

Report

Retail Supplier Compliance and Enforcement Report: Spring/Summer 2018

Publication date: 13 August 2018

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This report shines a light on some of our compliance and enforcement activities in the gas and electricity retail supply markets during the first half of 2018. The intention in doing so is to help retail energy suppliers learn from our work, better understand their obligations, and prepare effectively for regulatory changes.

In the report we:

- identify compliance issues likely to be of relevance across the market
- highlight our expectations and summarise learning points for suppliers, and
- flag some important changes to the regulatory framework for suppliers.

This is the second such report in an ongoing series that we expect to publish twice yearly. It covers much of our most recent activity and also some casework from last winter that occurred too late to include in the previous report.

We'd appreciate **feedback** on the report so we can continue to improve it. Let us know what you think about it by completing this quick 5-minute [survey](#).

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Contents

Foreword

1. A note on publicity

2. Key themes and issues

Providing timely and accurate information

- Bills and annual statements
- Call centre resourcing
- Trade sales
- White labels

Tariff and product offerings

- Price increases for customers on fixed tariffs
- Prepayment meter offer
- Smart meter roll out

Supporting customers in vulnerable situations

- Prepayment meter top-up arrangements
- PPM and Warm Home Discount price caps

3. Regulatory changes

New changes

- Back billing
- Licence guides

Proposed changes

- Customer communications
- Default tariff cap
- Guaranteed Standards of Performance

Foreword

The retail energy market is changing rapidly as a result of technological change and the roll-out of smart meters. We have a broad programme of work which aims to capitalise on this change and to create a retail market in which suppliers innovate and more customers engage effectively. As part of this, we have been shifting towards regulating via outcome-focused principles that allow suppliers to innovate wherever this can deliver good outcomes for their customers.

Our compliance and enforcement functions are in turn adapting to reflect this new reality. We want our retail compliance and enforcement work to promote a culture where businesses put energy consumers first and act in line with their obligations, thereby increasing consumer trust in the market. Achieving and then maintaining high levels of customer service is central to our vision.

To help suppliers achieve this we are working increasingly closely with our 'tripartite' partners, Citizens Advice, Citizens Advice Scotland and the Ombudsman. This means using our respective powers in a complementary way to secure the best outcome for consumers. The emphasis on better coordinating our activities will continue.

Self-reporting by suppliers will remain an important source of information for us. When engaging with us, we want suppliers to give us assurance that they have established (or are seeking to establish) the scale of an issue and why it happened. And that's not all. To gain full 'credit' for self-reporting, suppliers must also show how they are - within a reasonable timeline - both putting matters right for those who might have been harmed by the problem and ensuring that the problem does not recur.

Where suppliers can credibly demonstrate all these things, we are more likely to seek to resolve the matter through a compliance approach. On the other hand, where potential breaches are serious or indicate repeated non-compliance, or where a supplier is unwilling or unable to cooperate with our compliance team in putting matters right, we are more likely to open an enforcement case.

If you'd like to contact our compliance team for any reason, please email Consumers.Directorate@ofgem.gov.uk.

Anthony Pygram
Director - Conduct and Enforcement
Consumers and Markets

1. A note on publicity

- 1.1. The Authority has decided¹ that Ofgem should be more transparent about its compliance work and be more proactive in communicating it to stakeholders. This includes while compliance work is still in progress.
- 1.2. In the past, Ofgem has not normally commented on ongoing compliance work, even where there is a high level of consumer concern and media interest about a particular issue or supplier. We adopted this approach to avoid any risks that might arise from commenting publicly about matters that could subsequently be the subject of formal enforcement proceedings. However, we acknowledge that a policy of not commenting publicly itself risks creating a false impression that Ofgem is not acting to protect consumer interests, or suppliers aren't acting to improve things, which in turn could undermine trust in the energy market.
- 1.3. To mitigate against this, Ofgem may provide statements to media and consumer groups if asked about a specific issue where we are carrying out compliance work. The aim of doing so is to provide greater transparency and to reassure consumers that Ofgem is aware of the problem and is discussing with the licensee how best to resolve it.
- 1.4. As at present, when Ofgem closes some compliance cases, we will publish a note on the compliance and enforcement section of our website. The note will outline the issue, how it was resolved and the action we took. We will send it to stakeholders that have signed up to receive compliance and enforcement updates in our daily email alert. We may choose to issue a press release at the same time as closing a compliance case. We may be more likely to do this where the level of consumer detriment has been high, where there is significant consumer or media interest in an issue, or where we wish to send a particular message about appropriate conduct to a wider audience.
- 1.5. To sum up, we are committed to sharing the lessons of our retail compliance and enforcement work. We may do this in a variety of ways. Whatever method we deem appropriate for a particular case, we expect that licensees will review their policies and practices accordingly and take appropriate steps to ensure they are compliant and effective in delivering good outcomes for consumers.

