

**Response submitted by Iceland Foods Limited**

**Existing Electricity Supplier: REDACTED**

**Annual Consumption: REDACTED**

**Q1. Do you have evidence of suppliers not being proportionate or reasonable regarding charges necessary to secure a contract, including security deposits? If so, please provide us with details.**

Suppliers being proportional or not has been impossible to ascertain during this energy crisis. Customers have no visibility of supplier costs, specifically as directly related to that customer. Whilst volatility and price in the wholesale market has been unprecedented, prices are now at a much more stable level. Volatility therefore should no longer be used as a reason to pass additional cost onto customers.

Security deposits have become the new normal to the industry where credit insurers are removing cover. With prices and volatility significantly higher in the last 12 months than before the Russian invasion of Ukraine, pre-existing levels of credit insurance are no longer suitable for supply contracts. These security deposits are having significant impact on customers, tying up large quantities of cash, impacting liquidity, and removing the opportunities to invest and grow.

Collateral, or transaction, fees are also now being charged by some suppliers to hedge forward trades. As a responsible flexible procurement customer with a risk management policy in place we would normally be buying forward up to 3 years in advance. We have seen transaction fees associated with this strategy top £2m per year just to make the trades on our behalf. These fees are allegedly past through at cost yet no evidence of this has been provided for support. It is also worthy of note that these fees were not charged during the high price high volatility period but are instead being charged today at significantly lower and more stable prices.

**Q2. Do you have suggested solutions to the concerns around high costs requested to secure a contract and manage risk?**

A centrally funded and supported credit insurance policy could be the answer to support all business'. If all UK customers were in a single combined policy that suppliers could access, the risk associated with any one customer failing would be insignificant. All suppliers could fund this policy through volume linked premiums and pass on to customers through standard processes, namely 'supplier margin'.

Government supporting an initiative like this would prove invaluable to many business' struggling with liquidity related issues around security deposits. Any support therefore would not require direct cash support to individual business.

Another option of government support could be to create a fund that becomes available for suppliers to claim against if a business fails and defaults on any outstanding monies due. This would require significant cash support to set up, but these costs could be reimbursed through established industry charges, (for example climate change levy).

Either of these options would significantly improve opportunity for business by freeing up cash to reinvest and grow.

**Q3. Do you believe there has been an improvement in terms to contract as market conditions start to show signs of improvement? Please explain your answer.**

Absolutely not. If anything, the situation has worsened. Suppliers are attempting to remove every element of risk from their business by passing it directly onto their customers. The customers then have no option but to pass these costs on where they can or absorb them. The first option fuels the cost-of-living crisis and the second could see many businesses fail. With security deposits, collateral (transaction) fees, and increased risk premiums, cash flow for business has never been more of a problem while suppliers have vast quantities of other people's money sat on account 'just in case'!

**Q6. Are there any other matters not discussed above related to pricing and contractual behaviour that you would like us to explore? Please provide details and your reasons.**

With regard to security deposits, there appears to be no standard framework in how their value is determined, and little or no incentive to review or return them. If a security deposit is required to enter a contract, a supplier should be reviewing regularly to ensure it is still valid. If a supplier's credit insurer rejects an individual customer, the supplier's immediate reaction would be to request a security deposit rather than seek an alternative solution.

Moreover, if a security deposit is taken and a customer wants to change suppliers, there is little possibility of having an original deposit returned prior to putting additional money towards a new deposit. Suppliers are quoting their risk as the delivered-unpaid element of supply. On 30-day payment terms this amounts to some 3 months' worth of billing. It would therefore follow that they would not return a security deposit until 3 months after a contract ends. A customer's new supplier would require a security deposit to be in place on day 1 of a new contract meaning the customer would have to double up on their outlay for 3 months. This in itself would price people out of the possibility of ever-changing suppliers, trapping a customer in a potentially damaging contract.

**Q12. Are there any other issues you would like to highlight related to competition in the non-domestic supply market? Please provide detailed explanations.**

Regarding credit insurance, it does now appear that suppliers are applying these credit requirements like a cartel. For a new contract, the value of a security deposit is now more important to customers than the pricing structure of the contract itself. It is highly likely that customers will suffer high or inaccurate supplier charges if they can reduce the amount of upfront deposit. In this scenario suppliers can continue to add more and more risk premiums into contract pricing, knowing customers will have little or no choice but to accept.

**Q13. Do you believe that there are segments of the non-domestic supply market, other than microbusiness customers, where there is not sufficient market pressure to correct any potential inappropriate supplier behaviours? Please provide detailed descriptions of these customers and evidence to explain your view, including what aspects of harm the regulations would need to help protect against.**

Again regarding the issue of security deposits, suppliers do not appear to be under sufficient obligation to return these following contract termination. As an example, REDACTED are currently in possession of a £400k deposit held for sites that were migrated to an alternative supplier circa 2 years ago. Having chased this with the supplier every day for the past 2 months, there is still no confirmation of when this money will be returned. Although this has only recently come to light, due to the sites sitting within a different part of the business, REDACTED, (or any other supplier), should return this deposit without any requirement to officially request it back as soon as the contract ends. A customer should not have to log an official complaint with either the supplier or with OFGEM before the process can even start.

If you wish to discuss any part of this response, please do contact me directly on the numbers below.

Yours sincerely

REDACTED