



Making a positive difference
for energy consumers

To all interested parties

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Opening Statement - Strategic Review of the microbusiness retail market

We want to see a retail energy market that works in the interests of all consumers, including microbusinesses¹. In our Forward Work Programme 2019-2021², we noted that these businesses face many of the same issues as domestic consumers. We said that we would take steps to better understand the issues faced by microbusinesses so that they are able to access a competitive retail market and secure adequate levels of protection.

Today we are formally launching a Strategic Review of the microbusiness retail market. We aim to identify suitable measures to improve outcomes for microbusinesses. In this document, we set out our initial analysis and theories of harm alongside the customer journey model we are using to underpin our work. We also set out the scope for the review, an overview of our evidence gathering activities, and our immediate next steps.

In Annex 1 to this statement, we present a call for inputs, seeking views and evidence on our theories of harm and areas of consumer detriment at each stage of the customer journey. We welcome responses by email to CDconsultations@ofgem.gov.uk or via [Survey Monkey](#) by close on **21 June 2019**. Following analysis of the call for inputs responses and progression with our other evidence gathering activities, we intend presenting our updated position and next steps in winter 2019.

¹ A Microbusiness is defined in the gas and electricity supply licence as:

A Non-Domestic Customer:

- (a) which is a "relevant consumer" (in respect of premises other than domestic premises) for the purposes in article 2(1) of The Gas and Electricity Regulated Providers (Redress Scheme) Order 2008 (S.I. 2008/2268); or
- (b) which has an annual consumption of gas of not more than 293,000 kWh
- (c) which has an annual consumption of not more than 100,000 kWh electricity

²https://www.ofgem.gov.uk/system/files/docs/2019/03/ofq1132_fwp_2019_21_programme_post_consultation_web.pdf

Microbusinesses in the wider economy

Microbusinesses play a central role in the UK economy, providing a wide range of products and services. According to government data, there were over five million microbusinesses in the UK by 2018, accounting for a third of employment and 21% of turnover³.

Microbusinesses in the retail energy market

Microbusinesses are equally important in the retail energy market. As of December 2018, the largest suppliers (who supply approximately 90% of the microbusiness market) provided supply to circa 1.3m electricity and 0.5m microbusiness gas meter points. Microbusinesses make up a significant proportion of energy expenditure too, with expenditure from all these meter points accounting for £3.5bn in 2018.⁴⁵

The regulatory framework protecting microbusinesses in the energy market has evolved in recent years. In 2013 we introduced 'Standards of Conduct' for microbusinesses to act as overarching rules for suppliers to follow when engaging with microbusinesses.⁶ Remedies from the Competition and Markets Authority (CMA) that applied to microbusinesses took effect in 2017.⁷ We also introduced rules to limit back billing in November 2018.⁸

Why we are launching a review of the microbusiness retail energy market

Despite the evolution of the regulatory framework in recent years, our evidence base, including recently published research, suggests that the market is not working well for some microbusinesses.

The CMA's price transparency remedy aimed to reduce microbusinesses' search costs, encourage them to engage in the market, and ultimately pay less for their energy. However, our evaluation of the remedy (published alongside this document) indicates that attempts to introduce price transparency have not yet had a significant impact on the way the market operates. It reveals a market where pricing is still far from fully transparent and where companies hold significantly more key information than the customers they serve.

Meanwhile our annual micro and small business survey identifies for example a significant proportion of microbusinesses who are not engaging with the market and accessing the best deals. The survey found that of those businesses undertaking no switching activity, 43% believe that all suppliers charge the same and 51% believe the differences between tariffs are marginal.⁹

Government¹⁰, consumer groups¹¹ and industry parties are increasingly raising concerns with the way the market is operating too. Among other issues, a key focus of concern from across the stakeholder community is on the activities of some brokers who play a key role in the microbusiness market.