Context and related publications

- 1.6. As noted above, this publication draws attention to recent retail supplier compliance and enforcement activities that we believe will be of wide interest to the market. It is not, and is not intended to be, a comprehensive survey of all our retail compliance and enforcement activity.
- 1.7. Interested parties may wish to read this document in conjunction with the recently published [Enforcement Overview 2017/18](#). This document is the fourth in an annual series setting out, for each financial year, the formal investigations we opened and alternative actions we took. It notes the outcome of any formal investigations we completed, sets out any financial penalties we imposed and describes any remedial actions that licensees took in response to our activity.

¹ See the published [Authority minutes of 15 March 2018](#).

2. Key themes and issues

- 2.1. In this section we highlight supplier activities where things went wrong and specific regulatory obligations weren't met. It is important to remember that the retail gas and electricity supply licences contain enforceable overarching principles that relate to many of these supplier activities. The principles include behaving in a fair, honest, transparent, appropriate, and professional manner, and providing information that is complete, accurate and not misleading. Domestic suppliers also need to make an extra effort to identify and respond to the needs of domestic customers in vulnerable situations.

Providing timely and accurate information

Bills and annual statements

The issue and why it matters

- 2.2. Billing is an essential function for telling customers about their energy usage, charges and tariff rates. Annual Statements show how much energy a customer has used in the past year, give an estimated cost for the next year and highlight any possible savings from cheaper alternative tariffs.
- 2.3. These communications can and should help consumers manage their consumption and costs effectively, and so facilitate informed engagement in the market. But this potential will only be realised if customers can quickly and easily access and understand the information, and can rely on its accuracy.

Relevant regulatory obligations

- 2.4. These matters are covered by Standard Licence Conditions 31A and 25C/SLC 0 of the gas and electricity supply licences.
- 2.5. SLC 31A sets out obligations concerning the provision of information on Bills, statements of account, and Annual Statements. Under this condition, annual statements must set out the tariff customers are on, details of their annual spend, and how much they can save by switching to the supplier's alternative cheapest tariff if they are not already on it. Suppliers must take all reasonable steps to ensure the information is complete, accurate and not misleading.
- 2.6. The aim is to enable customers to make informed choices about their energy consumption and their account, including potentially switching to a better deal.
- 2.7. SLC 25C, which was in force until October 2017, required suppliers to take all reasonable steps to achieve certain standards of conduct and to ensure that the standards were interpreted and applied consistently with the customer objective, which was to treat customers fairly. From 10 October our enhanced Standards of Conduct (known as SLC 0) replaced this requirement.

What went wrong and key lessons

- 2.8. In recent months several suppliers have given us serious cause for concern with the accuracy and frequency of their bills and Annual Statements. We have had discussions with them to understand the scale and causes of the problems and how to put matters right.
- 2.9. In February 2018 we opened an investigation into whether Ovo Energy had failed to meet its obligations to provide customers with consumption information that was accurate, or based on a best estimate, complete, and not misleading. The opening of this investigation - which is still under way - does not imply that we have made any findings about non-compliance.
- 2.10. In June 2018 we announced that SSE had agreed to pay £1 million into our consumer redress fund administered by the Energy Savings Trust. SSE had sent Annual Statements to their PPM customers which contained inaccurate information about cheaper alternative tariffs and the savings potentially available from them.
- 2.11. The inaccuracies stemmed from an IT fault that SSE failed to spot early. SSE then failed to act promptly when it did identify the issue, and failed to take remedial actions such as proactively telling potentially-affected customers about it. SSE failed to implement appropriate arrangements and processes that were complete, thorough and fit for purpose.
- 2.12. SSE now carries out extra checks on its customer communications after IT changes. SSE also gives extra resources to the teams responsible for managing systems changes and user acceptance testing, including formal procedures and rigorous regression testing. The full decision notice is [here](#).
- 2.13. Suppliers must communicate clearly and accurately with customers. For example, they must provide customers with the information they need to make informed decisions about their consumption and supply - whether via bills, Annual Statements or otherwise. We are developing enforceable principles to govern this area of suppliers' activities (see paragraphs 3.3 to 3.6 below).

