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By email to: nondomesticretailpolicy@Ofgem.gov.uk

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Changes to Guidance on Deemed Contracts

The UIA is the trade association representing Third Party Intermediaries (TPIs) operating in the energy market. We have supported the sector for over 20 years, promoting good practice through our voluntary Code of Practice and providing members with support, guidance and access to dispute resolution services.

Our membership represents a broad range of TPI businesses, including brokers and consultants supporting customers across the market.

Our response is primarily focused on the non-domestic sector and highlights the importance of ensuring that deemed charges remain fair, transparent and cost reflective. We recognise that suppliers need to recover legitimate costs and manage the risks associated with deemed contracts; however, customers should have confidence that charges are reasonable and appropriately applied.

We appreciate the opportunity to contribute to this consultation and would welcome further engagement as Ofgem continues its review of deemed contract arrangements.

Please note that our response is not confidential and may be published by Ofgem.

Yours sincerely

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Q1. Do you agree with our proposal around the situations in when we generally view a deemed contract to exist depending on a customer's ability to consume energy? Please provide your reasons.

UIA broadly agrees with Ofgem's proposal that a deemed contract can exist where a customer has the ability to take supply through a connected meter, even where no energy is being consumed.

In practice, a live supply still creates costs that suppliers must recover. There are costs associated with maintaining the connection, metering arrangements, industry charges, billing systems and customer administration, regardless of whether energy is actually consumed. It is therefore reasonable that customers contribute towards these fixed costs through standing charges.

However, we believe it is important to distinguish between fixed costs associated with maintaining a supply and costs associated with energy consumption. While fixed costs can reasonably be recovered through standing charges, costs linked to energy procurement, wholesale market exposure and hedging risk should generally be reflected through unit rates rather than fixed charges.

We therefore support the principle that a deemed contract may exist where a customer has the ability to take supply but encourage Ofgem to provide greater clarity around the types of costs that suppliers should recover through standing charges and those that should be recovered through consumption-based charges.

Q2. Do you agree with our proposal around the reasonable recovery of bad debt? Please provide your reasons.

UIA accepts that suppliers face additional risks when supplying customers under deemed contracts and that it is reasonable for suppliers to recover costs associated with bad debt, non-payment risk and the uncertainty that arises when a customer has not yet entered into a contractual arrangement.

However, we believe greater clarity is needed regarding what constitutes a reasonable level of recovery.

We would support suppliers recovering demonstrable bad debt and credit risk costs where these can be evidenced and justified. At the same time, care should be taken to ensure that broader risks associated with future consumption and wholesale energy procurement are not recovered through fixed standing charges. These risks are more appropriately linked to actual energy usage and should therefore generally be reflected through unit rates.

Greater transparency around the methodology used to recover these costs would help provide confidence that deemed customers are paying a fair price while allowing suppliers to recover legitimate costs and risks.

Finally, while UIA has consistently supported competition and would not normally advocate price caps in a competitive market, deemed contracts are somewhat different. Customers do not actively choose to enter into them and often have little opportunity to avoid them. As a result, the normal competitive pressures that would usually help keep prices in check are not always present.

Against that backdrop, it may be worth considering whether there is a role for a maximum deemed rate, or another form of safeguard, to provide customers with greater protection against disproportionately high deemed charges. Such an approach could still allow suppliers to recover

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their legitimate costs while providing greater assurance that customers are not paying more than is reasonable simply because they have temporarily found themselves on a deemed contract.

UIA is not advocating a particular approach at this stage, but we believe this is an area that merits further discussion as part of Ofgem's wider review of deemed contracts.

Q3. Do you agree with our proposed text that reminds suppliers of their obligations around customer transfer blocking and delayed switching? Please provide your reasons.

Yes.

UIA strongly supports the clarification that non-domestic customers should not have a switch blocked because of debt that has built up under a deemed contract.

Too often, businesses find themselves stuck on expensive deemed rates while disputes drag on or administrative issues remain unresolved. Customers should be free to move to a more appropriate contract or supplier without unnecessary obstacles.

We also welcome Ofgem's comments on delayed dispute resolution. Where supplier delays have left a customer paying deemed rates for longer than necessary, suppliers should be expected to put things right.

That said, we would like to see clearer expectations around how quickly disputes should be resolved. Without defined timescales, there is a risk that some customers remain stuck in limbo for extended periods.

Q4. Do you agree with our proposal around the circumstances in which suppliers should ask for security deposits? Please provide your reasons.

Broadly, yes.

We understand that there may be genuine cases where suppliers need additional protection for high-risk sites. However, these should be the exception rather than the rule.

If suppliers are already recovering bad debt and risk through deemed rates, it is difficult to justify asking customers to provide additional security deposits for the same risk.

Where a deposit is requested, suppliers should be able to clearly explain why it is needed and why the risk is not already reflected in their pricing – following the guidance issued by Ofgem https://www.ofgem.gov.uk/guidance/non-domestic-best-practice-guide-security-deposits.

In addition, we believe that it should be standard for all interest accrued on such deposits to be repaid.

Q5. Are there any potential implications for domestic customers that the proposed guidance on deemed contract rates may impact on?

While UIA's focus is the non-domestic market, some of the same principles are relevant to domestic customers.

In particular, the clarification that a deemed contract can exist where a customer has the ability to take supply, even if no energy is consumed, may come as a surprise to some consumers.

Ofgem may wish to consider whether additional guidance is needed to ensure customers understand when standing charges apply and what those charges are intended to cover.

Greater transparency is likely to benefit both domestic and non-domestic customers.

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Q6. Do you have any further comments on our proposals for the deemed contract guidance?

Overall, we welcome the additional clarity this guidance provides.

The proposals around transfer blocking, dispute resolution and security deposits should help improve outcomes for many customers who find themselves on deemed rates.

However, we would encourage Ofgem to provide more clarity around what constitutes reasonable bad debt recovery, how suppliers should evidence their pricing decisions, and what customers can reasonably expect when disputes arise.

We would also welcome greater transparency around deemed rate methodologies to help build confidence that prices remain fair and cost reflective.

Customers should not be disadvantaged simply because they have inherited a supply, moved into new premises, become involved in a dispute outside their control, or fall within a particular sector, such as hospitality.

UIA supports the overall direction of the proposals.

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