³ <https://researchbriefings.files.parliament.uk/documents/SN06152/SN06152.pdf>

⁴ All these values were compiled using an ongoing request for information to suppliers that represent approximately 90% of the small business market segment. These suppliers are British Gas, Corona, EDF, Eon, Gazprom, Npower, Opus, Scottish Power, SSE, and Total Power for electricity, and British Gas, CNG, Corona, EDF, Eon, Gazprom, Npower, Opus, Scottish Power, SSE, TEGS, and Total Power for gas.

⁵ For the purposes of this data, microbusinesses are defined as those non-domestic consumers who use no more than 100 MWh of electricity per year, and/or no more than 293 MWh of gas per year.

⁶ <https://www.ofgem.gov.uk/publications-and-updates/new-standards-conduct-suppliers-business-consumers>

⁷ The CMA launched an investigation into the retail energy market in 2014. Their investigation identified adverse effects on competition in the non-domestic retail market. They published their final report in 2016:

<https://www.gov.uk/cma-cases/energy-market-investigation>

⁸ <https://www.ofgem.gov.uk/publications-and-updates/ofgem-bans-suppliers-backbilling-customers-beyond-12-months>

⁹ <https://www.ofgem.gov.uk/publications-and-updates/micro-and-small-business-engagement-survey-2018>

¹⁰ <https://www.gov.uk/government/speeches/after-the-trilemma-4-principles-for-the-power-sector>

¹¹ <https://wearecitizensadvice.org.uk/small-businesses-have-been-let-down-by-the-energy-industry-for-too-long-2e00c10bfd6>

By conducting a review of the market now and seeking inputs from stakeholders, we are providing a platform for interested parties to work with us to help further develop an evidence base that can be used to fully assess the nature and impact of these and other challenges microbusinesses face. This evidence base will pave the way for launching targeted actions that can help improve microbusinesses experience of the energy market later in the year.

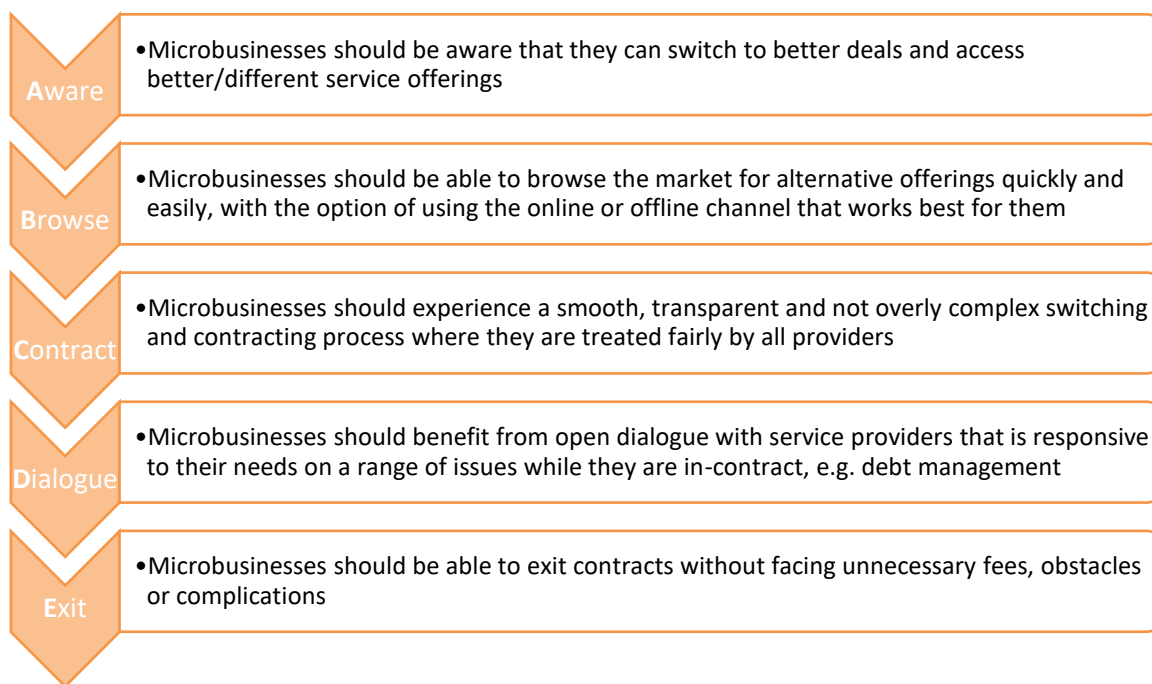
Our vision for a positive microbusiness customer journey

