



Ofgem Consultation – Micro-Business Strategic Review

Consultation Response by ENGIE

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About ENGIE

ENGIE is a leading energy and services company focused on three key activities: production and supply of energy, facilities management and regeneration. Our 17,000 employees combine these capabilities for the benefit of individuals, businesses and communities throughout the UK & Ireland.

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ENGIE improves lives through better living and working environments. We help to balance performance with responsibility, enabling progress in a harmonious way.

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Executive Summary

Thank you for the opportunity to respond to the consultation, please find our main points set out below:

- **Broker Conduct:** We see the best way to address broker conduct is to work to a recognised code of practice underpinned by a licence requirement on suppliers to only work with accredited organisations. We feel that the upcoming Retail Energy Code provides the ideal governance structure to support this approach. Given the significant progress in recent years in this area we are disappointed that Ofgem have not considered this option in the consultation, we urge Ofgem to further consider this option before proceeding. We consider that addressing the issue solely through supplier licence conditions will be sub-optimal because this is likely to result in a range of standards according to each supplier's own broker agreements and TPI monitoring methods whereas a code of practice would better ensure consistency.
- **Transparency:** Micro-business consumers should be aware of the relevant fees in relation to their energy contracts at point of sale in order to assess value for money and to enable comparison of deals. This

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should ideally be disclosed by the broker to the consumer, but we also realise that energy suppliers could play a part in this process. Subject to reasonable notice we can incorporate this information in our quotation documents and principal terms for micro-business customers so that they are able to better assess the full offer. We do not however see the value in post-sale notifications of broker fees to consumers, we believe the implementation costs of including on all bills and statements etc. will far outweigh any benefit to consumers who have already agreed to the terms of the sale. To enable consumers to better compare clearly, we suggest that the fees disclosed by suppliers relate to broker search fees only and not additional services such as invoice validation and data analysis. Also, a p/kWh approach to comparison would seem clearest as this is in line with other unit rates displayed on the quote.

- **Cooling-off:** It is not possible to implement a cooling-off period for micro-business customers without having a fully formed industry process and systems to support this. Ofgem's faster switching programme does not currently have such a solution in scope for the micro-business market and it is likely that changing the scope of the programme now will result in delays and a hike in costs. The impacts on Ofgem's faster switching programme should be assessed fully before this proposed is progressed.

Response to questions:

Please find below our detailed response to questions.

Awareness: Knowing about opportunities and risks

Question: *What are the most effective ways to ensure that microbusinesses can access key information about the retail energy market?*

Response: Business consumers, including smaller businesses are familiar with agreeing contracts and assessing value for money across a wide range of suppliers, including energy. The energy market rules relating to micro-businesses have already made big improvements in how micro-businesses are informed. Energy deals are presented in a clear manner as supplier quotation documents and principal terms which detail cost components, prices and key terms including which, if any costs might vary during the contract period.

Browsing: Searching for deals

Question: *Do you agree with our proposal to strengthen the requirements to present a written version of the Principal Terms to customers?*

Response: No objections, this is standard practice currently even for telephone sales which require a signed contract and documentation.

Question: *Do you agree with our proposal to require that suppliers disclose the charges paid to brokers as part of the supply contract, on bills, statements of account and at the request of the microbusiness customer?*

Response: We support in principle the concept that disclosure of broker fees at the point of sale could improve the customer search experience primarily by customers being better able to compare the relative costs of broker services. It is important to ensure fair comparability of fees, recognising that TPIs can provide a broad range of services to customers and these are not solely supplier search fees. These services can include energy efficiency, data and analysis and invoice validation services. In this respect it is important that Ofgem are specific on the type of fees that are disclosed by suppliers. Our view is that the disclosure of fees should be limited solely to supplier market search fees and exclude other services. This should present the clearest comparator for customers.

Subject to the disclosure being limited to search fees as above we agree with the principle that there may be benefits for customers from disclosure at point of sale. However, we disagree with including broker fees on bills and statement of account post sale. There is no positive cost/benefit for this as suppliers will incur substantial administrative costs changing billing/ finance systems with little or no benefit for customers.