Call centre resourcing

The issue and why it matters

- 2.14. Customers rightly expect to be able to contact their supplier easily to make an enquiry or a complaint. Suppliers should facilitate this by providing a wide variety of contact routes. Suppliers should also allocate sufficient call centre resources to enable a rapid response when a customer tries to get in touch. Long wait times and restricted opening hours are a key source of customer dissatisfaction. When customers do make contact, suppliers must deal with their complaint or enquiry fairly, efficiently and professionally.

Relevant regulatory obligations

- 2.15. SLC 0.3 requires all domestic suppliers to

- make it easy for customers to contact them;
- act promptly and courteously to put things right when they make a mistake; and
- otherwise ensure that their customer service arrangements and processes are complete, thorough, fit for purpose and transparent.

What went wrong and key lessons

- 2.16. Call waiting and email response times are important indicators of whether a supplier is providing a satisfactory level of customer service. Of course, getting through is in itself no guarantee that a complaint will be well handled. We have had compliance discussions with several suppliers, large and small, about the quality of their customer care.
- 2.17. In July 2018 Toto Energy made a public commitment to improve its customer service, to reduce average call waiting times to 5 minutes by the end of July and to make further improvements thereafter. In response, we issued a compliance note acknowledging the steps it was taking but saying we would continue to work closely with the supplier to secure further improvements.
- 2.18. We have already had to take firm action against one supplier, Iresa, because of serious customer service failings including unacceptably long call waiting and email response times (and an inability to identify vulnerable customers). In March 2018 we issued a Provisional Order which, amongst other things, required Iresa to extend its call centre hours, reduce call waiting times and respond to customer emails more quickly. On 25 June 2018 we confirmed the Provisional Order. The reasons for this are set out [here](#). Iresa has since ceased to trade.
- 2.19. Suppliers of all sizes must ensure they have sufficient customer service staff to operate call centres effectively. This applies to all suppliers not only during normal business hours, at weekends and on public holidays. It also means ensuring customers can get in touch in periods of severe weather that might reduce the number of call centre staff able to get to work. After the heavy snowfalls of last winter the public was advised to avoid inessential travel. Suppliers should draw up contingency arrangements to ensure that they offer satisfactory customer service even under those circumstances.
- 2.20. We intend to pay close attention to suppliers that are growing (or intend to grow) their customer base rapidly. It is essential that these suppliers think ahead and put sufficient resources in place to meet their customers' demands.

Trade sales

The issue and why it matters

- 2.21. A supplier may decide for commercial reasons to seek to transfer a group of its customers to another supplier. If not properly handled, 'trade sales' like this can cause uncertainty and alarm for the consumers involved. This could reduce their trust and confidence in the market.

