which is not exhaustive, includes emergency procedures, billing queries, meter technical details, dual site registrations and faulty meter replacements.

A data dictionary has been created. This is contained in appendix 2 of the final CTP. The data dictionary has a data field for the date that a meter reading is taken.

The CTP sub-group has carried out a pilot study on the transfer process to highlight any issues to be resolved before 1 December 2005.

### **2.4.4 Timescales**

#### **Question 22: Do you consider the timescales to be appropriate? If not, what timescales should be applied for each data flow?**

Only one respondent, a water undertaker, thought that the time allowed for the process was likely to be too little at the start of the regime as there will be a learning process. Some water undertakers thought that although the timescales looked reasonable, it was difficult to confirm as they had not operated such a system before.

- Two water undertakers suggested that the CTP forum should review the timescales once the industry has experience of operating the CTP.
- A water undertaker stated that it is important to ensure that the process works correctly and supported testing the transfer process before 'going live'.
- One water undertaker suggested that it would be helpful if timescales associated with the resolution of disputes were also defined.
- Two respondents thought there should be more than one timescale for different scenarios. One of these respondents suggested different timings for retail and common carriage. The other respondent envisaged shorter timings for a 'no objection' scenario.
- Another respondent stressed the importance of distinguishing between 'dispatch time' and 'receive time' and acknowledging that data has been delivered so that there is no confusion, disputes or resulting delay within the CTP.

## **Our conclusions**

We recognise the importance of reviewing timescales and if they appear too long or short, the CTP forum can address this as part of its role of ongoing development of the CTP. The CTP timescales are based on those in the gas and electricity industries.

We have decided that we will not proceed with central testing of the registration systems before the regime begins. The onus remains on licensees and water undertakers to comply with the CTP in their licence and appointment conditions. Testing would not ensure that there are no errors once it is running, but would only indicate whether participants understand the transfer data and how to respond to it. However, the CTP sub-group carried out a pilot study of the transfer process, and concluded that it works well. Market participants may also test the process to ensure that they can comply with the CTP.

The operational process on disputed transfer meter readings has been expanded and this now includes timescales.

We have not amended the CTP to address the additional suggestions from the respondents above. This is because there is no difference in timescales for transferring a customer to a licensee for retail or combined supply in the CTP. Data will be acknowledged by a corresponding data flow and as data flows will be sent via e-mail, this will record the sent and received times for clarity.

### **2.4.5 Additional operational processes**

**Question 23: Do you think that we need to add any additional processes to the above list? If so, please explain why and give examples.**

Although most respondents were happy with the processes included in the list, several suggested additions or made other points.

- A potential licensee thought that preventing contamination of the public water supply by backflow from sites and points of use should be covered by a code of practice.

- A water undertaker thought the two following processes should be included and defined:
  - (i) transfer of information on pollution and emergency incidents; and
  - (ii) a disconnection process.
 It also suggested that debt, disputes resolution, the billing process and customer contact processes would benefit from greater clarity and definition.
- The same water undertaker suggested that the grounds for rejection should be extended to include where data differs from the water undertaker's own records, or where the 'site' does not fulfil our definition of eligible premises. And the processes for objection and rejection should also allow the customer, secondary water undertaker and sewerage undertaker to object.
- One water undertaker thought it should set out a liability definition in the event of a licensee damaging the water undertaker's assets in any way and requested greater clarity on the different types of debt.
- WaterVoice felt that caution needed to be applied to the objection rules, especially in areas of debt. It stated that a customer might have a good payment history, but have a current query or dispute with their invoice. In this instance, the customer transfer should not be blocked for withholding payment when it is clear that these charges are incorrect and need to be adjusted. Another respondent strongly recommended that debt should not be a reason to object. They stated that with multi-site operations of hundreds of accounts there will always be some sites in debt due to late bill delivery, account query or account inaccuracy.
- A water undertaker suggested an additional process to cover instances where a sensitive customer has transferred. It was concerned that there should be no assumption that the services will continue to be provided to the customer unless stated in the access agreement.
- WaterVoice and two respondents thought an additional operational process was needed to cover the transfer of a sewerage account between water undertakers.

