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Dear Jonathan,

### **Strategic review of the micro business retail market**

Thank you for the opportunity to respond to Ofgem's consultation regarding potential changes to the micro business retail energy sector. We have contributed to the response submitted by our trade association, ICoSS, and the purpose of this letter is to reinforce certain points. None of the information provided in this response is confidential.

We would be keen to meet with Ofgem to discuss our views in more details, and I will be in contact separately to try to arrange this.

### **Background**

BES Utilities is a non domestic only supplier. We began supplying gas in 2005 and electricity in 2010 and, as a totally independent supplier, all of our customers have engaged in the market at some stage. Our main target market has historically been the change of tenancy (CoT) or new business sector. We have very minimal credit requirements for new customers and seek to manage this credit risk by offering Direct Debit only products, plus by building an element of risk into our pricing.

In simple terms, we offer a competitive price to a high risk section of the market who would likely struggle to find a supplier without paying a significant up front security deposit.

### **Summary**

- BES supports fully the regulation of TPIs to help raise standards and increase trust in the non domestic energy market;
- The non domestic market is more competitive than the domestic space and customers are significantly more engaged. Indeed, all BES's customers have actively engaged in the market at some time;

- Due to the complexity of the non domestic market, the CMA's previous interventions in this sector have, as expected, had limited success in terms of increasing price transparency;
- Non domestic suppliers already go over and above their obligations to support micro businesses facing financial hardship, including through referral partnerships with sources of independent debt advice.

## Regulation of TPIs

BES was actively involved in Ofgem's previous TPI working group and we were disappointed when this project was unexpectedly placed on hold. We already have in place several measures which go over and above our regulatory obligations and are designed to ensure fair and appropriate behaviour by third parties representing BES. These include a post-sale "comfort call" which was introduced in April 2012 to ensure the customer understands the principal contract terms, as well as to check that the TPI behaved in a professional and transparent manner. We have lobbied for some time for such a call to be introduced across the non domestic market in an effort to combat misrepresentation by TPIs.

BES has previously raised concerns about broker malpractice to Ofgem and sought to champion the recording of entire sales calls by TPIs in the hope that others would follow suit, however, this unfortunately proved unworkable for a variety of reasons. We were later forced to retreat from this position until such time as there was a level playing field.

Simply put, we agree that regulation is required to drive up standards across the TPI market. However, this must be driven by Ofgem and TPIs rather than by suppliers. For the avoidance of doubt, we would still support a licence obligation requiring suppliers to only deal with accredited TPIs.

## The competitive nature of the non domestic market

We understand there are currently 90 non domestic suppliers active in the non domestic market, compared with only approximately 70 domestic suppliers. Considering the number of micro businesses in the UK, these customers have significantly more choice.

Not only that, but Ofgem's most recent state of the market report indicates that small and medium businesses (SMEs) are particularly engaged in the energy market, with almost 70% of SMEs having engaged at some stage, either through switching or comparing supplier product offerings. Taking this into consideration, we do not agree with Ofgem's theories of harm in this regard.

It is also worth noting the extremely diverse nature of the micro business market, by which we mean that the micro business classification of customers is not based on their sophistication in terms of energy purchasing, but purely on their usage or turnover/number of employees.

## Transparency of pricing information

Given the complexity and fast-moving nature of pricing in the non domestic market, where customers are provided with a bespoke quotation rather than a "tariff" as is the norm in the domestic sector, in our view price comparison websites and online quote tools are particularly complicated and do not deliver a user friendly experience for business customers, hence the significant reliance on brokers in this market.

By way of example and in line with other non domestic suppliers, our pricing takes into consideration a number of variables, including the customer's location, meter configuration, consumption levels and credit status.

To put this into some context, since the CMA's price transparency remedy was introduced, at the time of responding to Ofgem's RFI, only 489 people had inputted their details into BES's online quote tool, with no contracts being completed via this method.

Like several of our competitors, due to the specialist nature of the quote tool, we have sought assistance from a third party provider who created and now hosts the online tool for us, at a not insignificant cost to the business. These additional costs eventually affect customer pricing, so it is essential to properly consider the potential benefits before looking to create additional regulation in this area.

Customer feedback is that the range of prices and products displayed is so large (due to the requirements of the CMA order), that they prefer to discuss their options either with a TPI or directly with us.

In light of this, rather than seeking to extend prescriptive regulation for suppliers, our view is that the focus should remain on improving confidence in the TPI market as the preferred route for micro business customer engagement.

### **Treatment of customers in debt**

BES is committed to ensuring fair treatment of customers at all stages of their account lifecycle. Since 2015 we have been proud funders of the national debt advice charity, Business Debtline, and we proactively signpost customers to their service at various stages, including at all points throughout the debt recovery process.

Not only that, but later that year we also launched the BES Fund, which we understand was the first of its kind in the non domestic sector. This is a provisional scheme designed to help BES customers to get back on track with their payments, whereby successful applicants initially have their current debt frozen. Provided the customer then pays their next three invoices, the historic balance is cleared via the Fund, allowing them to continue trading.

The BES Fund is independently managed by Charis Grants who administer a range of funds across the energy and water sectors, as well as local government schemes. We understand other non domestic suppliers are now also exploring similar options.

### **Conclusion**

In summary, our view is that the non domestic retail market is already highly competitive and that a large proportion of micro businesses are engaged with the wide range of existing suppliers. The current regulatory framework sufficiently protects micro businesses and the introduction of further regulation would place a disproportionate burden on suppliers, at the same time bringing little or no benefit to customers.

If you have any questions regarding this response, or any other matter, please do not hesitate to contact me via the details shown above.

Yours sincerely,



Joel Chapman

Head of Regulatory Affairs & Compliance