Relevant regulatory obligations

- 2.22. Trade sales require the consent of affected consumers. Suppliers should treat customers fairly by keeping them properly informed of what is proposed and by giving them a chance to withhold consent beforehand, where the transfer would leave customers facing an increase in energy charges or any other disadvantageous terms or conditions. Suppliers should also consider whether any data protection implications arise from the transfer of customer details.
- 2.23. Consent may be secured in advance where a customer has accepted contractual terms that allow the supplier to transfer the customer's rights and obligations to another supplier. In those circumstances, the sale may proceed without suppliers having to obtain further consent so long as the customer will not be put at a disadvantage by the transfer (whether via increased tariffs, reduced customer service, or other less favourable terms and conditions).
- 2.24. If the sale will in some way put the customer at a disadvantage, the transferring supplier must give 30 days' notice to all the affected customers (see SLC 23.4). The supplier should set out the nature, purpose and effect of the variation and be clear that the customer is entitled to withhold consent to the transfer (see SLC 23A.2(b)).
- 2.25. Suppliers contemplating a trade sale should bear in mind the following points.
- 2.26. All affected customers should be notified about a planned transfer well before steps are taken to initiate the Change of Supplier process. The transferring supplier should have the capacity to use a variety of different media as necessary to inform their customers about
- the timetable for the intended transfer of their account;
 - any disadvantageous effects arising from the transfer; and
 - how they can get in touch to enquire about, and potentially withhold consent to, the transfer.
- 2.27. Where the transfer would impose disadvantageous terms and conditions the supplier must provide advance notice and a switching prompt, and must not charge exit fees on fixed deals.
- 2.28. Each supplier should liaise effectively with each other before and during the trade sale. Advance planning is essential to ensure the process takes place smoothly and that each is aware of what the other will do by way of communicating with customers and dealing with queries and concerns.
- 2.29. Trade sales involving the transfer of a substantial number of customers inevitably generate an increased volume of customer contact activity. It is important that both suppliers involved in the transaction should ensure they have sufficient dedicated resources to deal efficiently with the increased 'traffic'.
- 2.30. Suppliers should liaise with Ofgem and Citizens Advice from an early stage in the planning of a trade sale so as to provide assurance that customers will be treated fairly before, during and after the sale.

White label partnerships

The issue and why it matters

- 2.31. At the end of 2016 Ebico terminated its 'white label' partnership with SSE. There was a contractual winding-down period of several months. Ebico began a partnership with Robin Hood Energy in January 2017.
- 2.32. Ebico informed all the customers of the Ebico-SSE white label tariffs that they would be automatically transferred to a better deal with Robin Hood Energy. This would have contravened the requirement in the supply licence to gain the consent of customers to the transfer.
- 2.33. In February 2017, SSE withdrew the Ebico-SSE white label tariffs. SSE should have migrated these customers to a live fixed or evergreen tariff within 49 days of withdrawing the tariffs. However, SSE took nearly six months to migrate most of the customers to another tariff. Some customers lost out on savings because of the delayed switch.

Relevant regulatory obligations

- 2.34. Under SLC 22D suppliers must migrate customers from a 'dead tariff' onto a fixed term or evergreen tariff within 49 days of removing the tariff from the market. Under SLC 22 and SLC 25 customers must give their consent for the transfer of their supply to another supplier.

What went wrong and key lessons

- 2.35. Ofgem engaged all parties to make them aware of their obligations. Robin Hood Energy, working with Ebico, then asked customers of the Ebico-SSE white label tariffs for their consent to the switch. Those who did not give consent would remain customers of SSE.
- 2.36. SSE made amends for delaying the migration to a new tariff by
- compensating those customers who would have been better off after the migration but for whom the benefits were delayed;
 - making goodwill payments to customers who had benefited from the delay because the new tariff was more expensive;
 - agreeing to make a payment into Ofgem's consumer redress fund² to match the monies owed to customers who left SSE after day 49 but before the migration began in late June 2017; and
 - setting up a support service for customers to query the level of compensation with a fund to make further payments if the circumstances of a particular customer merited it.

² Ofgem's consumer redress fund is administered by the Energy Savings Trust. The fund supports consumers in vulnerable situations and the development of innovative products or services not currently available to energy consumers.

- 2.37. For further details see our June 2018 [press release](#) and [decision note](#).
- 2.38. This case highlights several important lessons for suppliers when terminating white label partnerships. Suppliers must
- have regard to consumers' switching rights;
 - have contingency plans in place for customers should co-operation with the white label partner become difficult, including robust arrangements to ensure customer migration within 49 days; and
 - notify customers appropriately about, and compensate them in full, for any detriment resulting from the termination of a white label relationship.

Tariff and product offerings

Price increases for customers on fixed tariffs

The issue and why it matters

- 2.39. Suppliers may not increase prices for customers on fixed contracts. In late 2017 one supplier, Toto Energy, notified customers on fixed term contracts that it intended to increase their prices.