## **Our conclusions**

Stakeholders will develop operational codes of practice as and when needed. Detail of the types of codes of practice that may be required has been added to section 9.5 of the CTP. However, the list is not exhaustive and, if requested by the CTP forum full members, it may be expanded to include prevention of contamination of the public water supply by backflow. The list already includes emergency procedures, billing queries, meter reading disputes, provision of customer details to sewerage undertakers and disconnections. The transfer of a sewerage account between water undertakers has been considered where a customer transfer occurs and the CTP has been amended accordingly.

The rejection rules in the CTP account for incorrect or missing information. Licensees must advise the water undertaker that a customer's premises is eligible as part of the access agreement, so this should not be a reason for rejection. Customers can advise the old supplier that they have not entered into a contract with a new supplier to raise an objection to transfer. However, secondary water undertakers and sewerage undertakers cannot raise an objection, but sewerage undertakers can query a customer transfer.

Assets of water undertakers and water supply arrangements to special consumers should be covered in access agreements with licensees, and will not be addressed in the CTP. However, a new supplier will be notified where a special consumer resides on the premises of a customer that is being transferred.

Debt remains a reason for objection to prevent customers transferring their supply of water in order to avoid paying outstanding water bills. Debt is a concern within customer transfer and as such is covered in standard licence condition (SLC) 6.

#### **2.4.6 Erroneous transfer and repatriation**

**Question 24: Do you agree that this process will adequately deal with communicating erroneous transfers to customers? If not, what process do you propose?**

There was a general consensus among respondents that the process in the CTP effectively deals with erroneous transfers. Two respondents suggested monitoring the number of erroneous transfers and others put forward options for refining the process.

- A water undertaker wanted greater consideration of measures to prevent erroneous transfers happening in the first place. It proposed adding a customer confirmation step in the process and the transfer should not proceed without this.
- A stakeholder supported this by suggesting that safeguards should be designed to minimise the opportunity for erroneous transfers, rather than considering the means to revert erroneous transfers after the event. It stated that most electricity suppliers should contact each 'won' customer to confirm the transfer early in the cycle so as to reduce cost, effort and administration.
- Another stakeholder was concerned that the transfer process did not include telling customers that transfer had been initiated. It suggested that standard communication should be sent from the existing supplier to the customer saying they should register an objection if they did not request the transfer.
- One water undertaker thought that companies who persistently transferred customers without their consent should face some sort of legal consequence, such as the loss of their licence.
- WaterVoice suggested that there should be a means for monitoring the number of erroneous transfers, the reasons and the actual time taken to move a customer back to their correct supplier.
- A stakeholder thought that either we or Consumer Council for Water<sup>8</sup> (CCWater) should act as mediator between parties in the event of an erroneous transfer.

#### **Our conclusions**

The erroneous transfer process has been considerably expanded and data flows have been added to the data dictionary to cover information on them. The CTP now

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<sup>8</sup> WaterVoice was succeeded by Consumer Council for Water on 1 October 2005. It represents customers' interests in respect of price, service and value for money; it also investigates complaints from customers about their water companies.

sets out the process for minimising the opportunity for erroneous transfers and the resolution process where they have occurred.

Customers must express an interest to transfer their supply of water to a licensee in the access agreement, thereby involving customers at an early stage. The CTP also states that the new supplier should notify the customer that the transfer process has begun, and keep the customer informed of the transfer progress. This will ensure that customers are aware that they are being transferred prior to receiving a closing or opening invoice. Customers are involved in the erroneous transfer process and can contact either the new or old supplier if they believe that they have been erroneously transferred.

We would expect water undertakers and licensees to provide us with information on the number of customers that have transferred, and the number of erroneous transfers that have occurred, when we monitor and develop the WSL regime.

A timetable has been added to the erroneous transfer process and these timescales must be followed as part of the CTP under SLC 6 and condition of appointment S.

