

Impact Assessment

Final impact assessment on non-domestic market review policy changes

Division:	Retail Markets
Team:	Analysis – future retail
Coverage:	Full coverage
Type of measure:	Specific incentive
Type of IA:	Qualified under Section 5A UA 2000
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Summary:

The document provides an impact assessment of the costs and benefits of the licence changes outlined in the accompanying decision.¹ These include signposting to relevant customer support services, expansion of Complaints Handling Standards (CHS) and Standards of Conduct (SoC) requirements on suppliers and the expansion of Third Party Intermediary (TPI) redress scheme membership and service fee transparency obligations.

¹ <https://www.ofgem.gov.uk/publications/non-domestic-market-review-decision>

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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 policies.

1.1. The purpose of this document is to set out an impact assessment (IA) of the licence changes set out in the decision.² 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.

1.2. We outlined the issues, evidence and policy objectives in detail in the July Consultation³ and the statutory consultation.⁴ For the final policy decisions, please refer to the decision document that this IA accompanies.

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 IA 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.

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

² Decision (April 2024) <https://www.ofgem.gov.uk/publications/non-domestic-market-review-decision>

³ Policy consultation (July 2023): <https://www.ofgem.gov.uk/publications/non-domestic-market-review-findings-and-policy-consultation>

⁴ Statutory Consultation (December 2023): <https://www.ofgem.gov.uk/publications/non-domestic-market-review-findings-and-statutory-consultation>

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 a limited expansion of our existing rule that states suppliers must only work with TPIs securing contracts with Micro Business Consumers that are signed up to a Qualifying Disputes 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,⁵ 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.

Stakeholder feedback

1.9. Stakeholders provided comments on the draft IA as part of their responses to the statutory consultation.⁶ Of the 39 responses to the statutory consultation, only 15 had any direct comments relating to the IA. These responders included 9 individual suppliers, 4 individual TPIs, the joint response from the Utilities Intermediaries Association (UIA) and 1

⁵ https://www.ofgem.gov.uk/sites/default/files/2023-08/Competition%20Framework%20Final%20for%20Publication_10-08-23.pdf, page 8

⁶ <https://www.ofgem.gov.uk/publications/non-domestic-market-review-decision>

corporate membership organisation. Therefore, please note that the feedback listed is from a small proportion of the sector.

1.10. Some suppliers advised that changes relating to TPIs will have an additional cost and administrative burden for both suppliers and TPIs and this was not clearly raised in the IA. This also included an expectation from suppliers that the expansion of the TPI redress scheme membership would lead to a rise in supplier costs due to handling associated queries. Suppliers also raised that the new Small Business Consumer definition would require additional, potentially expensive, manual processes in order to identify these businesses. One supplier also suggested extending consumer protections could bolster the trend where energy suppliers are targeted with speculative claims. A corporate membership organisation also highlighted the potential of suppliers to withdraw from certain sectors of the market, as was seen in 2022.

1.11. Most TPIs who responded stated that the IA did not adequately estimate the cost of the policies to TPIs. For example, the cost of being a member of a QDSS was not captured in the draft IA and TPIs felt that this would be a major cost of the proposal. Those who responded felt that it was not clear at what level the benefits outweigh the costs. It was also suggested by TPIs that the new policies could lead to a reduction in the number of TPIs operating and the TPI service fee transparency policy could give an advantage to suppliers.

What has changed between the draft and final impact assessment?

1.12. Following stakeholder feedback, we have provided some additional data and added additional context to provide clarity to our assessment of the policies. The notable areas of change are as follows:

1.13. Stakeholders advised that we had not illustrated how large an impact the Small Business Consumer definition would have on cost estimation. This is because the definition was not known when our Request for Information (RFI)⁷ was issued to suppliers. We have no new cost information based on the confirmed Small Business Consumer definition, but we have included an estimation of the number of businesses based on the employee number and consumption threshold aspects of the definition. This estimate is subject to

⁷ An RFI is a part of Standard Licence Condition 5 of both the Gas and Electricity Supply licences that allows Ofgem to request information from suppliers. This information must be provided accurately and in the form that Ofgem requested as false information or failure to provide could result in a licence breach.

some uncertainty given the variation in the definition depending on whether a Small Business Consumer is defined by employees, turnover, or consumption data.

1.14. We have updated the IA to include recently published Non-Domestic consumer research on the relationship between the size of business and the reported use of brokers.⁸ This provides more supporting evidence on the benefit of the expansion of the TPI redress scheme to Small Business Consumers.

1.15. In response to stakeholders requesting greater transparency on costs for the TPI-related changes, we consider that supplier costs are captured via the cost information provided to us as part of our RFI to suppliers. Due to lack of reliable data on the number of TPIs affected by the policies and TPI costs, we acknowledge that we cannot accurately estimate total costs to TPIs. However, we have chosen to include potential costs that may be incurred by TPIs by using the Energy Ombudsman as an example of the costs associated with the TPI redress scheme membership policy.

1.16. We have directly addressed the competition concern from TPIs regarding how the policies could impact specialised TPIs and force some TPIs out of business. We have also addressed the concern from TPIs that the expansion of the QDSS requirement to Small Business Consumers will put additional pressure on competition. We have chosen not to address the potential increase in speculative claims as we do not have sufficient evidence that this may occur.

