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By email: CDconsultations@ofgem.gov.uk

Dear Jonathan,

We welcome the opportunity to contribute to Ofgem's Call for inputs as part of the strategic microbusiness review. While we believe the market is generally working well and customers are satisfied with the service they receive from us, we agree that there are areas that may benefit from further review.

We can understand why Ofgem has arrived at the Theories of Harm set out in the opening statement of the review, given the headline findings of the research published to date. However, we believe that most of the perceived issues highlighted by the theories of harm can be explained by the specifics of the non-domestic market (and specifically the very different characteristics of the market compared to the domestic market) rather than any form of malpractice by industry participants. When assessing the validity of the Theories of Harm, Ofgem should consider, in particular, that:

- There are many product variations (e.g. in term length, end dates, terms & conditions including passthrough) for non-domestic customers, with a minority of customers across the market being on default or deemed tariffs (~25%)¹, and less dual fuel tariffs, partially driven by fewer gas meters versus electricity meters. The non-domestic market also allows for negotiated pricing allowing customers to negotiate a different price for the same product from a supplier – something we know business customers value.
- Non-domestic customers have a wide range of meter types (e.g. in Electricity: Profile Class 3 & 4, some historical Profile Class 5-8, Half hourly meters) with more nuanced cost bases resulting in necessarily more complex pricing to enable the supplier to appropriately cover their costs. Prepayment meters are less prevalent in the non-domestic market.
- Non-domestic customer switching is 67%² driven through Brokers and other Third Party Intermediaries (TPIs). The sales experience for a customer is also very

¹ [Ofgem State of the energy market 2018](#), page 4

² [Ofgem's Micro and Small Business Engagement Survey](#) 2018

different from that in the domestic sector, with non-domestic customers generally preferring to take advice on their options or completing their sale over the phone.

- The characteristics and needs of non-domestic customers also vary significantly within the microbusiness segment³. In particular:
 - High proportion of non-domestic premises are tenanted, which drives different behaviour towards suppliers motivated by different needs than those of domestic customers. Typically, landlords want to minimise energy costs where their property is vacant but may have more interest in non-energy offers e.g. boiler services.
 - Non-domestic customers can have multiple meters across multiple sites, creating different needs around pricing and billing preferences, for example, not all sites might be under the same supplier or the same tariff.
 - Microbusiness customers are not always sole traders. In our experience, microbusinesses with more employees can have different procurement approaches than ones with just a single employee. At the very small end, it is typically the business owner who also has authority to make decisions on the business' behalf, but at the larger end it can be a procurement employee within the business who typically defers to a Finance Director or other for authority. These different 'shoppers' can have different needs and drive different supplier interactions.
 - For some customers energy is more central to their business than for others and that this can drive differences in their customer needs. For example, where energy supply is a central to the service or product delivered by a business (e.g. a spa) the customer is far more likely to be engaged with their energy use than, say, a high street shop for which energy is a secondary consideration (and a lower proportion of total costs).
- The complex needs of the microbusiness customers gave rise to different types of suppliers participating in the non-domestic market. The non-domestic market also includes suppliers whose main business is focused on upstream oil and gas. Such suppliers might have been present in I&C energy supply but are increasingly moving to supply microbusinesses and promote products that would have appeal to smaller customers.

In the confidential annex, we have provided evidence in line with Ofgem's requested customer journey and the theories of harm. Our key observations are as follows:

Awareness. Our evidence, demonstrates that SME customers of British Gas Business are well aware of the range of deals and options we make available to them. We are well established in the market and have a good track record at providing information to our customers. However, we believe more can be done on a market-wide basis by Ofgem and/or Citizens Advice to show customers which suppliers operate in the microbusiness market, and how online quotation tools can be accessed.

