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**Non Confidential**

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24<sup>th</sup> April 2015

Dear Andy,

**Reference: Supplier objections: a call for evidence**

Gazprom Marketing & Trading Retail Limited ("***Gazprom Energy***") would like to thank you for the opportunity to respond to your consultation. We do not consider our response to be confidential and we are happy for our comments to be shared with other interested parties.

Gazprom Energy operates in the UK non-domestic sector as a gas supplier and a gas shipper. In addition, we also operate in the UK non-domestic power market as an electricity supplier.

Whilst the domestic market has been slow to embrace competition, with the Big 6 companies remaining the dominant players, the non-domestic energy market has developed into a vibrant competitive market. It is by far the most liquid and competitive of the UK energy markets. It is critical that any proposed intervention does not inadvertently and negatively impact this competitive sector, leading to long term detriment to non-domestic consumers.

As noted in the consultation, in the non-domestic market objections are a contractual matter between consumer and supplier. These contracts usually allow the supplier to raise objections if the consumer is in debt or has provided insufficient notice of termination under a fixed-term contract (which provides consumers with the benefit of fixed prices enabled by the supplier purchasing energy in advance against the security of the contract). This protection minimises the level of risk premiums associated with debt management (minimising litigation costs) and the forward purchasing of energy, which may be factored into the price the consumer pays. This protection therefore enables consumers to get the sharpest price available by reducing the overall level of market risk. We believe the original rationale behind introducing supplier objections in the non-domestic sector remains valid.

Suppliers have clear obligations to provide information to customers regarding contractual terms, switching processes and any customer action required. The objections process has not inhibited the

development of a highly competitive non-domestic sector but rather it has supported it through a proportionate sharing of risk between businesses. We are concerned about the consequential impacts that may result should the right for suppliers to object, under certain circumstances, be removed.

We acknowledge that Ofgem has highlighted concerns over the behaviour of some suppliers who may not always comply with the objection requirements, and we believe Ofgem should use its existing powers to investigate these suppliers and take appropriate enforcement action. The misuse of the facility by a rogue supplier should not be the justification for the removal of a key risk management tool from the rest of the market and the imposition of extra costs on consumers.

As highlighted in the call for evidence letter, the main reason for objections in the non-domestic sector is due to contractual reasons, and these are predominantly because:

- A customer has overdue payments; or
- A customer's contract has not ended.

We believe the right to object in these circumstances is a proportionate protection for suppliers against potentially significant losses. We believe it also offers protection to consumers by minimising risk premiums. Removing the right to object could mean that risk premiums increase for all consumers. We've outlined a number of other high-level risks/implications below that may occur with the absence of objections:

- Breaches of contract on a large scale (e.g. something akin to collective switching) may occur with consequential impacts on billing and settlement.
- Multiple re-registration attempts by the "old supplier".
- Increased complaints.
- Increased hedging/imbalance costs.
- Increased risk premiums.
- Increased security deposits or other credit support required from customers.
- Customer avoidance of valid disconnections e.g. following consistent no payment, theft of energy etc.
- Less customer choice due to stricter credit vetting.
- A move away from fixed price, fixed length contracts.
- Increased costs and resource dedicated to complaints resolution, litigation and arbitration.

The non-domestic gas and electricity markets are very competitive with high levels of switching between suppliers. Whilst headline switching figures may increase further with the removal of objections we believe that while this may on the surface appear positive, when viewed in isolation, there could be greater overall detriment and cost to consumers.



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We note that an increased risk already exists for suppliers in respect of customers on deemed contracts, as suppliers are unable to object to these customers leaving even where a significant debt has been built up. Alongside other process differences for deemed contract customers, this increases the cost to serve these customers and the consequential price that they pay or the price that other customers must pay. While suppliers can of course take contractual disputes to courts or arbitration, this would need to be considered on a case by case basis depending on the costs and value involved.

Section 5 of the Call for Evidence asks for views on the timing of any changes to objections. While we do not support a change to the process in the non-domestic market, if a change was to be introduced then a significant lead time would need to be required to account for the changes in customer contracts and business processes. We believe a phased approach may cause complexity for both suppliers and customers, particularly in the case of multi-site contracts. We would also note that many non-domestic sites will have advanced meters installed rather than smart meters so we do not believe it would be appropriate to link the non-domestic switching process to a meter type which may not be prevalent in the sector. Should a change be progressed, it would make sense to align it with the wider switching process reforms which are targeted to be in place by the end of 2019.

We hope you find our comments useful. Should you have any questions on or would like to meet to discuss our response, please don't hesitate to contact [tom.breckwoldt@gazprom-energy.com](mailto:tom.breckwoldt@gazprom-energy.com).

Yours sincerely,

Tom Breckwoldt  
**for and on behalf of Gazprom Energy**