

# Impact Assessment

## Draft impact assessment on non-domestic market review proposals

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<b>Division:</b>	Future Retail Markets
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### Summary:

The document provides a draft impact assessment of the costs and benefits of the proposed licence changes outlined in the accompanying statutory consultation. These include signposting to relevant customer support services, expansion of complaints handling and Standards of Conduct requirements on suppliers and the expansion of Third Party Intermediary (TPI) redress scheme membership and service fee transparency obligations. We welcome views on this document and encourage stakeholders to respond to questions 1 and 2 section of the statutory consultation<sup>1</sup> which relates to this impact assessment. We will provide an amended and final impact assessment with the decision following this statutory consultation.

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<sup>1</sup> <https://www.ofgem.gov.uk/publications/non-domestic-market-review-findings-and-statutory-consultation>, page 9

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# 1. Introduction

## Section summary

This section outlines the problem under consideration and why Ofgem intervention is necessary. It also covers the policy objectives and intended effects of the proposed policy options.

1.1. The purpose of this document is to set out a draft impact assessment of the proposals set out in the Statutory Consultation.<sup>2</sup> The document includes the options we have considered, an overview of the costs and benefits, any assumptions we have made, a discussion on possible risks and discussion on wider impacts. We have also included a request for feedback on this Impact Assessment as part of the Statutory Consultation. Please refer to the Statutory Consultation for the full list of related questions.<sup>3</sup>

1.2. We outlined the issues, evidence and policy objectives in detail in the July Policy consultation<sup>4</sup> and the Statutory Consultation.

1.3. This document has three sections: description of options, costs and benefits, and wider impacts. The description of options section provides a brief overview of the different options considered by the impact assessment for each policy area. The costs and benefits section covers the overall costs of all proposals and looks at the non-monetised benefits and costs of each proposal.

1.4. Finally, the wider impacts section covers the following areas:

- impacts on Third Party Intermediaries (TPIs),
- competition impacts,
- distributional analysis of the costs,
- administrative burden, and
- risks and unintended consequences.

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<sup>2</sup> <https://www.ofgem.gov.uk/publications/non-domestic-market-review-findings-and-statutory-consultation>

<sup>3</sup> <https://www.ofgem.gov.uk/publications/non-domestic-market-review-findings-and-statutory-consultation> page 9

<sup>4</sup> <https://www.ofgem.gov.uk/publications/non-domestic-market-review-findings-and-policy-consultation>

1.5. The remainder of this introduction briefly sets out the context for this impact assessment including the issues we are trying to address and our strategic policy objectives.

## **What is the problem under consideration? Why is Ofgem intervention necessary?**

1.6. The market turmoil of last year created enormous stress for households, businesses, and suppliers. As part of the non-domestic market review, we took a close look at our regulatory framework, and found areas where either Small Business Consumers or all Non-Domestic Customers clearly needed more support in line with the protections currently afforded to Micro Business Consumers. These include Standards of Conduct (SoC), Complaints Handling Standards (CHS), signposting to relevant customer support services, Third Party Intermediary (TPI) service fee transparency and ensuring suppliers securing Small Business Consumer contracts through TPis only work with TPis who are a member of a Qualifying Dispute Settlement Scheme (QDSS).

## **What are the policy objectives and intended effects including the effect on Ofgem’s Strategic Outcomes?**

1.7. Our reforms are intended to improve Non-Domestic Customers’ experience of the energy market through implementing obligations around SoC, CHS, access to TPI redress schemes, and TPI service fee transparency. Under our Consumer Interest Framework,<sup>5</sup> our reforms are aiming to improve “Quality and Standards”, by ensuring that energy suppliers are accessible, transparent, and responsive to their customers’ needs.

1.8. This ambition is in line with our strategic vision that by 2025 energy consumers are receiving good value energy services and fair treatment from innovative and world-class energy companies.

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<sup>5</sup> [https://www.ofgem.gov.uk/sites/default/files/2023-08/Competition%20Framework%20Final%20for%20Publication\\_10-08-23.pdf](https://www.ofgem.gov.uk/sites/default/files/2023-08/Competition%20Framework%20Final%20for%20Publication_10-08-23.pdf), page 8

## 2. Description of Options

### Section summary

In this chapter we set out our options for assessment, which are based on whether the licence modifications we are consulting on should be extended to some or all Non-Domestic Customers, not just Micro Business Consumers.

### Summary table for all options

2.1. Table 1 outlines the options considered to amend licence conditions<sup>6</sup> to require clearer signposting for Micro and Small Business Consumers to Citizens Advice consumer services<sup>7</sup>. Table 2 below outlines three different options we have considered for intervention for the remaining proposals. These options differ based on whether to extend some of the existing Micro Business Consumer protections to Small Business Consumers or all Non-Domestic Customers. The preferred option for each policy proposal is highlighted in green.

**Table 1: Signposting to relevant customer support services options**

Title	Description
Option 1: Do nothing	No specific licence condition would be created for signposting Citizens Advice and suppliers can choose whether they do or not.
Option 2: Add a licence condition	<b>Preferred option</b> This option would require that all non-domestic suppliers must provide signposting to Citizens Advice for all Small Business Consumers.

**Table 2: Preferred options for Standards of Conduct, Complaints Handling Standards, and TPI measures.**

Option/ Measure	Standards of Conduct (SoC)	Complaints Handling Standards (CHS)	TPI redress scheme membership	TPI service fee transparency
Option 1: Do nothing	The existing standards of conduct (Standard Licence	This option would continue with the current rules which cover Micro	The existing rules continue to apply, where non-domestic	The existing rules continue to apply, where non-domestic

<sup>6</sup> <https://www.ofgem.gov.uk/publications/non-domestic-market-review-findings-and-statutory-consultation> , gas and electricity licence notices.

<sup>7</sup> In this document, where we refer to signposting to Citizens Advice this should be read as signposting to Citizens Advice and Citizens Advice Scotland

Option/ Measure	Standards of Conduct (SoC)	Complaints Handling Standards (CHS)	TPI redress scheme membership	TPI service fee transparency
	Condition (SLC) 0A) continue to only apply to Micro Business Consumers.	Business Consumers.	suppliers securing Micro Business Consumer contracts through a TPI can only work with a TPI who is signed up to a Qualifying Dispute Settlement Scheme (QDSS).	suppliers must include in the Principal terms, and upon request, the TPI service fee, as a total £ value for the term of the contract (lump sum) for Micro Business Consumers only.
Option 2: Extending to Small Businesses	This option would extend the above rules from Micro Business Consumers to Small Business Consumers also as defined by employee numbers and turnover or their consumption level for gas or electricity.	<b>Preferred option</b> This option would extend the above rules from Micro Business Consumers to Small Business Consumers also, as defined by employee numbers and turnover or their consumption level for gas or electricity.	<b>Preferred option</b> This option would extend the above rules from Micro Business Consumers to Small Business Consumers also as defined by employee numbers and turnover or their consumption level for gas or electricity.	This option would extend the above rules from Micro Business Consumers to Small Business Consumers also as defined by employee numbers and turnover or their consumption level for gas or electricity. It would also require a change to the format of disclosure to include a cost per unit.