1.17. Overall, we acknowledge that there are significant benefits that we are unable to quantify and therefore cannot directly compare with the cost of the policies. However, we still consider there is a strong case for intervention to help ensure Non-Domestic Customers receive a good service and fair treatment.

⁸ Research uses the term 'broker', but this also includes TPIs.

2. Description of options

Section summary

In this section we set out our chosen policy options and the other options that were assessed. These options were based on whether the licence modifications 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 conditions⁹ to require clearer signposting for Micro and Small Business Consumers to Citizens Advice consumer services.¹⁰ 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 chosen 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	Chosen option This option would require that all non-domestic suppliers must provide signposting to Citizens Advice for all consumers who are eligible for Citizens Advice's services. Currently this includes Micro Business Consumers, and will include Small Business Consumers once access to the Energy Ombudsman is expanded.

⁹ <https://www.ofgem.gov.uk/publications/non-domestic-market-review-findings-and-statutory-consultation>, gas and electricity licence notices.

¹⁰ In this document, where we refer to signposting to Citizens Advice, this should be read as signposting to Citizens Advice and Citizens Advice Scotland

Table 2: Standards of Conduct, Complaints Handling Standards, and Third Party Intermediary (TPI) measures options

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 Condition (SLC) 0A) continue to only apply to Micro Business Consumers.	This option would continue with the current rules which cover Micro Business Consumers.	The existing rules continue to apply, where non-domestic 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).	The existing rules continue to apply, where non-domestic 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.	Chosen option This option extends 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.	Chosen option This option extends 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

Option/ Measure	Standards of Conduct (SoC)	Complaints Handling Standards (CHS)	TPI redress scheme membership	TPI service fee transparency
				require a change to the format of disclosure to include a cost per unit.
Option 3: Extending to all Non- Domestic Customers	Chosen option This option extends the rule to apply for all Non-Domestic Customers.	This option would extend the rule to apply for all Non-Domestic Customers.	This option would extend the rule to apply for all Non-Domestic Customers.	Chosen option This option extends 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.

3. Costs and benefits

Section summary

This section outlines our estimated costs and non-monetised benefits of the policy decisions as outlined in the accompanying decision document.

Summary of costs

3.1. The following tables show the one-off costs and annual ongoing costs to suppliers 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 by suppliers as part of a formal Request for Information we sent to suppliers in September ('the September RFI')¹¹ and divided these costs by the number of customers benefitting from the new policies for these suppliers.¹² To obtain the total costs for each policy, the cost per customer was 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 are estimations based on estimated costs provided by the majority of suppliers which were scaled up to cover all suppliers.¹³

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

3.3. As part of the September RFI, we asked suppliers for the costs of expanding the Standards of Conduct (SoC), Third Party Intermediary (TPI) redress scheme membership, and TPI service fee transparency policies to all Non-Domestic Customers. For TPI service fee transparency and SoC, these costs represent the cost of the chosen options (stated in table 1). However, for the TPI redress scheme membership, the chosen option is to expand to Small Business Consumers only rather than all Non-Domestic Customers so costs for this option may differ from those shown in the table (further detail is provided in the "Third Party Intermediary redress scheme membership" section below).

3.4. The costs for expanding the Complaints Handling Standards (CHS) beyond Micro Business Consumers are based on the natural threshold for each supplier (eg a threshold

¹¹ This was an RFI sent out to 60 non-domestic suppliers on 8 September 2023 (with a response deadline of 6 October 2023).

¹² 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.

¹³ The estimated costs provided here are indicative and actual costs will vary significantly between suppliers.

above which they may appoint an account manager) and so may not align to the specific threshold in our chosen option (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 chosen option is to signpost all consumers who are eligible for Citizens Advice’s services. This will expand to include Small Business Consumers, assuming the government progresses with their proposed regulation change.¹⁴

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 transparency).

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

Policy Area	Total one-off costs	Average one-off costs per Micro Business Consumer	Average one-off costs per non-Micro Business Consumer ¹⁵
Standards of Conduct (SoC)	£1,536,000	n/a	£11.42
Complaints Handling Standards (CHS)	£1,870,000	n/a	£13.90
Signposting to relevant customer support services	£268,000	£0.14	n/a
TPI redress scheme membership	£302,000	n/a	£2.24
TPI service fee transparency presentation	£1,762,000	£0.93	n/a
TPI service fee transparency	£1,747,000	n/a	£12.99

¹⁴ <https://www.gov.uk/government/consultations/new-threshold-for-businesses-accessing-the-energy-ombudsman>

¹⁵ Non-Micro Business Consumer refers to all Non-Domestic Customers who are not Micro Business Consumers. For the purposes of our analysis, all Non-Domestic Customers 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	Average one-off costs per Micro Business Consumer	Average one-off costs per non-Micro Business Consumer ¹⁵
Total cost of implementing all proposals	£7,485,000	£1.07	£40.55

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

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

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 transparency) 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.¹⁶ The per-customer figures presented in the tables reflect this assumption.

- 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. We also acknowledge that some customers may have multiple sites and therefore there will be a reduced cost to servicing these customers. For these reasons the estimated costs per customer may differ.

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 Consumer in our analysis.

3.9. For the suppliers who did not provide their customer numbers,¹⁷ 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 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 Consumers or for all customers.

¹⁶ 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.

¹⁷ 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 systems.