Relevant regulatory obligations

- 2.40. SLC 22C (9) prohibits suppliers from increasing energy charges to customers within the duration of a fixed term contract. A fixed term contract is defined in the licence as a contract where any one or more of its terms is fixed for a specified period of time.

What went wrong and key lessons

- 2.41. Toto Energy notified all its customers about a forthcoming increase in the price of its variable tariffs. The price increase was due to take effect in late December 2017 and early January 2018.
- 2.42. Toto Energy sent the notification to thousands of customers who had signed up for discounted variable tariffs. Toto Energy overlooked the fact that the tariff discount was guaranteed for a specified, fixed period of time. The fixed duration of the discount meant that customers on this tariff were on fixed term contracts (even though the tariff name contained the word 'variable'). As a result, the intended price increase to those customers was not permissible.
- 2.43. Following urgent compliance engagement with the supplier, Toto Energy decided not to implement the price increase for the customers on discounted variable tariffs. On 26 December 2017 Toto Energy notified those customers who had received the price increase notification but had not switched supplier that the price increase had been cancelled.

- 2.44. After further engagement with us, Toto Energy notified several thousand customers that had switched supplier after receiving the price increase notification that the price increase was cancelled. This notification stated that if a customer wished to return to Toto Energy, the original fixed tariff would be honoured and extended by the amount of time that the customer had been with the new supplier. The notification stated that Toto Energy would reimburse returning customers for any exit fees charges by the customer's new supplier.
- 2.45. The case raises the following lessons for suppliers offering fixed term contracts:
- applying a fixed term period to a tariff means it is a fixed term contract within the meaning of the licence. This would apply to any contracts where a discount is applied to a variable tariff for a fixed, specified period;
 - exit fees can only apply to fixed term deals and not to variable products; and
 - if a customer's welcome pack asserts that a price is guaranteed until a particular specified date, this indicates that the customer is on a fixed term contract to which SLC22C(9) applies.

Offering prepayment meters

The issue and why it matters

- 2.46. All suppliers must be able to offer prepayment meters (PPMs) to customers in payment difficulties so that they can repay debt. Suppliers with over 50,000 customers must offer PPMs as part of an obligation to "provide customers with a wide choice of payment options". Failure to do so can mean that the consumer is unable to pay for energy in a way that works for them, potentially causing payment difficulties and significant debt build up.
- 2.47. Earlier this year we engaged with one supplier, Bulb, that was not offering PPMs as a payment option to existing or prospective customers.

Relevant regulatory obligations

- 2.48. SLC 27.5-27.6 set out a supplier's responsibilities towards customers in payment difficulty, which includes offering a PPM as one of a range of possible debt repayment options. SLC 27.1 requires any supplier with more than 50,000 customers to offer a wide range of payment options, including a PPM, to any customer whether or not the customer is experiencing payment difficulty.

What went wrong and key lessons

- 2.49. In March 2018, Ofgem became aware that Bulb was not offering PPMs as a payment option. We promptly engaged with the supplier.
- 2.50. Bulb told us it had begun to plan how it would offer PPMs as long ago as March 2017, in anticipation of reaching the 50,000 customer threshold. However, it took Bulb much longer than expected to set up the necessary infrastructure and systems to facilitate PPM offerings. In addition, Bulb acquired customers more

quickly than it had anticipated during this period. Bulb also told us that it had conducted a trial PPM roll-out to a small group of customers in December 2017. However, by the time that trial took place Bulb ought already to have been in a position to offer PPMs to all its customers.

- 2.51. We requested from Bulb a detailed plan setting out the steps it was taking to be able to offer PPMs as a payment option. Bulb provided details of changes to its systems, sales and marketing communications, and staff training (with associated implementation dates). Bulb set out how it would contact existing customers that had asked about paying via a PPM and customers that had previously enquired about switching to Bulb with a PPM.
- 2.52. Since April 2018 Bulb has been able to offer PPMs to all its existing and prospective customers. Bulb engaged constructively with our compliance team and has implemented the changes in its Action Plan. Ofgem has therefore [decided](#) to take no further action. We are aware of other suppliers in a similar position to Bulb and we have begun or will shortly begin compliance engagement with them.
- 2.53. The case raises lessons for all suppliers, including smaller suppliers intending to grow rapidly. All suppliers must be able to offer PPMs as a repayment option to customers in payment difficulty. We expect suppliers openly to offer a PPM payment option to customers as soon as they exceed 50,000 customers. To bring this about, we expect suppliers to plan ahead effectively, including managing customer acquisitions and making the necessary contractual and logistical arrangements to facilitate timely PPM installations.