Option/ Measure	Standards of Conduct (SoC)	Complaints Handling Standards (CHS)	TPI redress scheme membership	TPI service fee transparency
Option 3: Extending to all Non- Domestic Customers	<p><b>Preferred option</b></p> <p>This option would extend the rule to apply for all Non-Domestic Customers.</p>	<p>This option would extend the rule to apply for all Non-Domestic Customers.</p>	<p>This option would extend the rule to apply for all Non-Domestic Customers.</p>	<p><b>Preferred option</b></p> <p>This option would extend the rule to apply for all Non-Domestic Customers and require changes to the format of disclosure to include a cost per unit, whilst retaining the lump sum disclosure for Micro Business Consumers.</p>

### 3. Costs and benefits

#### Section summary

This chapter outlines our estimated costs and non-monetised benefits of the policy proposals that require licence changes as outlined in the accompanying statutory consultation.

#### Summary of costs

3.1. The following tables show the one-off costs and annual ongoing costs to the market for each policy proposal. A total cost and an average (weighted mean) cost per customer is included. When calculating the average cost per customer, we used the sum of the costs which were provided<sup>8</sup> by suppliers as part of a formal Request for Information we sent to suppliers in September ('the September RFI')<sup>9</sup> and divided these costs by the number of customers benefitting from the new policies for these suppliers. To obtain the total costs for each policy, the costs per customer were multiplied by the total number of customers benefitting from the policy (including the customers of suppliers who had not provided their costs). Therefore, these total costs were estimations based on costs provided by the majority of suppliers which were scaled up to the whole market.

3.2. Tables 3 and 4 show the one-off and ongoing costs respectively relating to each policy.

3.3. The costs of expanding policies to all Non-Domestic Customers for Standards of Conduct (SoC), TPI redress scheme membership, and TPI service fee transparency are included as these were the costs provided as part of the September RFI. For TPI service fee transparency and SoC, these costs represent the cost of the preferred options (stated in table 1). However, for the TPI redress scheme membership, the preferred option is to expand to Small Business Consumers only rather than the whole non-domestic market so costs for the preferred option may differ from those shown in the table (Further detail is provided in the "Third Party Intermediary redress scheme membership" section below).

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<sup>8</sup> The percentage of Non-Domestic Customers (benefitting from each policy) whose costs were provided by their suppliers differed for each policy but ranged from 81% to 95% for all policies' set up and ongoing costs except two: The ongoing costs provided by suppliers for expanding the SOC and set up costs for expanding CHS included 72% and 61% of the non-domestic non-Micro Business consumer market respectively.

<sup>9</sup> This was an RFI sent out to 60 non-domestic suppliers on 8 September 2023 (with a response deadline of 6 October 2023).



3.4. The costs for expanding the complaints handling requirements beyond Micro Business Consumers are based on the natural threshold for each supplier (eg a threshold above which they may appoint an account manager) and so may not align to the specific threshold in our proposal (further detail is provided in the “Complaints Handling” section below).

3.5. The costs for signposting to Citizens Advice are based on a requirement for Micro Business Consumers only whereas the preferred option is to signpost all Small Business Consumers, assuming the government progresses with their proposed regulation change.<sup>10</sup>

3.6. Also, the proposal to change the way TPI service fees are presented for Micro Business Consumers is included but does not relate to a specific preferred option (it is encompassed as part of option 2 and option 3 for the TPI service fee disclosure).

**Table 3: Total (rounded to the nearest £1,000) and per customer (£) one-off costs to the market**

Policy Area	Total one-off costs (£ per year)	Average one-off costs per Micro Business Consumer (£ per year)	Average one-off costs per non-Micro Business Consumer <sup>11</sup> (£ per year)
<b>Standards of Conduct (SoC)</b>	£1,536,000	n/a	£11.42
<b>Complaints Handling Standards (CHS)</b>	£1,870,000	n/a	£13.90
<b>Signposting to relevant customer support services</b>	£268,000	£0.14	n/a
<b>TPI redress scheme membership</b>	£302,000	n/a	£2.24
<b>TPI service fee transparency presentation</b>	£1,762,000	£0.93	n/a

<sup>10</sup> <https://www.gov.uk/government/consultations/new-threshold-for-businesses-accessing-the-energy-ombudsman>

<sup>11</sup> Non-Micro Business Consumer refers to all non-domestic consumers who are not Micro Business Consumers. For the purposes of our analysis, all non-domestic consumers who use over 100 MWh annual consumption for power or over 293 MWh annual consumption for gas are classed as non-Micro Business Consumers.

Policy Area	Total one-off costs (£ per year)	Average one-off costs per Micro Business Consumer (£ per year)	Average one-off costs per non-Micro Business Consumer <sup>11</sup> (£ per year)
<b>TPI service fee transparency</b>	£1,747,000	n/a	£12.99
<b>Total cost of implementing all proposals</b>	<b>£7,485,000</b>	<b>£1.07</b>	<b>£40.55</b>

**Table 4: Total cost (rounded to the nearest £1,000) and per customer ongoing costs (£) per year to the market**

Policy Area	Total ongoing costs (£ per year)	Average one-off costs per Micro Business Consumer (£ per year)	Average one-off costs per non-Micro Business Consumer (£ per year)
<b>Standards of Conduct (SoC)</b>	£1,851,000	n/a	£13.76
<b>Complaints Handling Standards (CHS)</b>	£1,149,000	n/a	£8.54
<b>Signposting to relevant customer support services</b>	£23,000	£0.01	n/a
<b>TPI redress scheme membership</b>	£1,043,000	n/a	£7.75
<b>TPI service fee transparency presentation</b>	n/a	-	n/a
<b>TPI service fee transparency</b>	£263,000	n/a	£1.96
<b>Total cost of implementing all proposals</b>	<b>£4,329,000</b>	<b>£0.01</b>	<b>£32.01</b>

3.7. To calculate the costs provided in Table 3 and Table 4 above, the following assumptions were made:

- We assume that suppliers will pass-on the costs to the customers who will benefit from the measure. We assume that the cost of new measures which

apply to Micro Business Consumers (ie, signposting to Citizens Advice, and TPI service fee presentation change) will be passed onto Micro Business Consumers only; and the costs of the other measures will be passed on to all Non-Domestic Customers except for Micro Business Consumers.<sup>12</sup>

- We assume that costs are incurred per customer account. However, we acknowledge that there could be instances where the cost is incurred on a customer number basis, rather than a per customer account basis.

3.8. The number of customer accounts by consumption band, for power and for gas, were estimated using the total number of Micro Business Consumers and non-Micro Business Consumers (which includes deemed customers) and distributing these across consumption bands in the same proportions as contracted customers (which suppliers provided in the September RFI). All customers in the smallest consumption band (up to and including 100 MWh for power and 293 MWh for gas) were considered to be Micro Business Consumers for the purpose of this analysis and those above this consumption threshold were considered to be non-Micro Business Consumers. We note that there may be some customers with a high annual energy consumption who may have few employees (less than 10) or a low turnover (under €2m) and by definition may be a Micro Business Consumer but would be classed as a non-Micro Business Consumers in our analysis.

3.9. For the suppliers who did not provide their customer numbers<sup>13</sup>, we made assumptions about their total number of customers using other internal Ofgem data, or where that was not available (for one supplier), we used the non-domestic meter point data provided in early 2023 as a proxy for customer numbers.

