



## **Ofgem – Call for Evidence – Strategic Review of the microbusiness retail market.**

### **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?**

We agree that the microbusiness retail market can be complex. The smallest microbusinesses can engage with the market but to do so effectively, the onus is on the customer explicitly to obtain a number of quotes from third party intermediaries (TPIs) and/or suppliers to get full market coverage. However, we recognise that for small businesses this may be difficult and time consuming; and that a full-market price comparison website (PCW) does not exist for these type of customers, as it does for domestic customers. In addition, for a new business, they may not understand nor appreciate the potential importance and impact of the energy consumption on their undertaking.

We are unable to comment on which issues highlighted in your theories of harm should take priority of focus.

### **Question 2:**

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

We believe that there are a number of other key areas of consumer harm that should form the focus of Ofgem's review of microbusiness retails markets. These are detailed below:

(I) The introduction of P272.

Since the introduction of P272, our complaints team has dealt with several issues around half hourly metering (HHM). Whilst most can see the benefits of HHM, some smaller business (including microbusiness) customers do not see these, and in certain cases, their consumption charges are lower than their additional charges (agent costs). Customers moving into properties where the meter has been upgraded to HHM following the P272 process find that it does not match their needs, but cannot be downgraded. (The only way downgrades are available is if the site is a domestic supply, has never gone through a change of measurement class as part of P272 and was HHM prior to the P272 date, or if it was incorrectly categorised in the wrong profile class and so should never have been part of P272).

(II) kVA (capacity charges):

A premises' authorised service capacity (measured in kVA) is the amount of 'apparent power' reserved on the network to guarantee the provision of a certain volume of actual power. All sites with a HHM have a kVA allowance – it is itemised on bills as a capacity charge. The kVA is agreed by the customer with the relevant DNO. The higher the kVA, the more a customer will pay every month.

Customers (inc smaller or micro businesses) can be adversely affected by this arrangement, particularly on change of tenancy where the incoming customer's level of consumption is

significantly lower than the previous customer's and/or where a HHM is either the wrong type or is no longer required.

When a customer moves out of a property, the meter and kVA stay the same as this is something which is agreed between it and the local DNO; suppliers are merely the conduit and only pass on the relevant charges through bills. A new customer to a premises may have no idea what kVA is until there is supplier/customer engagement (usually in setting up a contract where information about their current kVA charges is provided to them). Although a supplier may advise the customer, the latter may not: (a) have sufficient information or wherewithal to make an informed decision about whether the meter in situ and/or associated kVA is correct; and (b) know who to deal with to try and resolve the matter (the DNO and/or the supplier).

Disengaged micro business customers could likely be more at risk than larger business customers and end up paying more for their energy than should be the case.

**Below, we respond to the questions posed to gather evidence of consumer harm at each stage of the customer journey.**

### Part A: Awareness

#### **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?**

There is currently no evidence to support the suggestion, and Ofgem has already recognised through their evaluation of the CMA price transparency remedy, the lack of awareness may be as a result of the majority of microbusinesses being too busy to engage and to carry out search activity themselves, thus relying on TPIs to obtain an energy deal. It is, therefore, difficult to understand how the development of any new materials would have any positive impact. However, we do see a benefit of introducing a central database for energy prices for microbusiness customers to access.

### Part B: Browsing

#### **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.**

With the implementation of the price transparency remedy, npower had concerns at the browsing experience faced by customers. We wrote to the CMA expressing, amongst other things, that by limiting primary information inputs, customers are confronted with a large table of multiple products, which they would have to filter themselves, unless they chose to provide the secondary inputs. We suggested that the contract start-date be included in the primary input along with a credit check at point of sale. These suggestions were not taken up.

The limitations of the On-line Quotation Tool (OLQT) result in customers being offered a price that, whilst it cannot be increased for any other reason than an unfavourable credit check, would

only be reduced by negotiation or the voluntary inputting of secondary information. npower agrees with Ofgem's evaluation of the CMA price transparency remedy that there are more product options in the microbusiness and SME market, thereby creating a more complex market beyond the capability of a web-based tool to provide meaningful outputs, not least in being able to display tailored results. The remedy only provides the highest price available.

We have recommended in the past that a quote should not be based on bill expenditure (as it would be inconvenient for customers to try and provide details of their annual consumption). If suppliers had greater access to industry data in general, this would add to that (information) provided by customers, which when combined would ensure the latter gets the most accurate quote.

