Ofgem

9 Millbank

London

SW1P 3GE

 **4 June 2015**

Dear Sir/Madam,

**Ofgem consultation on Supplier Objections**

The FSB welcomes Ofgem’s consultation on supplier objections.

We have previously placed on record our view that there are areas of the energy market that require improvement if small business customers are to access the best possible deals in future. A transparent and robust approach to the management of debt risk across the small business sector will be crucial to this process.

The FSB acknowledges that the cost of unrecovered debts, as well as debt recovery activities by suppliers, is ultimately borne by the wider customer base. We therefore believe that the market emphasis must be on preventing small businesses, especially those deemed to be higher risk, from getting into debt in the first place.

We welcome the progress that the industry and regulator have made to improve the clarity around contracts, particularly the end to automatic rollovers and clearer and more proactive engagement around end-of-contract terms and conditions. This will help to empower small businesses to make informed choices about their energy supply and the contracts they enter into, though there is still more work to be done in this regard.

We are concerned that the non-domestic objection rate is almost 4 times higher than in the domestic market. We acknowledge that the small business market carries a marginally higher risk than the domestic. However, the scale of this difference in risk is exaggerated. A recent FSB survey found that over half of small businesses spend less than £3,000 on energy per year, with a quarter of our members spending between £1,000 and £1,999. On average, our members spend £4,243 a year on energy, a figure that is similar to domestic households.

**Market Segmentation**

There is very little market segmentation of the SME sector as a whole. The FSB acknowledges that SMEs – as a large, homogenous group – carry a level of risk that may differ from the domestic market. However, small and micro businesses are a specific sub-group within this sector, often with diverse requirements and risks – including debt risk. There is no evidence that energy suppliers understand the risk profiles of micro and small businesses. Most energy suppliers adopt a ‘one size fits all’ approach to the risks that businesses will default on payments.

Tariffs for stable and secure businesses include a premium to cover the debts from risky enterprises. If energy suppliers had a nuanced approach to the risks associated with different businesses then their approach to managing debt would also be more nuanced.

Recent evidence to the CMA market inquiry suggests that many suppliers do not distinguish between microbusinesses and SMEs, believing that there are no distinguishing characteristics or needs. We strongly believe that within the micro and SME sectors there are distinct markets and groups, including businesses that should be considered to be vulnerable to price and market changes.  The FSB fundamentally disagrees with the single cohort approach by most energy suppliers and has urged the CMA to explore ways to encourage greater market segmentation so that risks, including debt-risk, and pricing can more accurately represent the individual business customer.

**Contract Negotiations**

Additional debt risk is placed on small businesses because, unlike domestic customers, they are required to negotiate bespoke contract arrangements with suppliers. The time and resource costs associated with searching for a new deal, and understanding complex terms and conditions, are simply too high for many small businesses to feel the process is worthwhile. The majority of FSB members say their energy bills and associated tariffs are difficult to understand and compare.

The FSB believes micro businesses should be treated like domestic consumers other than where there are clear reasons not to. This would give a much fairer level of consumer protection to these firms. As it stands, small businesses are disadvantaged compared to large businesses and domestic consumers when taking out a contract with a new energy provider, because of:

* a lack of expertise in purchasing energy
* high opportunity cost of time spent making purchasing decisions
* low benefits (actual or perceived) of time spent making purchasing decisions
* poor bargaining power

There must be some rational, consistent basis across the market – e.g. a core set of variables – on which businesses can compare like-for-like offers. The FSB believes that energy suppliers should initially compete on the basis of published prices but that this should not preclude suppliers subsequently negotiating custom tariffs where appropriate.

**Smart Meters**

FSB believes that the roll out of smart meters will improve billing accuracy and reduce the potential for back-billing, hopefully reducing the risk of debt. For those businesses that remain at high risk, the FSB is interested in the potential for smart pre-payment meters as a mechanism for managing energy use and reducing the risk of debt. Smart meters also offer an excellent opportunity in providing small businesses with the information they need to take steps to improve their energy efficiency and help to cut their energy bills. We strongly support the principles behind smart meters and are keen to realise the potential benefits they will offer to small businesses.

However, there is a danger that this potential may not be realised – especially in the small business sector – unless adequate plans are put in place to understand, engage and empower customers. We remain concerned that small businesses are not being adequately considered in the roll-out of smart meters. The focus for engagement during smart meter roll-out is on domestic energy consumers rather than small businesses. It is critical that small businesses are given the opportunity to understand and reduce their energy use through the initial roll-out of smart meters, but also through ongoing access to information and the wider support package that needs to accompany this rollout.

**Debt Management**

The Market emphasis should be on preventing businesses getting into unsustainable debt. However, where this is unavoidable, it is important that businesses are fully supported in implementing a sustainable debt payment plan. This is in everybody’s best interest, including supplier creditors. In this regard, we acknowledge the excellent work of Business Debtline, particularly in support of a recent initiative by one of the big six suppliers.

I trust that you will find these comments helpful and that they will be taken into consideration.

Yours sincerely,



**Allen Creedy**

**Chairman of the Environment, Energy & Water Policy Unit**

**Federation of Small Businesses**