3.10. We assume that suppliers will pass on the additional on-going costs of these policies onto Non-Domestic Customers in the same way regardless of the type of contract and supplier company structure. We are aware that some suppliers will not bear additional costs for the introduction of one or all measures, because they either already do it for micro-business or for all customers.

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<sup>12</sup> We acknowledge that the Non-Domestic Customers the policies refer to in the preferred options for some policies (access to a TPI redress scheme, complaints handling standards, and Citizens Advice signposting) may differ from these assumptions. However, these assumptions were suitable based on the September RFI data we received. This is outlined more fully in the costs section.

<sup>13</sup> This accounts for 1% of the non-domestic market.

3.11. We expect none of the additional set-up costs, extension costs, administrative, resource or implementation costs to lead to detrimental market exit of suppliers. For the measures that consist of extending existing practices, we expect suppliers with Micro Business Consumers to face lower implementation costs to set up the system.

3.12. Some suppliers provided a range of costs for particular policies. Where this occurred, we used the highest value in the range for the cost calculations in this analysis in order to be conservative in our estimations. To calculate the (weighted mean) cost-per-customer, we divided the sum of costs provided by the number of customers of those suppliers who provided those costs (including £0 costs<sup>14</sup>). We then scaled up to the whole market to all customers benefitting from each policy to calculate the total (set-up and ongoing) costs. We calculated these total costs by multiplying the weighted mean cost-per-customer by the total number of customers benefitting from each policy (including customers of suppliers who had not provided costs).

## **Standards of Conduct**

### **Non-monetised benefits**

3.13. We expect this measure to offer a better and more consistent service to Non-Domestic Customers regardless of their supplier, energy contract or consumption level. Ensuring that all Non-Domestic Customers are treated fairly according to consistent standards will ensure a minimum level of service that could give consumers greater confidence about their supplier and should reduce time and resources lost in resolving energy contract issues. An enforceable SoC will provide an incentive for suppliers to improve behaviour and interactions with consumers or risk enforcement action.

3.14. If consumers are getting a fair service, they are more likely to happily stay with their current supplier, providing stability and benefits to both consumers and energy suppliers, and reducing objections caused by consumers trying to switch mid-contract. When a contract ends, consistent fair treatment across the market should allow consumers to feel more confident about switching to a new supplier. A high level of switching may lead to a change in pricing behaviour by suppliers, in an attempt to maintain margins. Under a conservative, low risk strategy, suppliers will tend to decrease rollover prices, to try and retain their current customer base, while making acquisition rates slightly less attractive.

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<sup>14</sup> Suppliers who did not provide costs were not included in the cost-per-customer calculations.

There is also scope for suppliers to become more efficient in order to preserve margin, in which case benefits to consumers could potentially be greater.

3.15. These benefits combined should help further improve trust in the market. However, we do recognise it is difficult to estimate the quantified benefits that will follow from this measure, mainly as it is unpredictable how long it would take for consumers to realise the benefits of this policy and it would take time to translate into improved trust and engagement.

3.16. We know many customers are already receiving a fair service from their supplier, however when things go wrong, we can expect the expansion of the SoC to also reduce the number of complaints and the length of time taken to resolve them. This should further free supplier resources to focus on more positive engagement with customers, or lower overheads, and ultimately bills.

## **Costs**

3.17. The total set-up cost<sup>15</sup> to the market for the preferred option (Option 3), of extending the SoC to all Non-Domestic Customers is estimated to be £1.5m, and the ongoing costs<sup>16</sup> for this policy are estimated to be £1.9m per year. These set up costs equate to roughly £11.42 per non-Micro Business Consumer for set up costs and £13.76 per customer per non-Micro Business Consumer per year for ongoing costs. These are the costs scaled up to the whole non-Micro Business Consumer market using costs provided from suppliers which covered 81% and 72% of non-Micro Business Consumers.

## **Complaints handling**

### **Non-monetised benefits**

3.18. In Ofgem's Consumer Interest Framework, the 'Quality & Standards' consumer interest is described as a short-term strategic priority, with three sub-objectives, one of which is accessibility and responsiveness. We expect that the improvements in complaints handling as a result of expanding the Complaints Handling Standards (CHS) to Small Business Customers will mainly improve the accessibility and responsiveness of suppliers,

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<sup>15</sup> Set-up costs include marketing, training and recruitment of staff, design and development costs, IT system changes, documentation reviews, communications and legal costs.

<sup>16</sup> Ongoing costs include similar components to set-up costs for the policy minus marketing costs plus monitoring costs.

which will contribute to improved quality and standards. We expect the benefits to be distributed evenly across Small Business Consumer groups as we have no evidence to suggest that only consumers with specific characteristics of the population will benefit from this measure over others.

3.19. It is reasonable to expect that expanding the CHS to Small Business Customers will lead to a decrease in the number of complaints unresolved across the market as energy companies put in place improved processes to meet the prescribed standards set out in the regulations.<sup>17</sup> We acknowledge that we cannot say for certain that the expansion of the CHS to small businesses would result in a decrease in the average time taken to resolve complaints for these consumers given the variety in the nature and complexity of complaints that suppliers must resolve. However, the CHS will ensure that customers are able to access the Ombudsman after 8 weeks, providing more certainty on when an issue will ultimately be resolved and ensuring customers can receive appropriate support.

3.20. This measure should also achieve a better and homogenised complaint handling process across suppliers. Ensuring that complaints are treated according to set rules will ensure a minimum level of service that could make consumers more confident about switching and widen the choices available to them. Therefore, it is expected to reinforce the supplier-customer relationship or improve the market-wide trust and engagement compared to a pre-policy world.<sup>18</sup>

3.21. We also note that if the government expands access to the Energy Ombudsman, expanding the Complaints Handling Standards to align with that new threshold will also ensure that the new group of customers that can access the Energy Ombudsman are able to do so more easily. This would also prevent confusion among customers.

3.22. We recognise it is difficult to measure and quantify the benefits that will be delivered solely by this policy given the range of other factors that influence complaints handling outcomes. It is also challenging to predict how long it will take for consumer behaviour to respond to the effect of this policy, and when it would result in improved trust and

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<sup>17</sup> Noting we recognise that proving causality will be difficult given other factors at play influencing complaint handling outcomes.

<sup>18</sup> Research commissioned by Ofgem and Government found that most common reasons for customer dissatisfaction with their energy supplier were that they were too expensive (39%), poor customer service (39%), poor communication (38%) and billing issues (31%). <https://www.ofgem.gov.uk/publications/non-domestic-consumer-research-2023-interim-findings>

engagement. Nevertheless, we consider the proposals will make a significant positive difference to Small Business Customers' experience with their supplier.

### **Costs**

3.23. In the non-domestic September RFI, we asked suppliers whether they have different complaints processes for customers of different sizes, and asked what this threshold was or what the criteria was where processes change. Based on each supplier's natural threshold,<sup>19</sup> we asked for their estimated additional set up and annual ongoing costs of extending the CHS up to their threshold. However, the supplier's natural thresholds may differ from the threshold of the preferred option (Option 2) to expand to Small Business Consumers. Therefore, the costs provided by suppliers may not be an accurate reflection of the true costs of this proposal.