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).¹⁸ We then scaled up to the whole customer base 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 consider that this measure may 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 could ensure a minimum level of service that could give customers greater confidence about their supplier and should reduce time and resources lost in resolving energy contract issues. An enforceable SoC could provide an incentive for suppliers to improve behaviour and interactions with customers or risk enforcement action.

3.14. If customers are getting a fair service, they are more likely to stay with their current supplier, providing stability and benefits to both customers and energy suppliers, and reducing objections caused by customers trying to switch mid-contract. When a contract ends, consistent fair treatment from all suppliers should allow customers 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 may tend to decrease rollover prices, to try and retain their current customer base, while making acquisition rates slightly less attractive. There is also

¹⁸ Suppliers who did not provide costs were not included in the cost-per-customer calculations.

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

3.15. These benefits combined should help further improve trust in energy suppliers. 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,¹⁹ however when things go wrong, we can expect the expansion of the SoC could 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 cost²⁰ for the preferred option (Option 3), of extending the SoC to all Non-Domestic Customers is estimated to be £1.5m, and the ongoing costs²¹ 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 non-Micro Business Consumer per year for ongoing costs. These are the costs scaled up to the whole non-Micro Business Consumer base using costs provided from suppliers which covered 81% and 72% of non-Micro Business Consumers respectively. Expected costs to expand the application of the SoC include reviewing processes, monitoring compliance, and increasing staff to ensure customer service arrangements are fit for purpose.

Complaints handling

Non-monetised benefits

3.18. In Ofgem's Consumer Interest Framework, the "Quality and Standards" consumer interest is described as a short-term strategic priority, with three sub-objectives, one of

¹⁹ Our survey of Non-Domestic GB energy consumers showed that 60% of businesses were satisfied with the overall service that their energy supplier provided, Figure 0.4, Non-Domestic 2023 research report, <https://www.ofgem.gov.uk/publications/non-domestic-2023-research-report>

²⁰ Set-up costs include marketing, training and recruitment of staff, design and development costs, IT system changes, documentation reviews, communications, and legal costs.

²¹ Ongoing costs include similar components to set-up costs for the policy minus marketing costs plus monitoring costs.

which is accessibility and responsiveness. We expect that the improvements in complaints handling as a result of expanding the CHS to Small Business Consumers will mainly improve the accessibility and responsiveness of suppliers, which could 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. From the customer numbers provided in the September RFI, we have calculated that the additional number of customers that could fall under the Small Business Consumer definition would be 33,272 customers for power and 9,580 customers for gas based on the consumption definition only. However, we also acknowledge that not all businesses within these consumption bands will also meet the other aspects of the Small Business Consumer definition. Based on number of employees, we estimate an additional 222,785 businesses could be eligible under the new definition.²²

3.20. It is reasonable to expect that expanding the CHS to Small Business Consumers will lead to a decrease in the number of unresolved complaints across the market as energy companies put in place improved processes to meet the prescribed standards set out in the regulations.²³ We acknowledge that we cannot say for certain that the expansion of the CHS to Small Business Consumers 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 informed that they are able to access the Ombudsman after 8 weeks, or earlier if the supplier informs the customer it can do no more to resolve the complaint, providing more certainty on when an issue could ultimately be resolved and ensuring customers can receive appropriate support.

3.21. This measure could also achieve a better and homogenised complaint handling process across suppliers. Ensuring that complaints are treated according to set rules should ensure a minimum level of service that could make customers more confident about switching and widen the choices available to them. Therefore, it is expected to reinforce the

²² Based on the estimated number of businesses in the UK private sector by the number of employees at the start of 2023. <https://www.gov.uk/government/statistics/business-population-estimates-2023/business-population-estimates-for-the-uk-and-regions-2023-statistical-release>

²³ Noting we recognise that proving causality will be difficult given other factors at play influencing complaint handling outcomes.

supplier-customer relationship or improve market-wide trust and engagement compared to a pre-policy world.²⁴

3.22. We also note that when the government expands access to the Energy Ombudsman, expanding the CHS 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.

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

Costs

3.24. In the 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,²⁵ 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 new Small Business Consumer threshold. Therefore, the costs provided by suppliers may not be an accurate reflection of the true costs of the chosen option.

3.25. 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 non-Micro Business Consumer 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.

²⁴ 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-2023-research-report>

²⁵ The consumption threshold at which suppliers indicated their complaints processes or criteria changed for larger customers.

3.26. Around half of the Non-Domestic suppliers²⁶ 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 Consumers (Option 2) as the costs they provided (to expand to their natural thresholds) in the September RFI responses.

3.27. For the remaining suppliers who provided cost 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 Consumers. It would depend on the suppliers' customer bases and how their natural thresholds differ from the Option 2 thresholds.

3.28. 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

3.29. We consider improved signposting to Citizens Advice services may improve awareness of available support and 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.²⁷ Clearer signposting to this support could allow Micro and Small Business Consumers to access appropriate advice at an earlier stage which may help resolve issues sooner, resulting in improved consumer protection. In addition, the more customers that reach out to Citizens Advice, the greater their ability will be to identify systemic issues, as the type of issue that is raised is tracked by Citizens Advice and shared with Ofgem, where appropriate.

Costs

²⁶ 28 suppliers (of the 60 Non-Domestic suppliers for which we received September RFI returns).