We will determine any disputes referred to us in the CTP, thereby acting as mediator in the case of erroneous transfer disputes. We may take action where companies have persistently transferred customers erroneously and will review these instances on a case by case basis.

#### **2.4.7 Disputed meter readings**

##### **Question 25: Do you agree that the above provides an appropriate process for handling disputed meter readings? If not, what do you propose?**

There were no respondents who thought the process for handling disputed meter readings was inappropriate, but several suggested that the process should be developed to include more detail.

- A water undertaker suggested that the process needs to address issues associated with the transfer of meter readings at the point of switching and any other future disputed meter readings. It thought that adding a meter reading verification and audit stage to the process would help eliminate or avoid disputes in this area.
- The same water undertaker said that sewerage undertakers need to be included in the meter reading process.
- A water undertaker said that it should be noted that the right of the old supplier to recover charges based on the meter readings should continue to be regulated by the contractual and/or statutory provisions that apply to the supply.
- One water undertaker proposed using an independent third party in some cases to verify the meter reading.
- Another water undertaker said that transfers should not be allowed to take place if there are outstanding disputes over meter readings, or queries about meter reliability.
- A respondent said that agreeing the closing meter reading is very important and that we may wish to consider the incumbent supplier proposing the closing

reading as they have the most recent usage information about the specific customer. It suggested that this supplier should agree the reading with the customer and then provide it to the winning supplier. A similar process was considered in the competitive gas supply market.

## **Our conclusions**

The disputed transfer meter reading process has been considerably expanded and data flows have been added to the data dictionary to cover information on them. TAG members and the CTP sub-group discussed the scope of the process, and it was decided it would only cover meter readings at the point of transfer. We recognise the need for an operational code of practice for ongoing meter reading disputes and this will be developed when required by stakeholders utilising the disputed transfer meter reading process.

Sewerage undertakers have not been included in the disputed transfer meter reading process other than to receive the revised reading in order to amend their billing records. We do not believe that they should be able to dispute a reading. In the unlikely event of a sewerage undertaker querying a meter reading, the query should be pursued via the primary water undertaker outside the scope of the process. The CTP explains that only the customer or the old supplier can raise a dispute.

TAG members and the CTP sub-group discussed the need to have a transfer meter reading verified. To negate the need for an independent third party to verify the meter reading, the process in the CTP states that all readings taken on transfer should be 'actual' readings. Also, with disputes raised only by the customer or old supplier, the old supplier will have historical meter reading with which to assess the validity of the reading.

We reviewed the process to look at the impact of transfers taking place where there might be an outstanding dispute over a meter reading or it is recognised that a meter may be faulty. We decided that general meter reading disputes should not delay the transfer and that faulty meter exchanges should be covered in a separate operational code of practice.

The disputed transfer meter reading process in the final CTP addresses the need for the old supplier to review their billing records and issue revised bills.

**Question 26: Do you agree that as issues escalate, we should develop codes of practice, setting out methods for resolution in conjunction with stakeholders? If you do not agree with the process or timing, please explain why.**

The majority of respondents answered this question and were generally in favour of codes of practice. Some respondents had different views about when these should be developed.

- One water undertaker was concerned that if codes of practice were developed in response to issues as they arose, this could lead to delays in resolving issues. It believed that codes should be developed in readiness for when they are needed.

- Another water undertaker agreed that codes of practice should be established before the regime begins, as lack of clarity in guidelines could result in costly challenges. It suggested that clarity is required in defining grounds for rejection and objection, and stressed the need for customers to confirm their desire to switch supplier. Codes of practice should also clarify what information is to be retained by the water undertaker to facilitate the ongoing requirement to transfer information between parties.
- One water undertaker took the opposite view. It found it difficult to foresee the extent to which codes of practice would need to be developed, and would not want to undertake costly work that could turn out to be unnecessary. It suggested a group such as the TAG monitor the extent to which issues escalate and the necessity of codes of practice.
- WaterVoice supported the development of codes of practice to set out the process for dispute resolution that should be developed, when warranted, by the level of customer switching. It said that the codes must not be unnecessarily bureaucratic.
- A respondent suggested that views of customers, and penalties for those participants not adhering to codes of practice, would be important in the process.

