



Ofgem Consultation – our proposed approach to dealing with supplier insolvency and its consequences for consumers. E.ON Response

Q1: Do you agree with the approach to SoLR and energy administration set out in our revised guidance?

Yes we agree with the approach set out in the revised guidance. The priority must always be ensuring all customers continue to receive supplies of gas and electricity without significantly prejudicing the ability to supply existing customers. We believe that consideration to any measures offered by suppliers to address the loss of credit balances is an important factor in the selection of a SoLR.

Q2: Do you agree with our preferred approach (option 1 - no further action, i.e. case by case use of SoLR powers) to protect consumer credit balances?

We would be particularly interested in hearing your views on the following factors in relation to each option: effects on innovation and potential barriers to entry, increased regulatory burdens, impact on customer behaviour, proportionality.

We believe that option 1 is the one that should be considered by Ofgem. The financial circumstances, customer types and customer volumes of each SoLR case can be very different, so a case by case approach would seem to be in the best interests of all concerned. We believe it is important to adopt a fair and transparent approach to the protection of credit balances taking into consideration things such as vulnerability.

Further comments and views are included in our response to question 3 below.

Q3: Do you consider that there is other information which would help you decide whether to volunteer to be a SoLR and on specific terms? If so, what is this information and from whom should it be sought?

There are numerous factors and other information that would influence a decision on whether we would volunteer to be a SoLR.

The revised SoLR guidance says that preference will normally be given to those suppliers who state that they will not make a claim for last resort payments. Although the guidance goes on to say Ofgem may depart from this depending on the specifics of the supplier insolvency, we believe that a case by case basis taking into consideration all factors would deliver the fairest outcome for the customer.

When reviewing SoLR cases, whilst the priority must remain with the customer, Ofgem does need to consider any financial impact on suppliers. The revised guidance goes on to say that it would expect



an efficient SoLR to be able to cover its own costs and not rely on additional payment through the levy arrangements. There needs to be a sensible balance between protecting the needs of the new customers against the commercial effect on the SoLR. For example, new entrants to the market could have offered a price incentive to customers to join them meaning the gap between that entrant's prices to those of the SoLR could be significant. Therefore a change to the SoLR's deemed contract rates could result in such a significant price increase that there is a likelihood that the customer chooses to leave that supplier immediately. Whilst the SoLR does have the opportunity to move the customer onto another tariff, it would be important to know if the SoLR has consent to contact these customers immediately. Either way, there is a risk that a large number of customers will choose to leave the SoLR and the result being that the SoLR has protected the customer's credit balance but receives no longevity from that customer. It is also likely that credit balances are highest in autumn so the timing of the process could influence whether a supplier may volunteer. Ofgem should consider this when treating SoLR situations on a case by case basis otherwise there is a risk that the SoLR could look to recoup any costs by another means which has an impact on their existing customer base. Ofgem needs to seek assurance and be satisfied in each case that the chosen SoLR has appropriate controls in place to ensure there is equal protection between new and existing customers.

A further consideration is the increased servicing costs of the acquired customers. Customers will not have chosen the SoLR therefore there is a greater chance of increased contact. Whilst this presents an opportunity to communicate to the new customers and have a conversation regarding the best deal for them, this must be balanced with the volume of customers involved so that the SoLR can make the necessary arrangements without having a significant impact on things such as call handling times, complaints and level of service, each of which could have a financial impact, as well as an impact on the level of service provided. This is particularly relevant not only to the new customers but to that supplier's existing customers as Ofgem's principal objective in the revised guidance is to protect the interests of existing and future consumers.

The level of information provided on the customer's payment history by the insolvent supplier is another important factor which should be considered. Information such as whether customers have been credit checked, their current payment method and debt/credit balances will provide insight into potential future debt implications. For example, if the insolvent supplier had a strong prepayment focus, then there may be further complications with credit balances/debt repayment. Any potential for bad debt build up could result in operational staff increases and debt write off. Similarly a supplier with a strong prepayment focus could involve increased costs in sending out new prepayment cards. By contrast, information relating to customers paying by direct debit carries different risks. Information on whether the bank details can be transferred across causing minimum impact on the customer would be essential. The revised guidance says "We will assess the issues that the supplier would face in processing the failed supplier's customers. In particular, we will assess the supplier's ability to assimilate customer information and issue bills without delays". We consider this information important so as not to incur additional financial IT costs to transfer customers. Along



with information described above relating to payment history, understanding how data such as meter readings are transferred in such a way so as not to cause any unnecessary delays is essential.

We would expect information to be provided in relation to all social and environmental obligations and the impact on the SoLR. For example, impacts on a SoLR's Smart rollout plan would be crucial. A SoLR would need to have up to date information on the insolvent supplier's roll out plan along with details on whether this was ahead, on track or behind schedule. In addition, details on how these customers impact the SoLR's own roll out plan would be required. For example, if there is a large volume of customers acquired then the impact on the SoLR's ability to achieve its 2020 targets. We would expect clear guidance on this and all other obligations.

We believe that the process for dealing with any complaints is an important factor. Complaints could fall into a number of categories, for example, outstanding complaints with the insolvent supplier and complaints received regarding the SoLR process. Whilst the SoLR will have its own complaints handling procedure, clear guidance on the process for dealing with customers transferring from the insolvent supplier to the SoLR is important. There also needs to be consideration to any increased volume of complaints from the SoLR's existing customer base for reasons that could be directly related to becoming a SoLR.

We would expect Ofgem and/or the regulatory body concerned to take into consideration as part of the SoLR process, any impact this may have on regular reporting. For example, where individual supplier data is published on Ofgem's website and as a result of becoming a SoLR the data contained had been significantly impacted by the insolvent supplier then this should be reflected with appropriate commentary. Similar commentary should be replicated in any publications that are made available on websites or through any other means.

Whilst we fully support treating supplier insolvency on a case by case basis, to volunteer as a SoLR it is important to have as much detail, some of which is described above, clearly defined to allow a supplier to assess the full impact and make an informed decision. This decision must protect the interests of existing customers, future customers and the supplier.