3.24. Given the above assumption, the total set up and annual ongoing costs of suppliers expanding to their natural thresholds is estimated to be around £1.9m and £1.1m respectively. This equates to around £13.90 per customer larger than Micro Businesses for set up costs, and £8.54 per non-Micro Business Consumer for annual ongoing costs. To calculate the total costs, we scaled up the set up and ongoing costs data provided in the September RFI covering 61% and 81% of the market respectively to the whole non-Micro Business Consumer base.

3.25. Around half of the non-domestic suppliers<sup>20</sup> indicated that they did not have a natural complaint handling threshold as they treated all customers equally in relation to their complaints handling regardless of customer size. Therefore, suppliers who treat all customer complaints the same will have the same cost for the preferred option of expanding CHS to Small Business Customers (Option 2) as the costs they provided (to expand to their natural thresholds) in the September RFI responses.

3.26. For the remaining suppliers who provided costs data, it is difficult to determine how the costs of extending the CHS up to these suppliers' natural thresholds may differ from extending to Small Business Customers. It would depend on the suppliers' customer bases and how their natural thresholds differ from the Option 2 thresholds.

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<sup>19</sup> The consumption threshold at which suppliers indicated their complaints processes or criteria changed for larger customers.

<sup>20</sup> 28 suppliers (of the 60 non-domestic suppliers for which we received September RFI returns).

3.27. However, the total costs (and costs per customer) for the preferred option for this policy to expand complaints handling requirements to Small Business Consumers are likely to be similar to the costs provided for expanding to suppliers' natural thresholds (£1.9m and £1.1m for total set up and total annual ongoing costs respectively).

## **Signposting to relevant customer support services**

### **Non-monetised benefits**

3.28. We expect improved signposting to Citizens Advice services to improve awareness of available support and to increase the number of consumers accessing this support. The support to Micro Business Consumers provided by Citizens Advice is wide-ranging, and includes providing help if customers are struggling with their bills, switching to a new supplier or dealing with their energy supply if moving premises. This support would also be available to Small Business Consumers if Citizens Advice's role is expanded following Government's proposed expansion of access to the Energy Ombudsman.<sup>21</sup> Clearer signposting to this support would allow Micro and Small Business Consumers to access appropriate advice at an earlier stage which would help resolve issues sooner, resulting in improved consumer protection. In addition, the more customers that reach out to Citizens Advice, the greater will be their ability to identify systemic issues, as the type of issue that is raised is tracked by Citizens Advice and shared where appropriate with Ofgem.

### **Costs**

3.29. The set-up cost to the market of suppliers signposting their Micro Business Consumers to Citizens Advice is estimated to be £268,000 (£0.14 per Micro Business Consumer) and the ongoing costs are estimated to be £23,000 (£0.01 per Micro Business Consumer) per year. These set-up and ongoing costs are the figures we were provided (covering 79% and 77% of the Micro Business market respectively) scaled up to the whole Micro Business Consumer base. Suppliers who already make their customers aware that Citizens Advice can assist in providing information and advice to Micro Business Consumers<sup>22</sup> tend to do so by bill/invoice or via their website (or both).

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<sup>21</sup> <https://www.gov.uk/government/consultations/new-threshold-for-businesses-accessing-the-energy-ombudsman>

<sup>22</sup> 38 suppliers said (in the September RFI) that they already signpost Micro Business Customers to Citizens Advice. Many (28 suppliers) use more than one method: 34 suppliers signpost via their website, 18 suppliers via



3.30. The preferred option (Option 2) is to introduce a licence condition which requires suppliers to inform their Small Business Consumers that they are eligible to access Citizens Advice and provide information on how to contact them. We are proposing this should be inserted as SLC 20.4A in the electricity supply licence and SLC 20.5A in the gas supply licence.<sup>23</sup> However, since our preferred option is to require suppliers to signpost to all Small Business Consumers, these costs may be higher than those costs above requiring suppliers to signpost to Micro Business Consumers only.

## **Third Party Intermediary redress scheme membership**

### **Non-monetised benefits**

3.31. Data from the non-domestic September RFI revealed that between September 2021 and August 2023, suppliers received 5,390 power and 1,482 gas complaints relating to TPIs. We can expect a reduction of administrative burden on suppliers as complaints about TPIs can be directed via a TPI's complaint process to a Qualifying Dispute Settlement Scheme (QDSS). Therefore, the quality of service offered to consumers by suppliers is expected to improve as they are able to focus on other issues more directly applicable to them. However, it is difficult to predict and estimate to what extent the reduction in administrative burden will improve quality of service.

3.32. The QDSS may generate useful information which, if shared with the regulator, could provide early warning of any issues faced. This would allow us to better monitor the issues customers are facing and identify where there are areas of concern that may be within our remit to help address, or allow us to redirect them, as appropriate.

3.33. The QDSS should improve consumers' confidence to get a positive resolution when they have an unresolved issue with a TPI. This should result in customer complaints being resolved more quickly (which could involve saving time and money) and also help improve TPIs processes where they receive a number of issues related to the same matter. This will increase incentives to improve the quality of service provided by TPIs and increase trust and engagement in the market.

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bills/invoices. Other methods included via letters/email, debt collection, and complaint management processes. Other less used methods include via email or apps.

<sup>23</sup> Please see <https://www.ofgem.gov.uk/publications/non-domestic-market-review-findings-and-statutory-consultation> , gas and electricity licence notices.

3.34. A significant benefit of expanding this requirement to align with the proposed expansion of the Energy Ombudsman is that it would be clearer for customers – they would know they are able to access redress schemes if they are a certain size, regardless of whether it relates to a supplier issue or a TPI/energy broker issue. Therefore, we expect this measure to improve the level and scope of protection of customers.

### **Costs**

3.35. The total set up costs to suppliers, for Option 3, of extending the obligation that suppliers must only work with TPIS who are members of a QDSS, is estimated to be £302,000 (£2.24 per non-Micro Business Consumer) and the annual estimated ongoing cost is £1m (£7.75 per non-Micro Business Consumer). These are the scaled-up costs to the whole non-Micro Business Consumer market based on the set up and ongoing costs<sup>24</sup> provided by suppliers in the September RFI which covered 85% and 94% of the non-Micro Business Consumer base respectively.

3.36. The preferred option for this policy area is to extend access to the TPI QDSS to Small Business Consumers. In the recent September RFI, suppliers were asked to what extent the set up and ongoing costs for TPI QDSS access varies if only applied to a certain proportion of customers. Where responses were provided, the suppliers stated there would be minimal changes to costs. However, a further nine suppliers stated costs would increase if applying the policy to a subset of their customers (due to increased configuration of the systems), and one of these suppliers stated their system would not allow the policy to only apply to a subset of their customers. Nevertheless, two suppliers indicated their costs would decrease, with one supplier stating the costs would decrease approximately linearly in proportion to the determined threshold. Therefore, it depends on the supplier whether the cost would increase or decrease for the preferred option. Overall, the cost to the market may remain similar to the cost to expand the policy to the whole non-domestic market (£302,000 for the set up costs and £1m for the annual estimated ongoing cost).

## **Third Party Intermediary service fee transparency**

### **Non-monetised benefits**

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<sup>24</sup> Set up costs for this policy tend to include recruiting and training staff, marketing, communications, IT system changes, documentation review and legal costs. Ongoing costs include similar expenditure items but also include monitoring costs.