## **Our conclusions**

A list of proposed operational codes of practice is outlined in section 9.5 of the CTP. These will not be developed until required.

Clear processes have been developed for erroneous transfers, disputed transfer meter readings and the maintenance of customer details in order to have processes in place before issues arise and as such this may avoid costly challenges. The processes are detailed without being unnecessarily bureaucratic and must be followed as part of the CTP under SLC 6 and condition of appointment S. We may take action where processes are not followed and we will review these instances on a case by case basis.

The CTP contains clear rejection and objection rules that have been expanded to include additional circumstances in which to raise a rejection or objection.

Customers must express an interest to transfer their supply of water to a licensee in the access agreement, thereby confirming their desire to switch supplier prior to the CTP.

### **2.4.8 Customer transfer protocol forum**

**Question 27: Do you agree that a CTP forum is the best means to take forward development of the CTP? If not, what other forum would you propose?**

All respondents that answered this question supported the idea of a CTP forum. There were two recurring themes in comments received. Four respondents thought that we should be more than just an affiliate member of the forum; instead we should have full membership and play a leading role. Two respondents were in favour of establishing a forum, but were concerned it could be too large, stating that

membership should be restricted to one representative from each interest group. For example, Water UK should represent water undertakers.

The following additional comments were received.

- A potential licensee thought there would be a need for a forum with a wider remit than just the customer transfer protocol. This forum should be used for managing changes in the new market and be a competition governance group. It also pointed out that funding and voting arrangements would need careful thought, as in the early days it is likely there will be more water undertakers than new entrants.
- A water undertaker suggested that codes of practice should be owned and managed by market participants and the CTP forum could undertake this role. However, the distinction between codes of practice and CTP must be recognised in the governance arrangements of the forum.
- One water undertaker supported the idea of a forum but was concerned at the potential level of costs. It also thought ownership of any forum should be clearly defined.
- Another water undertaker suggested that a carefully evaluated stakeholder management approach would facilitate the formation of an effective body, with the inclusion of customer interest bodies. It said that as with any forum the effectiveness depends on how the forum and its decisions are governed.
- WaterVoice supported the involvement of customers. It said that where material changes affect customers during the CTP, their representatives must have the opportunity to voice their views and influence the decisions taken by the CTP forum.
- A stakeholder provided information on change management in the electricity market and suggested that we should consider similar arrangements for the water industry.

## **Our conclusions**

Our role in the forum has been clarified. As we have a different role to that of an affiliate or full member, our role allows us to veto changes that full members have agreed on or to determine whether the change can be made where full members are in deadlock. We will also provide the secretariat function to the CTP forum initially and determine other CTP disputes that are referred to us. Our different role regarding voting arrangements in the CTP forum is set out in figure 12 (chapter 10) of the final CTP.

The forum will consist of all water undertakers, on which we formally serve the CTP, and licensees who will be full members. Any potential licensee that has started the licence application process prior to 1 December 2005 will be classed as a full member, whereas potential licensees that begin the licence application process after this date will be affiliate members until they obtain their licence. CCWater and other interested parties, such as Water UK, Department for Environment, Food and Rural Affairs (Defra) and business customers, will also be affiliate members. This will allow for customer representatives to voice their views.

The chapter on change management has been extended in the final CTP. This now includes funding and voting arrangements. In the development of this chapter, arrangements in the electricity market have been reviewed.

We recognise the need for a forum or advisory group with a wider remit than just the customer transfer protocol. However, our current proposal is that this should run in addition to the CTP forum rather than the CTP forum falling under a wider advisory group. We are still considering how this will be managed.