²⁷ <https://www.gov.uk/government/consultations/new-threshold-for-businesses-accessing-the-energy-ombudsman>

3.30. The total set-up cost 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 Consumers²⁸ tend to do so by bill/invoice or via their website (or both).

3.31. The chosen option (Option 2) is to introduce a licence condition which requires suppliers to inform all consumers that are within the statutory remit of Citizens Advice that they are eligible to access Citizens Advice and provide information on how to contact them. This will include Micro Business Consumers who currently are able to access Citizens Advice and will expand to include Small Business Consumers, once access to the Energy Ombudsman is expanded. This requirement will be inserted as SLC 20.4A in the electricity supply licence and SLC 20.5A in the gas supply licence.²⁹ Since our chosen option is to require suppliers to signpost to all eligible consumers, which will expand to include 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

3.32. Our evidence shows that while customers can value from the benefits of working with a good TPI, some customers have reported facing issues when engaging with TPis. This view is the result of data from suppliers, consumer surveys, Citizens Advice, Energy Ombudsman data, consultation responses and from complaints we have received directly. Expanding the existing requirement on suppliers to only work with a TPI on a Micro Business Consumer contract if that TPI is a member of a Qualifying Dispute Settlement Scheme (QDSS) to include Small Business Consumers contracts will provide significant benefit to these additional consumers.

²⁸ 38 suppliers said (in the September RFI) that they already signpost Micro Business Consumers to Citizens Advice. Many (28 suppliers) use more than one method: 34 suppliers signpost via their website, 18 suppliers via bills/invoices. Other methods included via letters/email, debt collection, and complaint management processes. Other less used methods include messaging via apps.

²⁹ Please see <https://www.ofgem.gov.uk/publications/non-domestic-market-review-decision>, gas and electricity licence notices.

3.33. As we noted in our statutory consultation, smaller businesses often feel they have no way of resolving energy contract disputes, for example by not having the resources to seek legal support. Expanding access to alternative dispute resolution will allow customers who are otherwise unable to, to solve disputes with a TPI. This is consistent with government plans to consider regulation of TPIs following their call for input on this issue in 2021.³⁰ As part of that, they may also consider appointing a statutory redress scheme.

3.34. The Non-Domestic consumer research found that reported awareness of use of a broker when choosing their current energy contract differed by the size of a business.³¹ Of the 1,000 businesses surveyed throughout July 2023, 50% of small businesses (10-49 employees) reported that they had used a broker when choosing their current energy contract or tariff, compared to only 28% of sole traders and microbusinesses (0-9 employees).³² Therefore, by expanding the requirement on suppliers to work with a TPI, who are a member of a QDSS, we expect that a larger proportion of small businesses will benefit from these changes, than the proportion of microbusinesses who already benefit from existing rules.

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

3.36. We may see a reduction of administrative burden on suppliers as complaints about TPIs can be directed via a TPI's complaint process to a QDSS. Therefore, the quality of service offered to customers by suppliers may 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. 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.

³⁰ <https://www.gov.uk/government/calls-for-evidence/third-party-intermediaries-in-the-retail-energy-market-call-for-evidence>

³¹ Research uses the term 'broker', but this also includes TPIs.

³² Figure 4.5 <https://www.ofgem.gov.uk/publications/non-domestic-2023-research-report>. Internal Ofgem analysis of supplier data suggests that the actual proportion of Non-Domestic Customers using a broker is much higher than this. There may be a range of reasons why this is lower in the survey results, such as respondent error or the respondent wasn't aware that an energy broker had been used.

3.37. The QDSS could improve consumers' confidence to get a positive resolution when they have an unresolved issue with a TPI. This could 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 would increase incentives to improve the quality of service provided by TPIs and increase trust and engagement in the sector.

Costs

3.38. 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 base based on the set up and ongoing costs³³ provided by suppliers in the September RFI which covered 85% and 94% of the non-Micro Business Consumer base respectively.

3.39. The chosen option for this policy area is to extend access to the TPI QDSS to include 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, 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 chosen option. Overall, the cost to suppliers of the Small Business Consumer threshold may remain similar to the cost to expand the policy to the whole non-domestic customer base (£302,000 for the set-up costs and £1m for the annual estimated ongoing cost).

Third Party Intermediary service fee transparency

Non-monetised benefits

³³ 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.

3.40. By extending the requirement for suppliers to disclose any Third Party service fees that are billed to customers, in the Principal terms of their contract or upon request, beyond the current Micro Business Consumer requirement, this could increase transparency across the market. In the Non-Domestic quantitative research carried out in July 2023, three in 10 (30%) of businesses surveyed reported that they had used an energy broker³⁴ when choosing their current energy contract. Of these businesses, the majority (77%) thought that they did not pay for this. A further 3% reported that they were not aware the broker applied charges and 14% were unsure. Only 7% said they were charged by the broker.³⁵ This indicates that many businesses were not aware of how brokers would recoup their costs and is supported by further individual feedback from businesses we have received reporting low transparency among broker service fees.

3.41. Data from the September RFI showed a large range of TPI service fees 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.

³⁴ Research uses the term 'broker', but this also includes TPis.