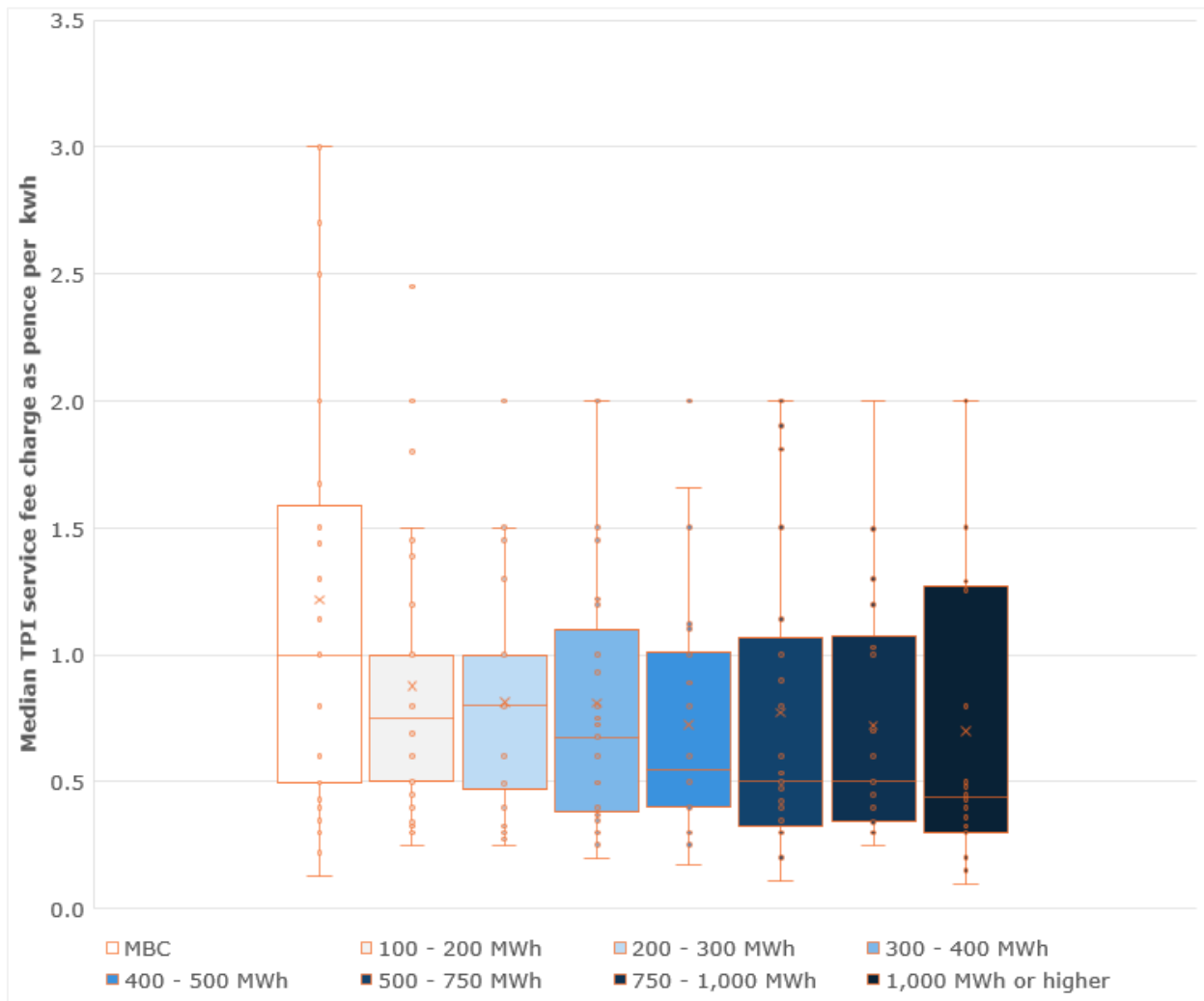
3.37. By extending the requirement for suppliers to disclose any Third Party service fees that are billed to customers via their energy bill, in the Principal terms of their contract or upon request beyond the current Micro Business requirement, this should increase transparency across the market. In the quantitative research carried out in July 2023, of those who used a broker, fewer than 1 in 10 (7%) said that they were charged by their broker, while more than three-quarters (77%) said that they were not. Nearly one in six did not know whether they were charged by their broker (14%), and a handful were not aware that the broker applied charges (3%).<sup>25</sup> This indicates that many businesses were not aware of how brokers would recoup their costs.

3.38. We collected data from the non-domestic September RFI. We observed a large range of TPI service fee across suppliers within each consumption band. The graphs below provide a description of the spread and skewness of the median TPI service fee between 1 September 2022 and 31 August 2023 across suppliers for each consumption band. Please note that a variety of services are likely to be included in these cost values, so this data does not infer anything about the value for money of the services provided by TPIs.

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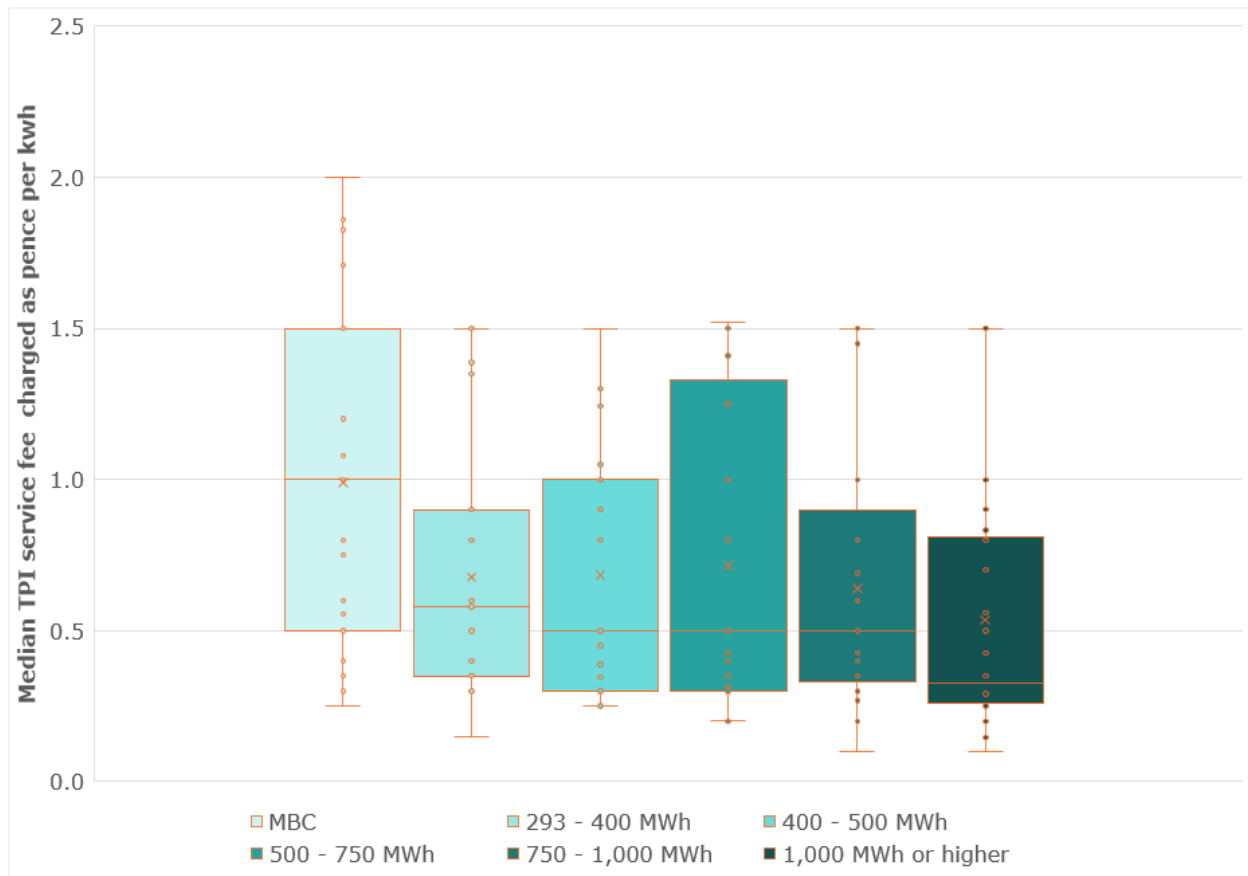
<sup>25</sup> <https://www.ofgem.gov.uk/publications/non-domestic-consumer-research-2023-interim-findings>