**Question 28: Do you think that a forum should be set up before the market opens or only when customer transfer activity takes place?**

Respondents were unanimous in their view that a forum should be set up before any customer transfer activity takes place. The majority suggested taking this further to have the forum in place before the market opens. The main reason cited by these respondents was that by having the forum active before the market opens, this could mean that potential problems could be sorted out before any customers are involved.

The following additional comments were received:

- A potential licensee thought that the forum should not be activated solely in response to a dispute between two or more existing water undertakers, which could happen from day one. It said that there might be a need to extend the remit of the forum to cover other issues, such as changing access codes and potential licensee testing provisions.
- Another potential licensee suggested that if customer activity was very limited once the market opened, the forum could investigate the reasons why and consider making changes to help it work more effectively.
- A water undertaker thought that the development costs of the forum should be included in access charges so that they would not be faced with costs and no customers to recover them from. It also stated that the forum should be set up before the market opens to inspire confidence in customers that the CTP will continue to evolve to meet their needs.
- One water undertaker said that no customers should be transferred until trials of the customer transfer process have been carried out.
- A respondent suggested that the forum could provide the issue resolution and change management function of the CTP, data dictionary and any codes of practice.

**Our conclusions**

Once established, the CTP forum will meet every three months, subject to there being sufficient issues for discussion. The role of the forum will include the development of the CTP, its data dictionary and any operational codes of practice. We will host the forum and provide the secretariat role until the management of the forum can be run independently of us.

Our current proposal is that a wider water industry advisory group should run in addition to the CTP forum. The advisory group could look at access codes and potential licensee testing provisions if required.

We will monitor and develop the WSL regime. This should entail assessing customer activity. Therefore, the CTP forum should not be required to investigate instances of high or low customer activity. The CTP forum may however suggest making changes to help the CTP work more effectively.

The CTP sub-group carried out a pilot study to decide whether the principles of the CTP work in practice. The results of the study proved the transfer process to be an overall success.

### **3. Final regulatory impact assessment**

#### **3.1 Purpose and intended effect of the customer transfer protocol**

Our consultation on the CTP formed part of the framework for implementing the WSL provision of the WIA91, amended by WA03. Prospective suppliers were able to apply for a Water Supply Licence from 1 August 2005, with the overall regime starting on 1 December 2005.

In the partial regulatory impact assessment (RIA) we identified that to protect water quality and to promote competition, there need to be rules and procedures to govern how water undertakers will provide access to their supply systems. Although relevant standards have to be met, these rules should not be so burdensome on water undertakers and licensees that they deter competition.

Due to the complex nature of this regulatory regime and the difficulty in predicting how a competitive market will develop, the assessment of costs and benefits in this final RIA is mainly qualitative. Although there will be a degree of fixed costs associated with the start up of competition, we expect that the scale of these will be limited because of the size of the initial market. Over the longer term however, we expect that the extent and magnitude of costs and benefits will depend on the number of licensees and the level of competitive activity in the market.

##### **3.1.1 Responses to the partial regulatory impact assessment**

We received 34 responses to the consultation and only a small proportion of the respondents commented on the draft RIA. Respondents generally agreed with our approach, including our preference for option 2.

Our assessment of the benefits and costs to the industry follows.

#### **3.2 Options and rationale**

Although there are no express provisions in the WIA91 prescribing a process for customers to change supplier, we recognise that a simple and standardised process is required and this is set out in the CTP. This is to ensure that customers can easily change supplier and essential information is exchanged and verified between suppliers.

To ensure water undertakers and licensees follow the CTP, standard licence condition 6 and condition of appointment S require licensees and water undertakers to abide by the CTP once it has been served on them and provides that any changes to it will need to be approved by us.

Given that legislation does not require us to produce a CTP, we have identified and considered two options for this policy area.

- **Option 1:** do not produce a CTP, as there is no statutory requirement to do so.

- **Option 2:** produce a CTP setting out the obligations and process for water undertakers and licensees.

### **3.3 Summary of costs and benefits to support the adoption of option 2**

This section provides a summary of the costs and benefits associated with the adoption of option 2. This section explains why we favour this option.