³⁵ <https://www.ofgem.gov.uk/publications/non-domestic-2023-research-report>

Figure 1: Distribution of the median TPI service fees charged as pence per kWh unit across suppliers within each consumption band, power³⁶

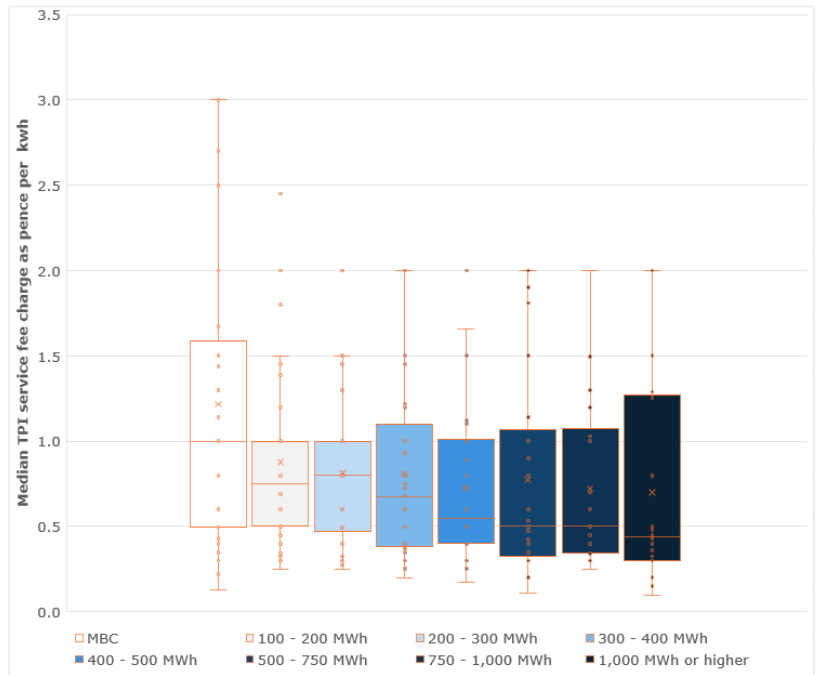
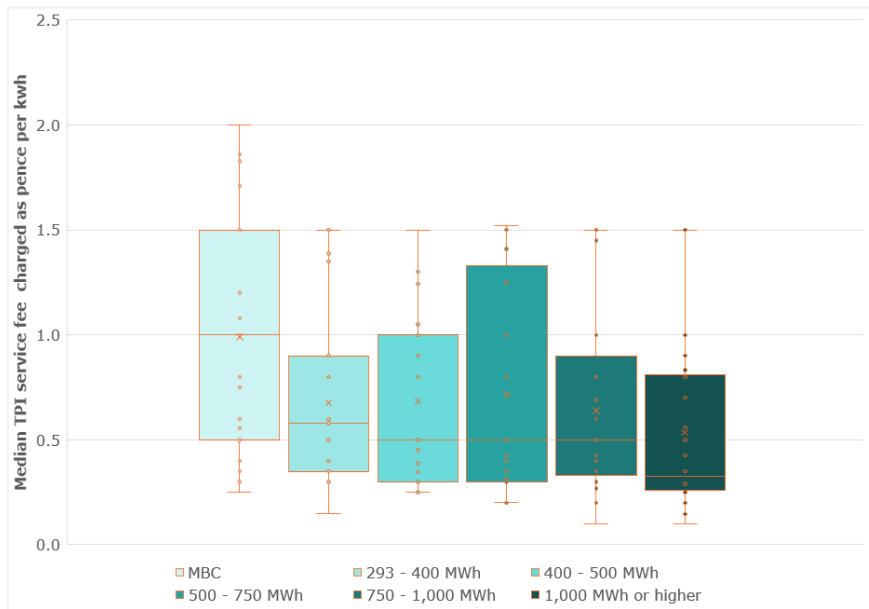


Figure 2: Distribution of the median TPI service fees charged as pence per kWh unit across suppliers within each consumption band, gas³⁷



³⁶ For ease to the reader, we have shortened the consumption bands to the most suitable size. The original consumption bands include for Power: MBC (Micro Business Consumers, defined in this analysis as up to and including 100,000 kWh), 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 (Micro Business Consumers, defined in this analysis as up to and including 293,000 kWh), 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.

³⁷ Ibid

3.42. We are aware that there is a large range of services associated with TPI service fees. Therefore, we consider that increased transparency may allow consumers to better understand what services they are paying for. However, we believe that when customers are looking to lower their bills, they will compare final prices (ie, their supplier bills).

3.43. By ensuring customers receive information on their service fee, businesses should be able to fully understand the costs involved with a contract (TPI fees and actual energy costs paid to the supplier), and this will allow business customers to compare and make better choices about which TPI's services and energy contracts to sign up to based on best value for money. We note that this may help avoid some of the public litigation cases currently underway in the industry in relation to hidden TPI fees.

3.44. Increased price transparency on contracts may solve misunderstandings about Non-Domestic energy supply. It could also increase engagement with TPIs by customers who have not previously used TPIs. However, this has not been quantified, as it is difficult to predict the increased interest in using TPIs.

3.45. Although the chosen policy would be a market wide and mandatory requirement (as opposed to self-disclosing), it seeks to reinforce market wide trust, which in turn could improve confidence in engagement.

3.46. 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.

Costs

3.47. 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.³⁸ These are scaled up costs to the whole Micro Business Consumer base 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

³⁸ See Section 3 Table 3.

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.

3.48. Extending the TPI service fee transparency 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 suppliers (or £1.96 per non-Micro Business Consumer).³⁹ 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.