In line with our Regulatory Stances¹², we envisage a retail market:

- Where providers meet microbusinesses’ needs and preferences;
- That microbusinesses can easily navigate and access competitive offerings to make informed decisions;
- Where microbusinesses are adequately protected and receive great service.

Building on this vision, we have developed a customer journey model with a set of practical principles we think should apply at each stage of the journey.

Customer journey model



Initially we will map the evidence we already hold and new evidence we gather against each stage of the customer journey model. We will then use the practical principles set out in our customer journey model to test whether microbusinesses’ experience aligns with our vision for a positive customer experience.

¹²<https://www.ofgem.gov.uk/publications-and-updates/ofgems-regulatory-stances>

Theories of harm

Our theories of harm represent areas where either we already see some evidence of detriment, or where we suspect consumer harm. We will use the evidence we gather to confirm whether these theories of harm are accurate before developing policy propositions to tackle those issues that are most impactful. Should our evidence-gathering activities reveal that consumer harm is present in other areas, we will consider them as part of the review as well.

Our theories of harm are as follows. Some represent overarching concerns, others relate to specific stages in the customer journey.

Overarching theories of harm

- 1) The smallest microbusinesses cannot effectively engage with the current market given its complexity, including the very wide range of offerings and providers. At present their size and lack of expertise places them at a significant disadvantage when engaging with providers, leading to them ending up on expensive and/or unsuitable deals.
- 2) The cost of disengagement is higher for microbusinesses than disengaged domestic consumers leading to disengaged microbusinesses overpaying for their energy.
- 3) Barriers to accessing, using and sharing consumption data are preventing some microbusinesses fully benefiting from smart data and other technological innovations. This is hampering their ability to make informed switching decisions, use energy more efficiently and budget effectively.

Awareness

- 4) A significant number of microbusinesses are generally unaware of the opportunities presented by the market, their rights, and company obligations. This is leading to a lack of engagement and/or a substandard experience during the customer journey.

Browsing

- 5) Despite the CMA's attempts to improve price transparency, pricing is still not fully transparent and it is difficult to compare prices. This is leading to a significant proportion of microbusinesses not identifying the best deals.

Contracting

- 6) The supplier/TPI contracting process is, or is perceived to be, overly complex, costly and opaque, leading to some consumers ending up on costly contracts with disadvantageous terms.
- 7) Microbusinesses often rely on brokers to switch and weak broker regulation is allowing room for sharp practices by some brokers. Gaps in current consumer redress mechanisms add further to this harm.

Dialogue

- 8) The absence of rules concerning debt management in this segment of the market is resulting in some microbusinesses who are struggling with debt being treated unfairly and not benefiting from customer-focused debt management policies and processes.

Scope

Home-based single site businesses

We recognise that a typical home-based single site business (by this we mean where an individual uses one room in their home as an office) is unlikely to engage with the business energy market. Instead they will likely consume energy under the terms of one (or two if they are a dual-fuel customer with different suppliers for each fuel) domestic supply contract(s). Our review will not consider consumers on domestic supply contracts.

Larger businesses

We are focusing on microbusinesses as defined in the gas and electricity supply licences¹³ and are not therefore considering larger businesses. In keeping with our long-standing approach to the regulation of the business consumer market, we believe larger businesses are well equipped to look after their own interests without needing the support of regulatory intervention.