#### **3.3.1 Benefits**

##### **Benefits to Ofwat**

We will be able to maintain some involvement without being overly controlling, while reducing risks that might be encountered if a ‘hands-off’ approach were adopted. We are confident that water undertakers and licensees will understand the CTP. As we expect the number of disputes to reduce over time, we will be required to invest less time (and hence incur less cost) in dispute resolution. By involving water undertakers and licensees in change management, changes will be voted on at the CTP forum and we will veto or approve final changes.

##### **Benefits to water undertakers and licensees**

- Reduces the uncertainties for water undertakers and licensees, by setting out clear processes and procedures to follow.
- Enables water undertakers and licensees to plan for customer transfers.
- Enables water undertakers and licensees to be involved in assessing ongoing change requirements (for example, new customer information data fields) and to implement minor changes to the CTP.

##### **Benefits to customers**

- Customers will have greater confidence that the CTP will be successful. Option 2 should enable effective customer transfers and ensure that transfers are timely and accurate.
- The processes and procedures set out within the CTP should ensure that customer involvement in the CTP is relatively high level.
- Benefits to Ofwat of less time and costs spent on the CTP will also benefit customers through the reduction of water bills. Water bills will include Ofwat’s costs associated with the WSL regime.

#### **3.3.2 Costs**

##### **Costs to Ofwat**

A prescriptive CTP should minimise the number of disputes that we receive. Although we would incur some increased administration and timing costs initially from dealing with dispute resolution, we expect these costs to reduce over time as we gain more experience.

### **Costs to water undertakers**

Water undertakers will incur some costs associated with the CTP. However, running a registration system in their area of appointments and sending data using electronic transfer of information by e-mail is the most cost-effective and proportionate way of implementing the CTP. It will minimise costs while still enabling effective customer transfer.

### **Costs to licensees**

Licensees will also incur small costs to ensure that they store their customers' data efficiently and are able to pass on information as part of the CTP. Similarly to water undertakers, costs incurred by developing a system to store customer data should prevent greater costs being incurred later on if an attempted transfer ends in a dispute with the water undertaker.

### **Costs to ineligible customers**

The costs incurred by water undertakers associated with implementing the CTP will not be recoverable from their customers. Water undertakers' general costs associated with the WSL regime, such as those incurred under the CTP, are likely to be small. To the extent that administering the WSL regime does add to a water undertaker's operating expenditure, this will be incorporated as part of the water undertaker's base operating costs when price limits are next set in 2009.

Costs incurred by Ofwat will be recovered from water undertakers and licensees. However, as our experience of dealing with competition related queries and resolving disputes develops, the time taken to process them should reduce, and our costs should decrease.

### **Costs to Consumer Council for Water**

CCWater has no powers to resolve disputes that may arise from the CTP. Therefore, we do not expect CCWater to incur costs in this area.

# **Appendix 1: Eligibility, licensing, customer transfer protocol and strategic supplies consultation – list of respondents**

## **Potential licensees**

Aquavitae UK  
C2C  
Scottish Water  
Waterlevel

## **Water undertakers**

Anglian Water  
Bournemouth & West Hampshire Water  
Bristol Water  
Dee Valley Water  
Dŵr Cymru – Welsh Water  
Folkestone & Dover Water Services  
Northumbrian Water  
Portsmouth Water  
Severn Trent Water  
South East Water  
Sutton & East Surrey Water  
Tendring Hundred Water Services  
Thames Water  
Three Valleys Water  
United Utilities  
Wessex Water  
Yorkshire Water

## **Other stakeholders**

Drinking Water Inspectorate (DWI)  
EIC  
Electralink  
Gemserv  
House Builders Federation  
Local Authority and Government Utilities Resource (LAGUR)  
Major Energy Users Council Limited (MEUC)  
Mr Malcolm J Sutcliffe  
The Chartered Institute of Purchasing and Supply (CIPS)  
The Energy Consortium  
University of West of England  
Water UK  
WaterVoice