**Figure 1: Distribution of the median TPI service fees charged as pence per kWh unit across suppliers within each consumption band, Power<sup>26</sup>**



<sup>26</sup> For ease to the reader, we have shortened the consumption bands to the most suitable size. The original consumption bands include for Power: MBC, above 100,000 kWh and up to 200,000 kWh, above 200,000 kWh and up to 300,000 kWh, above 300,000 kWh and up to 400,000 kWh, above 400,000 kWh and up to 500,000 kWh, above 500,000 kWh and up to 750,000 kWh, above 750,000 kWh and up to 1,000,000 kWh, and 1,000,000 kWh or higher. For Gas: MBC, above 293,000 kWh and up to 400,000 kWh, above 400,000 kWh and up to 500,000 kWh, above 500,000 kWh and up to 750,000 kWh, above 750,000 kWh and up to 1,000,000 kWh and 1,000,000 kWh or higher.

**Figure 2: Distribution of the median TPI service fees charged as pence per kWh unit across suppliers within each consumption band, Gas<sup>27</sup>**



3.39. We are aware that there is a large range of services associated with TPI service fee. Therefore, we believe that increased transparency will allow consumers to realise what they pay for the service they receive. However, we believe that when consumers are looking to lower their bills, they will compare final prices (ie, their supplier bills).

3.40. By ensuring that TPIs provide information on their service fee, businesses will be able to fully understand the costs involved with a contract (TPI fees and actual energy costs paid to the supplier) and will allow business customers to make better choices about which TPI’s services and energy contracts to sign up to based on best value for money.

3.41. Increased price transparency on contracts should solve misunderstandings about the non-domestic energy market. It could also increase engagement with TPIs by customers

<sup>27</sup> ibid

who have not previously used TPIs. However, this has not been quantified, as it is difficult to predict the increased interest in using TPIs.

3.42. Although the proposed disclosure would be a market-wide and mandatory requirement (opposed to self-disclosing), it seeks to reinforce market wide trust, which in turn will improve confidence in engagement.

3.43. The addition of a p/kWh or p/day service fee for all business customers, instead of a lump sum, may ensure that the service fee costs are not artificially deflated by using a low consumption estimate. Therefore, customers can compare all TPIs/brokers on the same basis.

### **Costs**

3.44. To implement changes to the way TPI service fees are currently required to be presented to Micro Business Consumers (from an annual lump sum estimate) in the principal terms of a contract, there would be an estimated one-off total cost to non-domestic suppliers of £1.8m which equates to an average (weighted mean) cost of £0.93 per Micro Business Consumer. These are scaled up costs to the whole Micro Business market based on the set up and ongoing costs provided by suppliers in the September RFI which covered 85% and 94% respectively of the Micro Business Consumer base. There were 11 suppliers who stated this policy would not cost them anything, and a further 26 suppliers who gave costs ranging from £1,500 to £325,000.

3.45. Extending the TPI service fee disclosure requirement to all Non-Domestic Customers (Option 3 – preferred option) would cost an estimated £1.7m to set-up (or £12.99 per non-Micro Business Consumer) with an ongoing estimated annual cost of £263,000 to the market (or £1.96 per non-Micro Business Consumer). 23 suppliers stated £0 set up costs and 33 suppliers provided £0 ongoing costs, whereas 22 suppliers provided set-up costs ranging from £1,000 to £320,000 and 11 suppliers provided ongoing costs ranging from £500 to £165,000 per year.

## 4. Wider impacts

### Section summary

This section discusses the broader impacts from the policies including competition impacts, administrative burden and impacts on other parties which we do not regulate.

### Impacts on Third Party Intermediaries (TPIs)

4.1. As the TPI market is not regulated, there are no official numbers on TPIs operating in the market and the size of customers they serve. We are also aware that the costs of any redress schemes may vary depending on the scheme and the issue brought forward. As a result, we cannot currently present a fixed value for the costs that would be incurred by TPIs as a result of our proposals. However, we do recognise that there will be costs for TPIs and we will take this into consideration.

#### Redress Scheme Membership

4.2. TPIs raised the concern that fees could increase for TPIs if the obligation on suppliers to work with TPIs who are members of a QDSS is expanded to Small Business Consumers. As we set out above, because there is no existing record of all TPIs, and no details across all TPIs of the numbers of TPIs who currently serve Small Business Consumers, but do not serve Micro Business Consumers, the numbers that will be impacted is also not immediately clear. However, given we understand there to be around 1,940 TPIs registered with the Energy Ombudsman (i.e. TPIs that work with Micro Business customers)<sup>28</sup> we anticipate that the additional numbers this will impact will be less than that.

4.3. The TPIs will likely pay fees to be a member of QDSS for example a scheme registration fee and a possible case fee for each claim that is awarded against them. For example, we know that the Energy Ombudsman, which was the first scheme in place, has said that 68% of ADR claims<sup>29</sup> are ruled in favour of the Micro Business Consumer. Given the variation in scheme structures we cannot reliably quantify this cost to TPIs<sup>30</sup>. We also recognise that any QDSS provider will require TPIs to have sufficient complaints handling procedures in place to sign up to the scheme. For those TPIs who don't have these in place this will require additional time, resource and cost. However, they will also benefit in that

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<sup>28</sup> Latest Energy Brokers Register <https://www.energyombudsman.org/how-we-can-help/energy-brokers>

<sup>29</sup> This was provided to us by the Energy Ombudsman and is for the period from 1 December 2022 to mid-November 2023

<sup>30</sup> However, we do know the Energy Ombudsman case administration fee is £340 regardless of the outcome.

customers will likely have more confidence in working with TPIs and have a clear and transparent route to address issues will re-enforce this confidence.

4.4. TPIs have also stated that some customers would make a claim knowing that either they would win a small settlement or know that the broker will still have to pay the claim admin fee. One TPI said that unscrupulous claims companies may look to benefit from redress claims, as decisions were often in the consumer's favour. We are unable to evidence these claims however we recognise they are possible and may increase costs for TPIs who aren't yet signed up to a QDSS.