³ As defined in the Supply Licence

Cost of disengagement. The non-domestic market differs significantly from the domestic market and it is not possible to draw a like-for-like comparison. Customers on default tariffs in the microbusiness market represent a fundamentally different risk to suppliers (and therefore have a very different cost to serve) than customers on default tariffs in the domestic market. Whilst the price of a default tariff is higher than that of a fixed term tariff (to account for greater costs to serve), we do not see that this impacts customers' ability to pay. However, the costs of serving deemed customers are much higher than those on a default tariff. Deemed customers often choose not to engage with us despite using our product and we are impaired in our ability to recover debt from them. This raises our overall levels of Bad Debt, which ultimately translates in higher costs and risks to serve deemed customers and, thus, higher prices for all customers. Currently, around of our final debt comes from customers on deemed rates. To ensure paying customers do not have to shoulder the cost of customers attempting to evade payment, mandating landlords to install smart meters in empty properties and being able to object for a deemed customer to switch on the grounds of debt, in line with what is allowed in the domestic market, would help us recover the debt and serve all our customers better.

Price Transparency Remedy. We have an online quotation tool, which is compliant with the CMA Remedy. We are aware that such quotation tools have not been implemented consistently across the market, as shown in Ofgem's research. Inconsistencies in implementation could lead to customer confusion. Ofgem should remedy this by closely monitoring and taking enforcement action if necessary. Ofgem publishing links to suppliers' online quotation tools on its website would drive compliance and give customers quick access to facilitate easier comparison.

Regulation of TPIs. Regulation of any party should be proportionate to the risks posed to consumers and the types of activity undertaken. Regulation of brokers in the non-domestic energy market should be no different. We have no evidence of systematic malpractice from brokers that we work with. In our response, we provide evidence of the types of broker practices we have observed from entities that do not participate in our broker governance framework. We are aware of the self-regulation initiative in the broker space and think it is a move in the right direction that will help achieve better customer outcomes. We think Ofgem should review the broker market at the end of 2020. If evidence suggests self-regulation has not materially improved broker practices and translated into improved satisfaction with and trust in brokers, Ofgem should recommend to Government to introduce direct regulation of brokers. We would not support a Supply Licence Condition placing the obligation on suppliers to ensure good broker conduct.

Debt management. We work closely with our customers when they experience debt and have a policy that provides flexibility for customers to help with managing their debt. We also refer customers to external organisations that offer debt advice and aim to arrive at the right outcome for us and the customer. However, we have evidence that some customers try to avoid paying their debts by fraudulently using Change of Tenancy process and switching supplier after accumulating debt on deemed rates. This behaviour drives up costs for all our customers and undermines our debt management practices. Mandating landlords to install smart meters in empty properties and allowing suppliers to object to deemed customers switching supplier on the grounds of debt would help to reduce bad debt and fraudulent activity in the market.

In summary, we believe that competition in the microbusiness market is effective. Once Ofgem has taken account of the very specific characteristics of microbusiness customers, we believe it will conclude there is no compelling evidence to support most of the theories of harm proposed. However, we do believe there are number areas where limited regulatory intervention could result in better outcomes for customers, for example, allowing suppliers to object to deemed customers switching on the grounds of debt, mandating landlords to install smart meters in empty properties and Ofgem/Citizen's Advice hosting a webpage with links to all suppliers' online price comparison tools to facilitate easier browsing.

As Ofgem continues with the microbusiness review, we do not think it is sufficient to only look at customer detriment experienced directly as a result of the actions of the supplier, the TPI or supply-side as a whole. We believe it is appropriate for Ofgem to also review some demand-side market practices, which indirectly create negative customer outcomes, such as the extent of the misuse of the Change of Tenancy process across the market. Poor customer behaviour by a minority creates issues shared across the industry and ultimately impacts all non-domestic customers. We would welcome Ofgem's commitment to a balanced review on how the whole of non-domestic market operates to help create collective responsibility of good customer outcomes.

If you have any questions about this response, please contact Justina Miltienyte on 07557 615 743 or Justina.Miltienyte@centrica.com.

Yours sincerely,

Alun Rees

Director, Retail Market Policy

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