We lobbied for the contract start-date to be included as part of up-front information to ensure that customers were not bombarded with unnecessary product details, thus improving the customer journey/outcome. Similarly, giving customers the ability to tailor their quotation options to provide information that is both more digestible and relevant (for example, seeing prices for one year), may result in greater engagement.

### Part C: Contracting

#### **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.**

Our own experience does not accord with the research evidence offered that the supplier contracting process is overly complex, costly or opaque.

As Ofgem recognises in its evaluation of the CMA price transparency remedy, microbusinesses are often too busy to engage with brokers to get the best energy deal and they do not carry out search activity themselves. While we still see healthy go-live rates, there can be variation between our own versus broker-provided services. Please refer to Appendix 1 for the relevant data. **[Note: this is confidential and should not be disclosed publicly]**

There are a number of factors that, we believe, influence that variation, including, for example:

- confusion around or awareness of the existing contract-end date (the result being that a supplier is not provided with a correct start date for registration process); and
- brokers seeming to be unwilling to ask for contract-end dates.

For TPI-introduced contracts, we only receive a copy of the validation section of the customer's call as we are not party to the full conversation held with the customer, either pre- or post-contract (for commercial reasons). Problems can include, for example:

- customers either not appearing to know when their current contract ends or not being asked for this information; as a result, suppliers are not provided with the correct start date for the registration request;
- suppliers receiving contractual requests for customers which are attempting to change supplier when they have outstanding debt with current supplier.

However, this is not necessarily an indication of a problem with the market *per se*; rather it may indicate a lack of relevant information, which if provided would negate the problems highlighted.

**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.**

npower has made it very clear to the CMA (and Ofgem) that regulation of TPIs is an important positive contributor to CMA goals of improved transparency and also with regard to reducing the number of inactive customers not engaging with the market. This is for two key reasons:

- TPIs operate as both “pull” and “push” channels; that is they will act for customers who approach them, but also many brokers actively seek prospects to which they seek to sell their services.
- Customer confidence in using TPIs would be strengthened by a robust and enforceable regulatory framework code, so that they know, for example: the service they should be getting; that it is consistent across the piece; how it has been delivered and what they are paying for it.

The CMA identified relevant issues, but ultimately they decided not to translate these into any form of remedy.

Our concerns expressed to the CMA were passed back to Ofgem, which had previously proposed some form of regulatory oversight a few years ago; indeed, it developed a draft code of practice to cover TPIs’ activity. However, it appeared to resile from taking things forward in this area.

npower continues to strongly support the formal regulation of TPIs and this view is now supported by Citizens Advice.

### Part D: Dialogue

**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.**

npower maintains a close liaison with Citizens Advice and the Business Debtline as well as an interest in the ongoing work to establish more effective ways of handling customer debt issues. We have also financially supported the activities of (and maintain close liaison with) the Money Advice Trust

We encourage customers to be open and transparent when it comes to their ability to pay and on our correspondence we provide access to Business Debtline, (so, for example, where offer a payment plan, but where terms are not acceptable to the customer, we would refer them to Business Debtline).

We also:

- offer payment plans where possible to help the customer spread their debt
- created an e-learning package in 2018 about vulnerability and affordability to help advisors recognise indebtedness as well as pro-actively helping customers by, for example: making sure they’re on the best deal; setting up payment plans; offering energy efficiency advice; signposting external agencies, such as debt charities, which

may be able to help them. This was rolled out across all of our business customer services.

- signpost debt charities on all our collections correspondence and online.
- offer to convert customers post-insolvency to contracts, so they have affordable rates to try and prevent insolvency occurring again.

We worked closely with Business Debtline last year, which reviewed our correspondence and e-learning package

We recognise that further customer protection may be necessary and we would be happy to be actively involved in developing what this might look like.

### Part E: Exit

#### **Question 8:**

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

Some of the issues that that we have witnessed when microbusinesses come to exit a contract are:

- customers not submitting the relevant termination required despite being advised both to do this and when the termination is required by the Statement of Renewal
- customers trying to transfer when a debt remains on the account
- new suppliers applying for the site too early; for example, an incorrect start date has been provided on the Transfer Request Flow (D58)

#### **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.**

The table below provides some quantitative evidence of the issues outlined in Q8. Please also refer to Appendix 2 for some additional quantitative data.

<b>Objection reasons following receipt of Transfer Request (Quarter 1 2019)</b>		
	<b>Electricity</b>	<b>Gas</b>
Objected due to contract termination not received	<b>59%</b>	<b>48%</b>
Objected due to contract termination received but supplier applied too early	<b>15%</b>	<b>45%</b>
Objected due to debt	<b>4%</b>	<b>5%</b>