



Sent by email only to RetailStakeholderTeam@ofgem.gov.uk

31 May 2023

Dear Sirs,

Consultation on framework for consumer standards and policy options to address priority customer service issues

Verastar Ltd ("Verastar", "we" or "our") supplies multiple services including gas (under our Economy Gas supply licence), electricity (under our Sinq Power supply licence), water, insurance and telecoms to over 130,000 business customers, approximately 18,000 of which are supplied with gas and/or electricity.

In providing these services, we are regulated by Ofgem, Ofwat, WICS, the FCA and Ofcom. Our experience of operating in multiple regulated industries provides valuable insight into the supply of services to business customers under different regulatory frameworks. We welcome the opportunity to provide our views on the non-domestic gas and electricity market, drawing on our experiences in other regulated sectors.

As a non-domestic supplier, our response focuses on the Consumer Standards Framework. We will be actively engaging with the non-domestic market review workstream when it is published in the Summer.

Consumer Standards Framework

7. Do you have any comments on the factors that should be considered in determining whether to use a principle-based or rule-based approach to setting standards?

As the priorities for the non-domestic market have not yet been confirmed, we are unable to comment on how the Consumer Standards Framework would best address these. However, we support Ofgem's continued focus to move toward more principle-based regulation, whilst recognising the need to strike a balance between prescriptive and outcome-based rules.

The energy market is facing a challenging time. We know that the energy industry does not have a one-size fits all approach and innovation is often borne out of the complex challenges suppliers face. Principle-based regulation around consumer standards will allow the range of suppliers across the industry to continue to create customer-centric diversity and competition in response to existing and emerging challenges, allowing customers to choose a supplier that delivers benefits to suit their individual needs.

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Of course, we understand that there needs to be a balance where industry-wide issues require consistent action from suppliers (for example, standards around the switching process, disconnection timeline, billing and supplier of last resort) or where there is specific evidence of consumer harm that requires enhanced protection. We also understand that certain exceptional events may require prescriptive and immediate rules, such as Covid and the war in Ukraine. However, such rules should supplement rather than undermine the benefits of principle-based regulation.

Where prescriptive rules are put in place, it should be clear in terms of language, scope and application. The objective of the rule should also be the key focus to ensure that the action required under the rule is achieving the outcome. Without this, such regulation risks becoming a tick-box exercise without improving customer standards. .

Such rules should also be subject to a clear review period or, in the case of exceptional events, a sunset clause, to ensure that they remain relevant and appropriate, and that the objective of the regulation is being achieved.

Mandatory vs. voluntary standards

We do not agree that voluntary standards should be used in the Consumer Standards Framework.

It is important for consumers to be able to see the minimum mandatory standards that suppliers must comply with and to be able to evaluate the suppliers' performance against these standards. Using voluntary standards creates a lack of transparency around expectations, particularly when they are used for early adoption of mandatory standards coming into force (for example, the Code of Practice on the forced installation of pre-payment meters).

Best practice and guidance documents help suppliers understand how they can meet or exceed the minimum expected standards. These documents should not be presented as voluntary standards but rather supplement, and be directly linked to, the relevant mandatory standard.

8. Do you agree with our early view of reputational based incentive options for Winter 2023 and the potential incentive options for development over the longer-term? Please provide explanations to support your responses.

Winter 2023

We agree that reputational based incentives increase the level of transparency on customer service related issues and drive improvement in customer service standards. We understand that Ofgem is proposing to test and trial a reputational incentive publicising customer survey results/ratings from a third-party organisation that collates data on energy suppliers.

We would welcome more details on how Ofgem proposes to introduce a customer survey or rating, including the specific metrics that would be measured and the frequency of data collection and

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publication. Without this detail, we are unable to comment on our support of this proposal but have some initial thoughts on the challenges this might present:

1. **Metrics:** The customer survey/rating would need to measure the same customer outcomes across all customer segments and suppliers and results must be levelled to account for the range of supplier size across the industry. For some suppliers, the metrics that are being measured may not currently be reported on and to introduce such reporting could be a big change in reporting requirements.
2. **Customer survey responses:** whilst it would be a regulatory requirement for suppliers to publish customer survey results, there is no requirement for customers to respond to such a survey. Low response rates or a more vocal dissatisfied base could present a biased view of customer satisfaction.
3. **Implementation and ongoing costs:** hosting a customer satisfaction survey/rating with a third-party will inevitably come at a cost. Whilst we agree that reputational incentives are a useful tool, we would question whether the cost of this particular measure would be proportionate to the outcome.
4. **Qualitative vs. quantitative:** qualitative data would be the best source of data to identify emerging issues and prevent a customer survey/rating becoming a tick-box exercise, diverting resource from the areas of most importance; however, qualitative data can take a long time to analyse and can result in data that is too granular for comparison.

Given the challenges associated with hosting a customer survey/rating with a third-party, more proportionate options could be considered to achieve the same outcome. For example, all suppliers could be required to publish their performance against specified metrics for customer experience/satisfaction, or links to existing sources of customer surveys/ratings such as Trustpilot.

Long-term incentives

Reputational incentives – As stated above, we believe that reputational incentives improve transparency and drive improvement in customer service standards. Allowing customers to access and easily compare information on suppliers' performance helps them make informed choices about their supplier. However, when publicising any metrics, Ofgem should be clear, what the minimum standard expected is and how suppliers are performing against this. Without clearly stating this expectation, any league table or performance information may simply show who is underperforming the least.

Regulatory incentives – we do not consider that the increased reporting regulatory incentive proposed by Ofgem will achieve the expected outcome. Suppliers are already subject to a significant amount of reporting requirements from Ofgem, which will only be increased by the introduction of the monitoring framework for consumer standards. Introducing more granular reporting for 'poorly performing' suppliers with no clear objective will divert resource away from the areas and consumer standards suppliers need to improve on.

Financial incentives – we have seen financial incentives work well in other regulated sectors, but it is not always the most effective way to drive improved consumer standards. Financial incentives should be carefully considered and mapped to agreed outcomes and metrics to ensure that they are targeted to and able to address the root cause of the issue, particularly if they are to be automatically applied.

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This includes ensuring that the responsibility in the supply chain is established and that the metric/outcome is solely in the suppliers' control.

In general, we are supportive of a Consumer Standards Framework to drive improvements in customer standards. However, any measures included under the framework must be carefully considered in reference to the priority issues and achieve the intended customer outcomes.

If you have any queries regarding our response, please do not hesitate to contact me at rachael.spencer@verastar.co.uk.

Yours sincerely,

Rachael Spencer
Compliance Risk Analyst

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