Smart meter roll-out

The issue and why it matters

- 2.54. Smart meters give consumers near real time information on energy use - expressed in pounds and pence - so that they will be able to better manage their energy use, save money and reduce emissions. Smart meters will bring an end to estimated billing, meaning consumers will only be billed for the energy they actually use, which should help them budget better.
- 2.55. Smart meters are also a key enabler for the transition to a more flexible energy market and the move to a low carbon economy. We want to see new business models that seek to take advantage of the opportunities that arise. The sooner consumers receive smart meters the sooner they can realise these benefits.

Relevant regulatory obligations

- 2.56. Suppliers are required to take all reasonable steps to roll out smart meters to all their domestic and small business customers by the end of 2020. We monitor suppliers' plans and progress to ensure that they are in the interests of consumers. Each May we publish an open letter setting out our observations on rollout activity in the previous year.
- 2.57. Suppliers must ensure they deliver a positive consumer experience, complying with relevant obligations including the Smart Metering Installation Code of

Practice and the Standards of Conduct. In particular, suppliers must ensure that they demonstrate to consumers how to use their IHD and provide advice on how to save energy. They must also ensure that all communications with consumers are complete, accurate and not misleading.

- 2.58. Suppliers are required to become users of the data and communications network operated by the Data Communications Company (DCC)³. Some small suppliers have yet to do so and we are addressing the issue directly with those suppliers. Non-domestic suppliers must become DCC-users by 31 August 2018.

What went wrong and key lessons

- 2.59. Larger energy suppliers have binding annual milestones to install smart meters. One large supplier, EDF, failed to meet its smart meter installation milestone for 2017. EDF agreed to pay £350,000 into Ofgem’s consumer redress fund. This [press release](#) provides details.

- 2.60. In May 2018 we published our latest [open letter](#) on the progress of the rollout. The letter set out observations prompted by the submissions we received earlier this year from larger suppliers on their rollout activity in 2017 and their plans for the future. Key areas of focus for suppliers are around

- engaging effectively with consumers using a variety of channels, particularly to secure installation appointments;
- actively seeking to open up eligibility to remove constraints on their ability to deliver the rollout as soon as possible;
- preparing thoroughly for the SMETS1 end date, including being ready to ramp up SMETS2 installs and ensuring any SMETS1 capable meters are upgraded to be compliant; and
- complying with other obligations such as the Smart Metering Installation Code of Practice and the Standards of Conduct in order to maximise the likelihood that customers will view the roll out as a positive experience.

- 2.61. These observations are relevant to all suppliers, regardless of size. We are likely to consider how suppliers have taken account of or acted upon them when considering our response to any non-compliance. The observations should not, however, be seen as an exhaustive list of all the steps that could reasonably be taken by any one supplier.

- 2.62. Further information about the roll out and suppliers’ obligations is available on our smart metering [webpage](#) and [licence guide](#).

³ Under the conditions of its licence the DCC is responsible for establishing and managing the data and communications network connecting smart meters to the business systems of energy suppliers, network operators and other authorised service users of the network.

Supporting customers in vulnerable situations

PPM top-up arrangements

The issue and why it matters

- 2.63. Suppliers must ensure that PPM customers at all times have the information and infrastructure they need to access PPM credit and to top-up their meters. If customers do not have this there is a clear risk of self-disconnection. There is potential for serious consumer harm given the possibility that the customer may already be vulnerable.

Relevant regulatory obligations

- 2.64. As noted above, SLC 0.3 requires all domestic suppliers to:
- make it easy for customers to contact them;
 - act promptly and courteously to put things right when they make a mistake; and
 - otherwise ensure that their customer service arrangements and processes are complete, thorough, fit for purpose and transparent.
- 2.65. Domestic suppliers must also make an extra effort to identify and respond to the needs of domestic customers who are in vulnerable situations.