Question: *Do you think that further prescription or guidance on the presentation and format of broker costs on contractual and billing documentation would be beneficial? If so, how should broker costs be presented?*

Response: Yes, our view is that wherever possible standardising the way in which search fees are displayed will help consumers compare deals at point of sale. Our preference is for fees to be displayed consistently in p/kWh so that fees are relative to the other principal charges such as energy and policy costs.

We do not however see the value in post-sale notifications of broker fees to consumers, we believe the implementation costs of including on all bills and statements etc. will far outweigh any benefit to consumers who have already agreed to the terms of the sale. To enable consumers to better compare clearly, we suggest that the fees disclosed by suppliers relate to broker search fees only and not additional services such as invoice validation and data analysis.

Question: *What challenges do you think suppliers and brokers may face implementing these proposals?*

Response: We estimate that 6-9-month lead times will be required to make changes to quoting and customer service systems, supplier processes and documentation. Potentially also there may be changes required to supplier/broker contractual agreements and TPI audits which will also take time to implement.

Question: *Do you have any comments on the associated draft supply licence conditions in Appendix 1 of this document?*

Response: Direct obligations on suppliers are disproportionate and assume an unrealistic level of control over brokers by energy suppliers. Despite best efforts and contractual mitigations an energy supplier cannot demonstrate the whole level of control required by such provisions. Brokers act on behalf of many market participants and are not sole agents of a supplier and so the licence requirements present an unachievable high bar for suppliers who cannot realistically ensure consistency in approach in the way that Ofgem seem to expect.

Licence drafting should be changed to require suppliers to be able to demonstrate reasonable controls on brokers and agents which can be demonstrated by things such as a well operated broker agreement, an active TPI audit process with demonstrable sanctions.

Question: *Do you think there are other changes which would better address the consumer harm that has been identified?*

Response: Yes, a TPI Code of Practice approach would better facilitate the Ofgem's objectives, the supplier licence route may be well intentioned but is sub optimal and inferior to a well-designed code of practice. The TPI CoP should be backed by a single licence condition on energy suppliers only to deal with accredited TPI's under the scheme. We see the upcoming Retail Energy Code as the ideal governance framework to support such arrangements.

The code of practice approach has been proved to work well under the domestic and has proved effective to deal with mass market customer transfers and this volumized approach could also work well in the micro-business sector. Ofgem have regularly pointed out many similarities between the domestic and micro-business customer requirements in relation to search requirements (e.g. the clarity of market search).

Contracting: Signing up to a new contract

Question: *What do you think the impact of our proposal to introduce a broker conduct principle will be? Are there any reasons why suppliers/brokers couldn't achieve the broker conduct principle?*

Response: Broker conduct in line with Ofgem's principles is already an integral part of our own broker agreement and these are enforced through routine TPI audits and potential sanctions. We agree that Ofgem's principles for broker conduct do set an important baseline for the standard we expect from brokers in the market. However, we do not agree that enforcing these standards via suppliers is the best mechanism to achieve Ofgem's objectives.

Question: *Do you agree that our proposal to introduce specific sales and marketing requirements on suppliers and the brokers they work with is important to help customers make more informed choices and increase trust in and effectiveness of the market? If so, do you agree that face-to-face marketing and sales activity should be covered alongside telesales activity under these proposals?*

Response: We do not agree that enforcing the broker standards on suppliers is the best approach, this is because firstly brokers do not generally operate exclusively for a single supplier and as such do not perform the role of sales agents. This means that a supplier is not fully in control of a TPI's actions. Therefore, Ofgem's proposed approach is unlikely to ensure a consistent standard is delivered by brokers operating for multiple suppliers. This is because supplier's interpretations of the standards and working practices, such as the detail of broker agreements and audits and the decision of when sanctions should be applied will differ.

We believe that a single code of practice with strong governance controls would ensure a better and more consistent standard in respect of broker behaviour. We feel that the upcoming Retail Energy Code would provide an ideal governance framework to support a TPI/Supplier code of conduct and that this should be underpinned by a single supplier licence condition to only work with accredited organisations.