Industry and other parties

Our review focuses on the experiences microbusinesses have at each stage of their customer journey. Suppliers, TPIs, Citizens Advice, Citizens Advice Scotland, the Energy Ombudsman and others will interact with consumers at various points in the journey. We will therefore consider the role and impact of all parties at each stage of the customer journey.

Other work

Our review and any subsequent actions will complement other work being taken forward by Ofgem and government focused on micro and small businesses. This work includes:

*The Future Energy Retail Market review*¹⁴: Government and Ofgem are conducting a joint review of the current retail market design. The review will consider options for ensuring the market can better serve consumers through enabling innovative business models and propositions, while ensuring future consumers are appropriately protected. Government and Ofgem expect to publish a consultation document on potential options by summer 2019.

*Smart meters*¹⁵: Government is consulting on two proposals related to non-domestic smart metering policy. The proposals include changes to licence conditions to help raise microbusinesses' awareness of the smart metering programme. Government is also seeking views on how to improve smaller non-domestic customers' access to their energy data, including proposals around free access to their data.

*Half-hourly settlement programme*¹⁶: We published a call for inputs to identify the potential customer impacts arising from introducing market-wide electricity settlement reform. The scope of this includes small non-domestic customers and considers their willingness and ability to engage with their electricity usage and offer flexibility, including adopting new

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¹⁴ <https://www.gov.uk/government/publications/future-energy-retail-market-review>

¹⁵ <https://www.gov.uk/government/consultations/smart-metering-implementation-programme-realising-non-domestic-benefits>

¹⁶ <https://www.ofgem.gov.uk/publications-and-updates/call-evidence-potential-impacts-consumers-following-market-wide-settlement-reform>

technologies for this purpose. We are also planning to publish a decision document shortly on access to half-hourly (HH) data for settlement purposes that will include consideration of how microbusinesses' data will be treated.

*Switching Programme*¹⁷: We are implementing changes to the switching arrangements in the energy market to enable consumers to switch energy supplier reliably and quickly by simplifying and harmonising the gas and electricity switching arrangements.

Timing

The Strategic Review is scheduled to run for the course of our 2019-2021 Forward Work Programme. It will focus on identifying short and medium-term actions that can be taken within the existing market structure and overarching regulatory framework. Following analysis of the call for inputs responses and progression with our other evidence gathering activities, we intend presenting our updated position and next steps in winter 2019.

Evidence gathering activities

Responses to the accompanying call for inputs will form a key part of our evidence base. To supplement call for inputs responses, we have and are conducting a number of other evidence gathering activities:

- *Research synthesis*: We have conducted a synthesis of existing published research to map previously identified issues against each stage of our customer journey model.
- *Price transparency remedy evaluation*: We have evaluated the impact of the CMA's price transparency remedy and published a report summarising our findings alongside this document.
- *Cross-sector research*: We are working with regulatory colleagues in other sectors to identify transferable learnings concerning the approaches to regulation and customer experiences in these sectors¹⁸.
- *Contractual/pricing data analysis*: We intend using contractual/pricing data we currently receive from suppliers to identify contractual and pricing trends.
- *Complaints data*: We intend using complaints data we currently receive from suppliers, Citizens Advice/Citizens Advice Scotland and the Energy Ombudsman to identify complaint trends and key areas of concern for microbusinesses.
- *Primary research*: We intend running our annual survey of small business experience of the market again in 2019. Alongside this we intend running qualitative research targeted at specific areas of identified harm to further understand consumer detriment in these areas.

We are seeking your views and evidence

We want to hear from all interested parties who can offer views and evidence. Annex 1 sets out specific questions we're seeking views and evidence on. Please send your response to CDconsultations@ofgem.gov.uk or via [Survey Monkey](#) by close on **21 June 2019**.