What went wrong and key lessons

- 2.66. In December 2017 one supplier, Toto Energy, failed to ensure that some of its PPM customers had functioning top-up cards that would enable them to top-up their meters. This led to a surge in customer self-disconnection over the Christmas holiday period. The problem was compounded by inadequate customer service arrangements which meant many of the affected customers had difficulty getting in touch to resolve the issue.
- 2.67. Following urgent compliance engagement, the supplier improved its processes and practices, for example by requiring its engineers to provide a top-up card when installing the meter. Toto Energy developed customer booklets explaining how to top-up with smart meters and what to do in the event of disconnection.
- 2.68. The case illustrates the importance of suppliers being able and willing to use a variety of methods to make sure that their customers know how to access, and in fact receive, timely PPM top-up details. It also highlights the need for suppliers to invest sufficiently in their customer service arrangements to enable customers to contact them in an emergency, including over a holiday period.
- 2.69. Smart metering presents an opportunity for suppliers to ensure that their PPM customers do not disconnect over high-risk periods, for example during public holidays or extreme weather events. This can for example be achieved by extending 'friendly credit' arrangements over such periods.

PPM and Warm Home Discount price caps

The issue and why it matters

- 2.70. The retail energy market has not been working well for consumers who remain on their supplier's default tariff. There is little competitive constraint on pricing to those customers. They have, therefore, been paying more for their energy than they should. High prices have a particularly severe impact on vulnerable consumers, who are often less able to engage in the market. PPM customers have been denied the best deals in the market that are available to those that pay using other payment methods. PPM tariffs have generally been more expensive and even those who switch save much less. Unlike other customers, where PPM customers face too high a price, they may not be able to top up - leading to self-disconnection.
- 2.71. Under the PPM price cap, suppliers must ensure that prices do not exceed the amount specified under the cap. PPM customers are therefore being protected from excessive prices in the period before the smart meter roll out is completed. In February 2018 we extended the cap to Warm Home Discount (WHD) customers. Similar tariff setting and reporting requirements are in place.

Relevant regulatory obligations

- 2.72. Between 1 April 2017 and 31 December 2020, the amount of money suppliers can charge a domestic prepayment customer is subject to a price cap. This applies to all domestic PPM customers except those with a fully interoperable smart meter (known as a SMETS2 meter). SLC 28A prescribes how the price cap is calculated and updated, and SLC 28AA sets out PPM tariff reporting requirements. Suppliers must place PPM customers onto eligible tariffs by certain deadlines at six-monthly intervals, and report the tariffs to Ofgem for review. As noted, these requirements now apply to tariffs for WHD customers.

What went wrong and key lessons

- 2.73. Some suppliers have failed to meet deadlines for migrating PPM and WHD customers to safeguard tariffs. In most cases, this has been caused by technical issues relating to older meters and/or less common tariff types. In our view, these delays could have been avoided or mitigated before the deadline had the suppliers involved carried out more robust testing in advance. We have engaged with those suppliers to ensure they refund the difference to customers.
- 2.74. Going forward, we may regard this remedy as necessary but not sufficient. Suppliers should test their tariff change processes to ensure that they identify and resolve any technical issues ahead of deadlines. Customers should not be out of pocket - not even temporarily - as a result of technical issues that should have been dealt with well in advance. The next charging period begins on 1 October 2018. We expect all suppliers to meet this deadline and all subsequent deadlines. Suppliers should notify us promptly if they become aware of any compliance risks and should quickly establish how they will remedy any detrimental effect on their customers.
- 2.75. Parliament has now given Ofgem a statutory duty to introduce a price cap on all Standard Variable Tariffs and default tariffs. This means suppliers will have to place another significant section of their customer base on eligible tariffs. Given the larger numbers of consumers involved, suppliers can expect us to take an increasingly dim view of price control-related non-compliance.