³⁹ See Section 3 Tables 3 and 4.

4. Wider impacts

Section summary

This section discusses the potential broader impacts from the chosen 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 sector is not regulated, we do not hold data on all TPIs operating or 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. Further, throughout the consultation process on our proposals, we asked TPIs to provide us cost information on a number of occasions for us to consider, but we were not provided sufficiently reliable information that would allow us to reasonably estimate the cost to the whole sector. As a result, we are unable to present any fixed values for the costs that would be incurred by TPIs from these proposals. However, we do recognise that there will be costs for TPIs, and below we outline some indicative costs TPIs may incur as part of the redress scheme membership from data sourced from the Energy Ombudsman, as well as some information on the service fee transparency proposals.

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 Qualifying Dispute Settlement Scheme (QDSS) is expanded to Small Business Consumers. As we set out above, because there is no existing record of all TPIs and no details of the numbers of TPIs who currently serve Small Business Consumers, but do not serve Micro Business Consumers, the number of TPIs that will be impacted by this policy is not immediately clear. Data from the Energy Ombudsman showed that by December 2023, when the scheme had been in operation for a year, there were 1,890 TPIs already registered with the Energy Ombudsman (ie TPIs that work with Micro Business Consumers)⁴⁰. We anticipate that the additional numbers of TPIs impacted will be relatively low given the low number of small businesses in the business population compared to Micro Business Consumers and the potential for some TPIs who work with

⁴⁰ Broker Dispute Resolution Scheme, Annual Review to December 2023, Energy Ombudsman, February 2024: https://tag-craft.files.svdcn.com/production/assets/assets/25_02-2024_EO_Broker_Report-Digital.pdf.

Small Business Consumers to already be registered with a QDSS through serving their Micro Business Consumers.⁴¹

4.3. The TPIs will likely pay fees to be a member of QDSS which could include a scheme registration fee and a possible case fee for each claim that is brought against them. For example, the Energy Ombudsman, which currently has significantly more TPIs registered to it compared to other schemes, has a subscription fee of £300 for the first year. These subscription fees will reduce from £300 to £175 for existing members from 2024. Case fees are £170 for early resolution of cases or £340 for full decisions. In the period December 2022 - November 2023, there were 741 complaints about TPIs brought to the Energy Ombudsman from Micro Business Consumers. We also know that the Energy Ombudsman has said that 69% of Alternative Dispute Resolution (ADR) claims are upheld in favour of the Micro Business Consumer, with an average financial award of around £894.⁴² We are aware there are other schemes available that may have different cost structures. The Utilities Intermediaries Association (UIA) is one such scheme that we are aware of, and we acknowledge that more schemes may become available in the future.⁴³ However, given the variation in different scheme structures, and the lack of costs information provided by TPIs, we cannot reliably quantify sector wide costs to TPIs.

4.4. We also recognise that any QDSS provider will require TPIs to have sufficient complaints handling procedures in place to sign up to the scheme, or a need to make changes to systems for Small Business Consumers. For those TPIs who do not currently have these in place, they will require additional time, resource and cost. However, they will also benefit in that customers will likely have increased confidence in working with TPIs and have a clear and transparent route to address issues, which will re-enforce this confidence.

4.5. Some TPIs have also stated that some customers would make a claim knowing that either they would win a small settlement or know that the TPI 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 are often in the consumer's favour. However, we are

⁴¹ <https://www.gov.uk/government/statistics/business-population-estimates-2023/business-population-estimates-for-the-uk-and-regions-2023-statistical-release>. Note that the definition of microbusinesses and small businesses from the statistics referenced is based on employment numbers from Table A, and not on consumption. Further, we note the statistics cover the UK, and not only GB.

⁴² Broker Dispute Resolution Scheme, Annual Review to December 2023, Energy Ombudsman, February 2024: https://tag-craft.files.svdcdn.com/production/assets/assets/25_02-2024_EO_Broker_Report-Digital.pdf.

⁴³ The decision to use the Energy Ombudsman (EO) data above to illustrate potential costs TPIs may face is because the EO register currently has a significantly higher number of TPIs registered to the scheme than other scheme providers we are aware of. This does not mean that this may not change over time, only that this is the latest information we have.

unable to evidence these claims, but do recognise that they are possible and may increase costs for TPIs who are not 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 do not already do this. However, we consider that this would be an acceptable cost to help ensure consumers are more aware of the services they are signing up to and will help to level the playing field given some TPIs already provide this service.

Competition impacts

4.7. We consider below the impact on competition in the energy supply and TPI/broker sector 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 Customers⁴⁴ 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 resulting in a more active demand side.

4.10. Further, stakeholder responses asked us to consider the impact of these changes on small or specialised suppliers. It is our view that smaller suppliers, or new entrants, would have greater ability to embed flexible processes and systems than larger suppliers. This, combined with the improvements in customer service and trust in the market we expect from these policies, would reduce the impact of any negative effects on competition that are entailed by these rules.

⁴⁴ Figures 2.1 and 2.2, page 20-21, Non-Domestic Market Review: statutory consultation on licence conditions, Ofgem, December 2023, <https://www.ofgem.gov.uk/sites/default/files/2023-12/Non-domestic%20market%20review%20statutory%20consultation%20on%20licence%20changes.pdf>

4.11. On balance we consider any potential dampening to competition from expanding the Complaints Handling Standards (CHS) to Small Business Consumers and Standards of Conduct (SoC) for all Non-Domestic Customers to be minimal and likely to be significantly outweighed by the positive effects on consumer outcomes.