¹⁷ <https://www.ofgem.gov.uk/publications-and-updates/switching-programme-outline-business-case-and-blueprint-phase-decision>

¹⁸ We are also working with colleagues at Ofwat to explore options for joint consumer research.

Annex 1: Call for inputs

Question 1

Do you agree that our theories of harm (see earlier in this document and Annex 2) represent the most significant and impactful areas of consumer detriment?

Question 2

Are there any other key areas of consumer harm that should form the focus of our review?

In the following section we pose a number of additional questions designed to gather evidence of consumer harm at each stage of the customer journey.

Part A: Awareness

Microbusinesses should be aware that they can switch to better deals and access better/different service offerings.

Microbusinesses are best placed to make a competitive energy market work for them when they have a basic understanding of the market. This means knowing that they will need to periodically review their options and switch providers to access better deals.

Microbusinesses need to know that certain types of contractual arrangements will typically carry very high energy costs, for example where they move into new premises and start consuming energy under the terms of a deemed contract.

Understanding that suppliers and TPIs can offer added services like data management products can also help microbusinesses make the most of new technology and innovation.

A basic level of broader awareness benefits microbusinesses too. Having a basic understanding of their rights as consumers can help microbusinesses in their day-to-day interactions with companies.

Awareness of impartial advice and information sources is also important. Knowing how to resolve disputes and gain redress – for example, being aware of the service provided by the Energy Ombudsman - is also important if microbusinesses are to have a positive consumer experience. We also recognise the need for microbusinesses to be aware of the benefits they can access through smart metering and their consumption data.

Question 3

Do you think awareness raising materials/initiatives would be of significant benefit to microbusinesses? What key information should any new materials focus on and how would they best be delivered to microbusinesses?

Part B: Browsing

Microbusinesses should be able to browse the market for alternative offerings quickly and easily, with the option of using the online or offline channel that works best for them.

Browsing the market for better deals and services should not be an overly time-consuming process. Being able to quickly identify options is crucial to most microbusinesses with limited time to spend on activities outside of their core business.

The browsing process should not be overly complex either. Microbusinesses need to be able to identify key information like pricing details easily. Needing to provide large amounts of data is likely to complicate the browsing process and dissuade microbusinesses from switching.

In practice browsing may mean identifying deals directly via supplier sales channels or using online or phone-based comparison and brokerage services. We recognise that different businesses will have different preferences concerning the way they want to search for a new deal and a well-functioning market will be responsive to these needs.

Question 4

Our evaluation of the CMA's price transparency remedy (published alongside this document) has identified a number of issues at this stage of the customer journey. What do you see as the most impactful issues hindering microbusinesses attempting to effectively browse the market in search of an improved deal/service offering? Please provide **quantitative and/or qualitative evidence** demonstrating why you believe these issues to be most impactful.

Part C: Contracting

Microbusinesses should experience a smooth, transparent, and not overly complex switching and contracting process where they are treated fairly by all providers.

The mechanics of the switching process itself need to run smoothly. A switch should allow for a swift and seamless transfer from the old provider to the new one. Anything less will result in a poor consumer experience and may dissuade microbusinesses from switching again in the future.

Contracts and providers offering them need to be transparent. Microbusinesses need to know who they are contracting with and what they are signing up to.

Simple, clear contracts make it easy for microbusinesses to make a decision about whether to enter into a commercial arrangement with a new provider. Clarity on pricing is especially important – microbusinesses need to know what they will be paying, when and to whom, and any circumstances that might change the amount they pay.

Microbusinesses should not find themselves in a situation where they are being treated unfairly during the contracting process in any way, for example by being misled about the terms of a contract.

Question 5

What do you see as the key issues microbusinesses face when they come to enter into a new contract for their energy supply? Please provide **quantitative and/or qualitative evidence** demonstrating the **extent and impact** of the consumer harm caused by these issues in the form of both financial and non-financial detriment.