3. Regulatory changes

Changes recently introduced

Back-billing

- 3.1. With effect from 1 May 2018 domestic and microbusiness consumers may not be charged for unbilled consumption older than 12 months. This change should significantly reduce the severity of the bill shock and any other customer hardship associated with back-billing. Our [decision letter](#) provides the detail.

Making information more accessible

- 3.2. In January 2018 we published the last in a suite of [ten guidance documents](#) intended to help suppliers find their way around the licences. There is an introductory guide and nine others on different areas of the supply licences. They are intended as a helpful tool and do not modify or replace the conditions in the [gas](#) and [electricity](#) supply licences. Suppliers should continue to refer to the most recent versions of these documents. We also published a searchable and sortable [reference table](#) containing links to other publications that provide further insight into the policy intent behind some of the licence conditions.

Changes recently proposed

Communications between suppliers and domestic customers

- 3.3. In May 2018 we [consulted](#) on changing rules relating to supplier-customer communications. We want to introduce five narrow principles to supplement the existing Standards of Conduct and SLC 25 informed choices principles. At the same time, we want to remove licence conditions prescribing the form and content of key communications such as the Bill, Price Increase Notice, Statement of Renewal Terms and Annual Statement. Detailed prescription has had little impact on customer engagement in the market.
- 3.4. The aim of the changes is to give suppliers the freedom to discover more effective ways of communicating important information to their customers. The proposals put the onus on suppliers to understand the needs of consumers and to tailor their communications accordingly. This should foster an environment where consumers receive accessible, informative and useful communications that promote informed engagement in the market.
- 3.5. The consultation closed on 21 June 2018 and we thank all those that have contributed to the discussion so far. Subject to the responses, we intend to publish a statutory consultation at the end of the summer and to issue our decision around the end of the year. In the meantime, all suppliers should consider the implications of our proposals for their business.
- 3.6. We particularly urge suppliers to think creatively about the opportunities afforded by the proposed changes to adapt and improve how they communicate with their customers. Suppliers should think about how they will satisfy themselves they are delivering the positive consumer outcomes we want to see.

Default tariff cap proposals

- 3.7. The energy market works well for engaged consumers who shop around. Suppliers compete strongly on price to gain or retain their custom. But the market works less well for those who remain on their supplier's default tariff. There is insufficient competitive constraint on the prices that suppliers charge these 'sticky' consumers. As a result, they are paying more than they should.
- 3.8. As noted at paragraph 2.70 above, we have already introduced price protection for those who need it most. In April 2017, we brought in a short-term safeguard tariff to protect PPM customers. In February 2018, we extended the cap to customers receiving Warm Home Discount.
- 3.9. Parliament has now passed legislation to introduce a temporary tariff cap for customers on Standard Variable (SVT) and default tariffs. The [Domestic Gas and Electricity \(Tariff Cap\) Act 2018](#) gives Ofgem a duty to design and implement the default tariff cap.
- 3.10. Earlier this year we began work on designing the cap. We published a [policy consultation](#) in May. This document included a timetable for implementing the cap. We have now published a [letter](#) updating the timetable. Given that all customers on default tariffs will now be price protected this winter, we have decided not to proceed with our backstop price protection for vulnerable consumers, including data matching.

Guaranteed Standards for suppliers

- 3.11. Delivering reliable and fast switching for consumers is a key priority for Ofgem, allowing for a more competitive and engaged market. In June 2018 we published [proposals](#) to introduce an automatic compensation scheme for customers where a supplier unduly delays a customer transfer, switches a customer erroneously, or takes longer than they should to issue final bills once a customer has switched supplier.
- 3.12. These changes should incentivise better supplier performance in these areas and thereby encourage more people to switch. At the same time we propose to strengthen the requirements on suppliers to report to Ofgem about their performance against the existing and new standards. Subject to consultation responses, the changes will take effect on 1 January 2019.
- 3.13. Suppliers should be under no illusion about the importance we attach to these performance standards. Where a supplier performs particularly badly, we will consider whether paying the statutory compensation will by itself be sufficient to drive up the quality of the supplier's customer service.
- 3.14. Customer service quality across the board will, moreover, be an important consideration when we report to the Secretary of State in 2020 on the state of competition in the domestic gas and electricity market (as required by the default tariff cap legislation).