Question: *Do you agree that our proposal to introduce a cooling-off period for microbusiness contracts represents an effective way to protect consumers during the contracting process? If so, do you agree that the length of the cooling-off period should be 14 days?*

Response: It would be unmanageable for suppliers to implement a 14-day cooling off period in a next day switching world without there being a systemised industry solution. Currently where switches fail to hit the required deadlines any redress for commodity and other costs is reconciled between suppliers is processed on a manual basis – such as the inter-shipper dispute process for gas. Because there is currently no cool-off in the non-domestic market and this keeps the number of reconciliations low and at a manageable level for suppliers to operate on an offline basis.

If 14 day-cool off were introduced in the non-domestic market cancellations would increase to an unknown level and would render the offline process unmanageable and would likely impact consumers, damaging confidence in the industry. The inevitable increase in cancellations during the cool-off period would require a systemised solution as part of Ofgem's faster switching programme.

Question: *What challenges do you think suppliers and brokers may face implementing these proposals?*

Response: See response above.

Question: *Do you have any comments on the associated draft supply licence conditions in Appendix 1 of this document?*

Response: As stated previously we do not agree that the implementation of new supply licence conditions on energy suppliers will be successful in achieving Ofgem’s objectives. Supplier licence conditions would be better targeted if they required suppliers to contract only with TPIs who were subject to an accredited code of practice.

Question: *Do you think there are other changes which would better address the consumer harm that has been identified?*

Response: See response above.

Dialogue: Two-way communication with service providers

Question: *Do you agree that our proposal for a mandated ADR scheme represents an effective way to fill the existing consumer protection gap where a microbusiness has a dispute with their broker?*

Response: We agree that a mandated ADR scheme for brokers should provide a better outcome for customers if this is carefully implemented. Such a scheme should be a positive step for a customer if the process is clear on the separation of responsibilities between the broker and supplier. For example, a contractual query or complaint is raised / resolved directly with the broker or supplier (where contract agreed directly) and anything else is raised directly with the supplier. This should be detailed in a TPI code of practice.

Additionally, it would accelerate a resolution if a supplier can see the correspondence between a customer and the broker, but the supplier should not be expected to manage this process. As the development of an ADR process represents a significant change, Ofgem and market participants should collectively develop suitable processes that would be clear, and work well in practice.

Question: *What challenges do you think suppliers and brokers may face implementing our proposal regarding dispute resolution?*

Response: See above.

Question: *Do you have any comments on the associated draft supply licence conditions in Appendix 1 of this document?*

Response: No comments currently.

Question: *Do you think there are other changes which would better address the consumer harm that has been identified?*

Response: No comments currently.

Exiting: Switching away from an old contract

Question: *Do you agree that termination notice requirements represent an unnecessary barrier to switching and should be prohibited? If so, do you agree that a prohibition on notification periods should apply to both new and existing contracts?*

Response: We do not have any objections to the proposal to remove the requirement for a termination notice to be issued. It is common practice for termination notices to be issued at the same time as the initial contract is agreed and hence this process is largely unnecessary if we assume across the board that each contract will terminate automatically.

Question: *Do you agree that our proposal to require that suppliers continue to charge consumers based on the rates in place prior to a blocked switch for up to 30 days represents an effective approach to limiting the financial impact of switching delays? If so, do you agree that the time period should be 30 days?*

Response: This proposal does increase supplier risk and hence may increase the cost to consumers overall. It is most common that the reason for a blocked switch is related to the outstanding debt owed to the supplier, rather than a switching delay and hence retaining the existing rate for a period of 30 days would not necessarily incentivise the consumer in the right way.

Question: *What challenges do you think suppliers and brokers may face implementing our proposals regarding improving the switching experience?*

Response: The challenges that a 14-day cool-off period would place on Ofgem's own faster switching programme appear to be insurmountable as this process was not envisaged nor is it built into the technical design of the programme. Any adaptation of the programme at this late stage is likely to add significant cost and unwanted delay.

End of response.

If you have any questions or would like to discuss, please contact me as below.

Best regards

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