4.5. As outlined in the statutory consultation we invite further details from TPIs about the expected costs and impacts on a TPI for an expansion of access to redress who aren't yet signed up to a QDSS.

### **Service Fee Transparency**

4.6. We recognise that the requirement on suppliers to disclose TPI fees may result in additional costs for TPIs in having to explain and communicate their fee structure and services offered if they don't already. However, we consider that this an acceptable cost to help ensure consumers are aware of what they are signing up to and will help to level the playing field given some TPIs do already do this.

## **Competition impacts**

4.7. We consider below the impact on competition in the energy supply and TPI/broker market from our proposals outlined in the statutory consultation.

### **Standards of Conduct and Complaints Handling measures**

4.8. In choosing to implement standards around customer service, we are making use of regulation to achieve a preferred outcome, rather than allowing this to be determined through competition. Any such decision has the potential to dampen competition, but the volume of complaints that have been seen from Non-Domestic Customers has demonstrated that competition is not currently delivering sufficient levels of customer service, and therefore we consider it appropriate to take this action.

4.9. We also consider that better customer service can encourage consumer trust and increased engagement in the market resulting in a more active demand side.



4.10. On balance we consider any potential dampening to competition from expanding the complaints handling rules to Small Business Consumers and Standards of Conduct for all non-domestic consumers to be minimal and likely to be significantly outweighed by the positive effects on consumer outcomes.

### **TPI measures**

4.11. We note there is an inherent risk in these measures, in that we do not regulate TPIs, but will have an impact on these companies by setting rules on how licensed suppliers can deal with them. This may lead to a higher risk of unintended consequences and may also increase the regulatory burden on the suppliers that we do regulate. However, in this instance we think these impacts are substantially outweighed by the benefits to consumers.

4.12. We consider that our proposal to expand the TPI service fee disclosure rules and the TPI QDSS to a broader sub-set of Non-Domestic Customers will have little to no impact on competition between energy suppliers in the market.

4.13. We note some TPI stakeholders' concerns that expanding the service fee disclosure scheme could encourage customers to use a TPI service to find the deal and then approach the supplier directly, leaving the TPI unable to recoup incurred cost. Some TPI stakeholders' view is that this could drive TPIs out of the market and ultimately reduce switching activity in the market. However, other TPI stakeholders revealed that they already disclose their fees to customers suggesting that service fee disclosure does not negate the need for the service provided by TPIs, especially when services are provided throughout the contract, and TPI fees are not just a contract finder's fee.

4.14. We consider that the greater transparency from service fee disclosure will help foster greater competition in the TPI market. On the demand side, greater transparency should lead to more informed customer choice when arranging a new supply contract and will ultimately improve competitive forces in the TPI market. This should increase consumer trust and confidence in engagement in both the energy supplier and TPI markets.

4.15. Some TPIs have stated that requiring sign-up to the QDSS represents an increased cost to market entry which may limit competition in the TPI market. We consider that it will in fact be positive for competition in the TPI market as it will encourage more trust in the market. This is because customers could have more confidence in working with a TPI they do not know, if they know they can easily access redress if things go wrong. In addition, if there are poor practices that a TPI is routinely facing complaints about, then the redress

scheme will ensure that they are penalised for not addressing the issue. This will likely drive standards up and support more confidence in the market.

## **Distributional analysis**

4.16. Figures 3 and 4 show the way estimated costs for implementing all the policies are distributed across consumption bands, for power and gas respectively. These figures are based on the costs provided by suppliers as part of the non-domestic September RFI.

4.17. The distributional analysis carried out can help convey how each group of customers (based on consumption band) is affected by the cost of the policies. However, on an individual level, each customer account is assumed to share an equal split of the cost (average cost per customer<sup>31</sup>). This analysis can also estimate the additional costs of expanding proposed policies to particular thresholds.

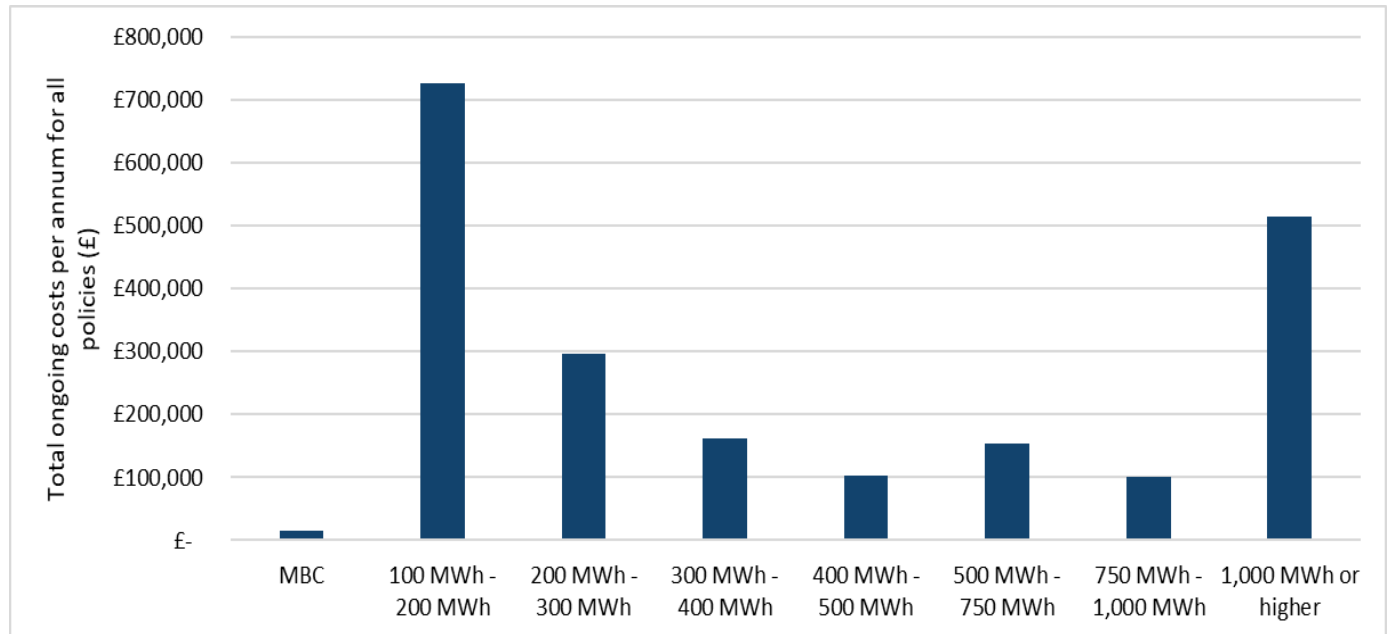
4.18. We are not able to calculate the cost per MWh for each consumption band (for gas and for power) as we do not have the customer level consumption data. The costs we were provided with by suppliers cover all their customers (benefitting from the policy) and so we do not have further information on cost per customer per consumption band.

4.19. This distributional analysis includes the costs of expanding the policies to the whole customer base (excluding Micro Business Consumers) for complaints handling standards, SoC, TPI service fee transparency and TPI redress scheme membership, and to Micro Business Consumers only for requiring Citizens Advice signposting. Where the preferred option was instead to extend beyond Micro Business Consumers up to a threshold (ie for complaints handling standards and redress scheme) and beyond Micro Business Consumers for signposting to Citizens Advice, rather than to the whole market, then the total costs may differ and the distribution would change. The following charts are based on the cost data we have available.