TPI measures

4.12. 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.

4.13. We consider that our proposal to expand the TPI service fee transparency 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.

4.14. From our stakeholder responses, we note some TPIs' concerns that expanding the service fee transparency 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 TPIs' view is that this could drive TPIs out of business and ultimately reduce switching activity. However, other TPIs revealed that they already disclose their fees to customers suggesting that service fee transparency does not negate the need for the service provided by TPIs, especially when services are provided throughout the contract, and TPI service fees are not just a contract finder's fee.

4.15. We consider that the added clarity from service fee transparency may help foster greater competition amongst TPIs. On the demand side, greater transparency could lead to more informed customer choice when arranging a new supply contract and could ultimately improve competitive forces between TPIs. This could increase consumer trust and confidence in engagement with both energy suppliers and TPIs.

4.16. 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 sector. We consider that it will in fact be positive for competition in the TPI sector as it will encourage more trust in the market. This is because customers could have more confidence in working with a new TPI if they know that 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. At the beginning of 2023, microbusinesses made up 95.2% of all businesses in the UK private sector. An expansion of the redress scheme could make 99.2% of all businesses eligible for support when they have a complaint about a TPI.⁴⁵

4.17. Further, as we reasonably expect the number of additional small business consumers that would fall within the scope of the redress scheme membership measures to be lower than the number of Micro Business Consumers already covered by existing rules,⁴⁶ we do not expect that the additional impact of these rules would result in significant negative impacts on the TPI sector, particularly in light of the TPI sector continuing to function with the existing rules that cover a higher number of microbusinesses.

Distributional analysis

4.18. 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 September RFI.

4.19. 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 customer⁴⁷). This analysis can also estimate the additional costs of expanding proposed policies to particular thresholds.

4.20. 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 to do so. 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.

4.21. This distributional analysis includes the costs of expanding the policies to the whole customer base (excluding Micro Business Consumers) for CHS, 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

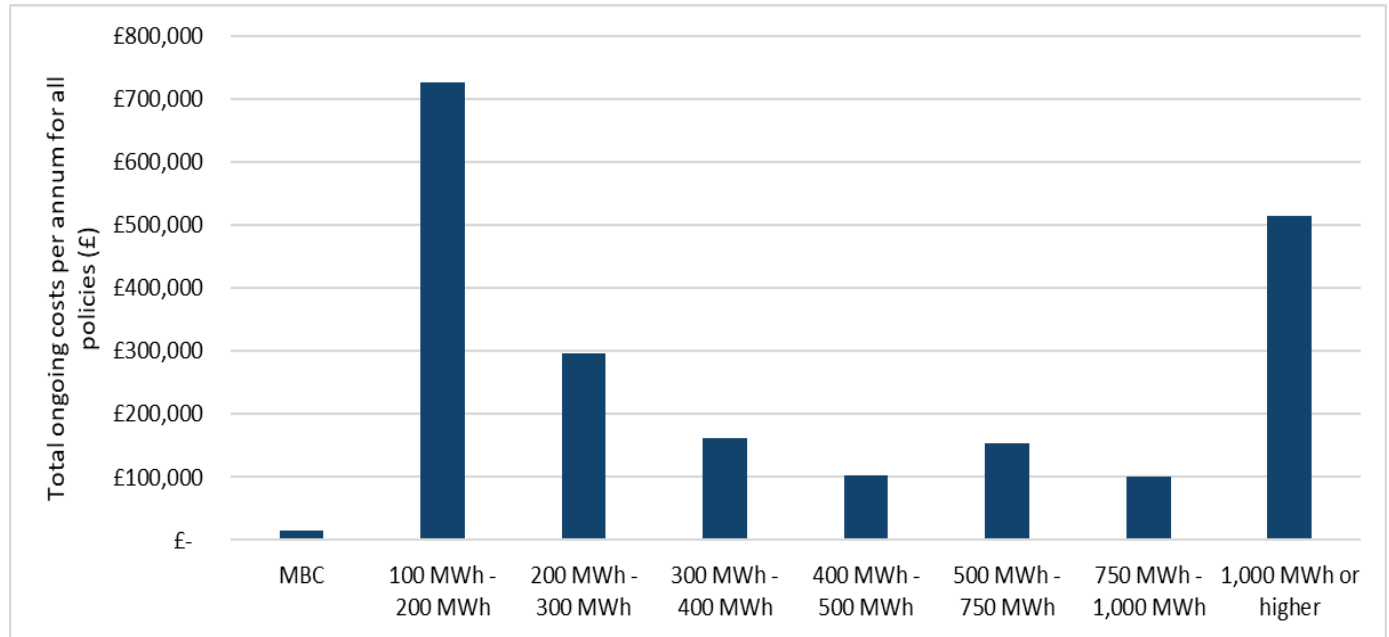
⁴⁵ Based on the employee number only. Not all businesses will meet the Small Business Consumer definition due to the requirement of an annual turnover of at most £6.5 million or a balance sheet total of £5.0 million.

⁴⁶ <https://www.gov.uk/government/statistics/business-population-estimates-2023>

⁴⁷ The cost per customer for each policy was calculated as described in Section 3 - Costs and Benefits.