Question 6

Do you have **evidence demonstrating the extent and impact** of malpractice by brokers dealing with microbusinesses? We are seeking both qualitative and quantitative evidence demonstrating consumer harm in the form of both financial and non-financial detriment.

Part D: Dialogue

Microbusinesses should benefit from open dialogue with service providers that is responsive to their needs on a range of issues while they are in-contract, e.g. debt management.

While in-contract, some microbusinesses will want to communicate with their supplier or a TPI providing them with in-contract services. For example, a microbusiness falling into debt will need to communicate with their supplier if they are struggling to pay their bills.

In these cases swift and efficient customer service will be important. Customer service that recognises the specific needs and circumstances of an individual microbusiness will also be valued.

Question 7

Can you provide **evidence demonstrating the extent and impact** of any consumer detriment caused by providers approaches to dialogue with consumers about debt management issues? We are seeking both qualitative and quantitative evidence demonstrating consumer harm in the form of both financial and non-financial detriment.

Part 5: Exit

Microbusinesses should be able to exit contracts without facing unnecessary fees, obstacles or complications.

Where a consumer is legally entitled to exit a contract, the process for leaving should be smooth and swift. Unnecessary barriers should not be included in contracts or erected at the point of exit. Any such barriers will cost microbusinesses time and money, lead to a poor consumer experience, and likely dissuade consumers from engaging in the switching process in the future.

Question 8

Are you aware of microbusinesses facing significant and impactful issues when they come to exit a contract with their provider?

Question 9

Please provide **evidence of the extent and impact** of consumer detriment caused by the issues you have commented on in response to the above question. We are seeking both **qualitative and quantitative evidence** demonstrating consumer harm in the form of both financial and non-financial detriment.

Annex 2: Theories of Harm

Overarching theories of harm

- 1) The smallest microbusinesses cannot effectively engage with the current market given its complexity, including the very wide range of offerings and providers. At present their size and lack of expertise places them at a significant disadvantage when engaging with providers, leading to them ending up on expensive and/or unsuitable deals.
- 2) The cost of disengagement is higher for microbusinesses than disengaged domestic consumers leading to disengaged microbusinesses overpaying for their energy.
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Awareness

- 4) A significant number of microbusinesses are generally unaware of the opportunities presented by the market, their rights, and company obligations. This is leading to a lack of engagement and/or a substandard experience during the customer journey.

Browsing

- 5) Despite the CMA's attempts to improve price transparency, pricing is still not fully transparent and it is difficult to compare prices. This is leading to a significant proportion of microbusinesses not identifying the best deals.

Contracting

- 6) The supplier/TPI contracting process is, or is perceived to be, overly complex, costly and opaque, leading to some consumers ending up on costly contracts with disadvantageous terms
- 7) Microbusinesses often rely on brokers to switch and weak broker regulation is allowing sharp practices by some brokers. Gaps in current consumer redress mechanisms add further to this harm.

Dialogue

- 8) The absence of rules concerning debt management in this segment of the market is resulting in some microbusinesses who are struggling with debt being treated unfairly and not benefiting from customer-focused debt management policies and processes.

Annex 3: Privacy Notice

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the Call for Inputs process, so that we can contact you regarding your response if applicable.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest i.e. a Call for Inputs.

4. With whom we will be sharing your personal data

Survey Monkey will be used to collect some of your personal data (i.e. name, surname, company name) if you chose to respond in this way. We will publish non-confidential responses from email or Survey Monkey in the same way on our website.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held until 31 March 2021.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information

in your response should be kept confidential, and which can be published. We might ask for reasons why.

We will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

7. The data you provide directly via Survey Monkey (should you respond via Survey Monkey) will be stored on the Survey Monkey servers in the United States. We have taken all necessary precautions to ensure that your rights in terms of data protection will not be compromised.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system. Data from Survey Monkey will be moved to our internal systems when it is analysed.

10. More information For more information on how Ofgem processes your data, click on the link to our "[Ofgem privacy promise](#)".