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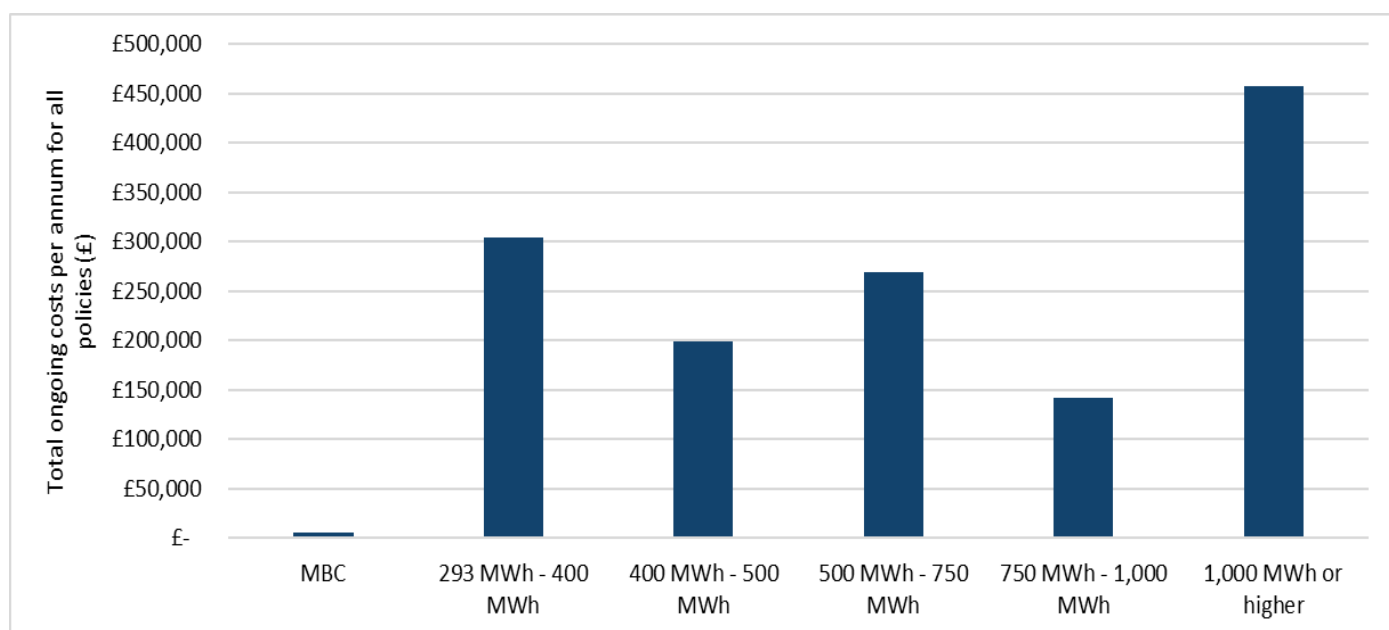
<sup>31</sup> The cost per customer for each policy was calculated as described in Section 3 - Costs and Benefits.

**Figure 3: Total ongoing costs (£), by consumption band, power**



	<b>MBC</b>	<b>100 MWh – 200 MWh</b>	<b>200 MWh – 300 MWh</b>	<b>300 MWh – 400 MWh</b>	<b>400 MWh – 500 MWh</b>	<b>500 MWh – 750 MWh</b>	<b>750 MWh – 1,000 MWh</b>	<b>1,000 MWh or higher</b>
<b>Total ongoing costs per annum for all policies (£)</b>	£16,064	£726,839	£295,423	£162,042	£103,546	£154,655	£101,337	£514,176

**Figure 4: Total ongoing costs (£), by consumption band, gas**



	MBC	293 MWh - 400 MWh	400 MWh - 500 MWh	500 MWh - 750 MWh	750 MWh - 1,000 MWh	1,000 MWh or higher
<b>Total ongoing costs per annum for all policies (£)</b>	£5,436	£303,992	£198,501	£268,682	£141,843	£456,763

4.20. The total cost by consumption band of implementing all is calculated by multiplying the number of customers in each consumption band by the average cost per customer for power and for gas. Therefore, the consumption bands with the highest number of customer accounts benefitting from the policies will have the highest total costs.

4.21. For power, the costs are highest for the group/segment of customers in the “Above 100 MWh and up to 200 MWh” consumption band. This is because this is the consumption band with the most customers (where their supplier provided costs) included in the calculations. Similarly, this is the case for the highest consumption band (“1,000 MWh or higher”) for gas as they have a larger proportion of energy intensive customers.

4.22. The costs shown in Figures 1 and 2 are the total costs for the whole market. The distribution of total costs across consumption bands may differ by supplier.

## Administrative burden

4.23. We consider that the administrative burden on suppliers from these policies should be minimal given systems and procedures are already in place to ensure Complaints Handling Standards, Standards of Conduct, TPI service fee disclosure and the TPI QDSS are available for Micro Business Consumers.

4.24. However, we recognise that changes required to expand these measures to larger businesses may require several weeks or months to be implemented, particularly for suppliers that have not supplied Micro Business Consumers. For example, the requirement to disclose the TPI services fees and new complaints handling procedures may require changes to IT systems and staff training.

## Risks and Unintended Consequences

### Risk to consumers

4.25. As the extension of the policies to expand complaints handling practices and the TPI QDSS is to Small Business Consumers only, there is a risk of excluding larger customers who would still benefit from the additional protection the proposals would deliver. However, we observe that, on average, as the largest Non-Domestic Customers are more likely to have engaged with their supplier due to the size of consumed volumes and costs at stake, they are also more likely to have the resource including time and money to be able to take action. We therefore believe that there are decreasing marginal returns to the benefits in including larger customers.

4.26. There is a risk that the increased transparency and costs associated with the TPI-related proposals may impact the TPI market resulting in changes in the services, service fees and the number of TPIs serving the market. While outweighed by the benefits of transparency and consumer protection from these proposed policies, there is a moderate risk that consumers could have fewer TPIs to choose from when making a choice about which TPI to engage with.

4.27. The requirement to provide TPI service fees on all business contracts could lead to additional confusion for Industrial and Commercial (I&C) customers that have complex contracts with several different service fees between the supplier and Third Party Intermediary.

### **Resource constraints on redress and relevant customer support services**

4.28. With better signposting to services, like Citizens Advice, demand and use of these services may increase. There is a risk that an increased demand may overwhelm the services, and this could lead to poorer outcomes for Non-Domestic Customers. However, we are working closely with Government and Citizens Advice to understand what increases in demand would arise from a threshold expansion, and what impact this would have on their services.

4.29. Increasing the threshold for complaints handling standards and access to the Energy Ombudsman could increase the resource burden for suppliers and the Energy Ombudsman. This is because bigger businesses often have more complex metering arrangements and energy contracts, and this could lead to more experienced resource being required to understand the complaints made by business customers. We will work closely with government as they consider the responses to their consultation as they consider widening the Energy Ombudsman scope.

4.30. We note that existing TPI redress schemes are relatively new and that other QDSS providers are in the process of starting up. Hence, we expect that expanding the policy to cover Small Business Consumers is likely to be easily absorbed into the processes of the new schemes, or only require minimal adaptation by existing schemes.