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ICoSS response to the Ofgem / BEIS consultation regarding Flexible and Responsive Energy Markets

The Industrial and Commercial Shippers and Suppliers (ICoSS) group is the trade body representing non-domestic industrial and commercial (I&C) suppliers in the GB energy market. Members collectively supply three-quarters of the gas needs of the non-domestic sector as well as half of the electricity provided by non-domestic independent suppliers¹.

Executive Summary

We are responding to these questions to provide an understanding to BEIS and Ofgem of the challenges our members experience in the sectors they operate in. In particular we would draw attention to the clear need for regulation of Third-Party Intermediaries (TPIs).

TPIs should be recognised as providing an essential role in the business energy market through stimulating competition, driving innovation and signposting customers. We support the introduction of a licencing regime for TPIs, which will build confidence and ensure appropriate behaviour, to the benefit of the market as a whole. We note that Ofgem has previously developed a working regime whereby energy suppliers must only utilise accredited suppliers and we continue to support this solution.

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More widely, we see the non-domestic market as fundamentally sound and we do not see the case for significant change to either how suppliers engage in the market or the protections that non-domestic customers receive.

Please note that as the non-domestic energy supplier trade body that we have only considered the non-domestic sector in our response.

Question Responses

Question 1: Do you agree with our vision for the future of the energy retail market, the outcomes we are seeking to achieve and our characterisation of the key challenges we need to overcome?

Question 2: Are there examples of new products, services and business models that would benefit current and future consumers, but are blocked by the current regulatory framework?

Question 3: Are there current or emerging harms to energy consumers which are currently out of scope of the regulatory framework? Do these differ for domestic and non-domestic consumers?

TPIs provide an essential role in the business energy market by stimulating switching and increasing market engagement. The concerns over the actions of TPIs and the potential detriment that mis-selling or other negative behaviours can have have existed for some time. Whilst this issue cannot really be considered as an “emerging harm”, we are of the opinion that action to tackle this problem is overdue.

We have always supported enhanced regulation in this area and believe it is appropriate that any regulation is undertaken centrally through legislation. It would not be appropriate for suppliers to regulate TPIs as they both utilise TPIs services on a commercial basis, and compete with them in the marketplace. The only way to ensure a robust regulatory framework is that TPIs are individually licenced and overseen by Ofgem, with suppliers only engaging with accredited brokers.

We do have concerns that this issue may not be addressed by either this review, or Ofgem’s current Microbusiness strategy review as both are implying it will be covered by the other; clarity should be given as to how and when this issue is to be addressed with a clear workplan developed with a view to solving this problem as soon as possible.

Question 4: Would it be beneficial to allow suppliers to specialise and provide products and services to targeted groups of customers? If so, how can this be delivered while balancing the need for universal service?

ICoSS members are already specialised to a degree by virtue of the segment of the market they service. Customers in the non-domestic sector have a myriad of requirements and have a significantly larger appetite for bespoke services and products. Moreover, a key reason as to why the business sector is more competitive is that there is an opportunity for suppliers to differentiate their services and products from their competitors, so it is essential that they continue to be free to do so.

Question 5: Are incremental changes to regulation sufficient to support the energy transition and protect consumers? Or does this require a more fundamental reform, such as moving to modular regulation?

Question 6: Are there any other potential market distortions we should be considering as part of our review?

Overall, ICoSS and its members are satisfied with the current market arrangements for the non-domestic sector, which experiences much higher levels of competition, and we do not see the case for fundamental reform. We are wary of moving away from the current market arrangements. Recent interventions by the CMA in the microbusiness sector have had some negative consequence. Members have reported significant increases in customers moving to more expensive deemed contracts owing to the banning of automatic contract rollovers, for example.

Question 9: What effect does the range of Energy and Climate Change Policy Levies have on the retail market?

Question 10: What actions could government take to reduce any negative impact of Energy and Climate Change Policy Levies?

The Energy and Climate Change Policy Levies (such as RO, FITs, etc) creates a significant administrative burden in calculating and collecting the payments, as well as the risk of additional, unforeseen costs from other suppliers defaulting on their payments. We would support such levies being funded via central taxation.

Question 11: Do you agree that now is not the time to make further changes on system and network cost recovery, metering and access to data as part of this retail market review?

Though we understand that there is work being undertaken by BEIS in this area separately, the Smart Metering rollout programme needs to be addressed urgently. As we have communicated before, the 2020 target is going to be missed by a significant margin, and there is not a viable

smart metering solution for many, if not a majority, of non-domestic premises. The plan needs to be revised to provide a realistic timeline for delivery and to allow suitable alternatives to SMETS2 meters in non-domestic premises.

There also needs to be work done in addressing Supplier of Last Resorts (SoLR) costs, which are recovered via transportation charges. At present gas shippers are exposed to the costs of providing gas to failed suppliers with no means of recovery or way to mitigate the costs. This issue needs to be addressed, as otherwise small suppliers will be unable to find a shipper and be forced to purchase on the imbalance market to the detriment of customers, security of supply and competition.

Question 12: What total costs do suppliers face with regards to bad debt and supporting consumers who struggle to pay for their energy?

At present bad debt levels in the non-domestic are manageable as there is an expectation that customers pay for their energy or face disconnection. It should be noted that in the non-domestic market energy supply is used to further business activities, not to maintain health and well-being; there is not the same need to maintain minimal levels of supply to prevent loss of life. Non-domestic suppliers therefore should retain the ability to use all measures to manage the debt from non-domestic customers to ensure debt levels do not become unsustainable.

Question 14, 15 & 16: Would addressing market distortions (for example size-based obligation thresholds for some policy schemes, supporting those who are struggling to afford their energy bills) help reduce incentives for suppliers to adopt pricing strategies that lead to excessive prices for loyal consumers? If so, to what extent (providing quantitative evidence, where possible)?

What are your views on the measures being considered to address loyalty penalties in different markets? What approach or – combination of approaches – would be most effective in the energy retail market?

What other approaches could be adopted to ensure loyalty penalties do not re-emerge?

We have no opinions to offer with respect to the domestic market.

Question 17: What protections or support may be required to engage consumers in vulnerable situations in the future market?

We do not consider there to be to be any requirement for protections or support in engaging with vulnerable customers in the non-domestic sector as they are businesses.

Please do not hesitate to contact me should you have any questions with respect to this response



Yours sincerely,

A handwritten signature in grey ink, appearing to read "G. Evans".

Gareth Evans

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