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 from the September RFI.

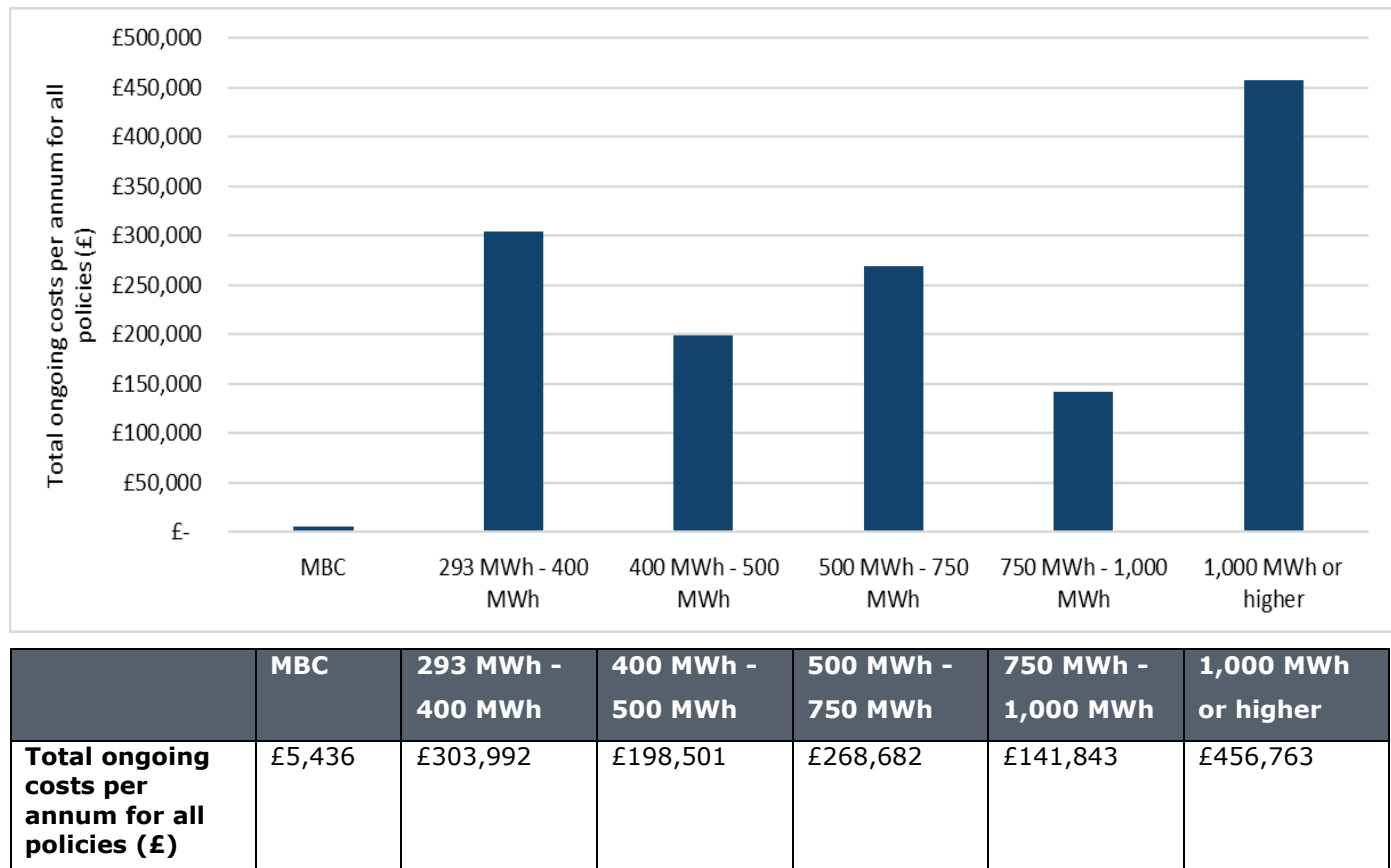
Figure 3: Total ongoing costs (£), by consumption band, power⁴⁸



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

⁴⁸ For ease to the reader, we have shortened the consumption bands to the most suitable size. The original consumption bands include for Power: MBC (Micro Business Consumers, defined in this analysis as up to and including 100,000 kWh), 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 (Micro Business Consumers, defined in this analysis as up to and including 293,000 kWh), 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 4: Total ongoing costs (£), by consumption band, gas⁴⁹



4.22. 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.

4.23. 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.

4.24. 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.

⁴⁹ Ibid

Administrative burden

4.25. We consider that the administrative burden on suppliers from these policies should be minimal given systems and procedures are already in place to ensure CHS, SoC, TPI service fee transparency and the TPI QDSS are available for Micro Business Consumers.

4.26. 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 previously 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

4.27. 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.

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

4.29. 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 TPI.

Resource constraints on redress and relevant customer support services

4.30. With better signposting to services, like Citizens Advice, demand and use of these services may increase. There is a low risk that an increased demand may overwhelm the services, and this could lead to poorer outcomes for Non-Domestic Customers. However, we will continue to work closely with government and Citizens Advice to monitor any impact from increases in demand on services as a result of the threshold expansion.

4.31. 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 Non-Domestic Customers. We will work closely with government as they consider the responses to their consultation on widening the Energy Ombudsman scope.

4.32. 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 require minimal adaptation by existing schemes.