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Dear Philip,

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

Thank you for the opportunity to respond to this call for evidence on supplier objections.

We see objections as a fundamental part of the market protecting both consumers and suppliers and therefore strongly believe that suppliers must retain the right to object for both contractual and debt reasons.

Removing these rights altogether or even limiting them in some way would have detrimental effect on customers and bring undesirable impact on customer experience due to the potential for engagement by debt collection agencies and bailiffs. It will also result in a loss of certainty over costs (for suppliers) and ultimately increase costs for customers. We have both a licence and corporate responsibility to ensure suitability of a product offered to a customer as per their needs and to reduce propensity for a customer to increase debt.

This is a crucial period when the energy industry is striving to make energy more affordable for customers. Removing the right to object could potentially have a detrimental effect on the supplier's ability to offer competitive prices due to, both an increase in the debt cost and revenue erosion, as the need for debt recovery operations is likely to significantly increase if objections are abolished.

Ofgem should consider difficulties arising out of any proposed future changes as some of the options outlined in this call for evidence are not compatible with changes such as next day switching, since suppliers would not have time for credit vetting, Debt Assignment Protocol checks, security deposits etc.

Ofgem has twice reviewed suppliers right to object and on both of those occasions deemed the right should remain. We see no compelling reason or evidence now as to why the current position should change.

We would be happy to discuss this further as required. The comments related to each section of the call for evidence are below.

Yours sincerely,

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#### **Section 1.14 : Non Domestic consumer concerns**

With regard to claims of suppliers misusing the objections process, npower operates in line with the regulatory requirements and we would not object to a customer switch if there is no genuine reason to do so. If the research mentioned in this section was the research presented to the COSEG group, it was only from 19 non-domestic customers and therefore does not give a quantitative representation. Also at COSEG, the group reviewed that research and found suppliers were operating in compliance with regulatory requirements.

#### **Section 2.1 : Objections in a competitive market**

This section of the consultation states objections are not a feature of a competitive market and that contractual disputes are typically left to the courts or arbitration to determine. In our view this would result in detrimental customer experience as we believe this would warrant heightened collections activity and the potential for engagement by debt collection agencies and bailiffs which we perceive to be an undesirable customer experience. Such activities would further undermine the trust and engagement agenda that is so vital to ensuring customers can fully engage within the competitive marketplace.

If a customer is in debt, we work with them in a number of different ways to reduce and repay the debt, with some of the tools being putting them on a cheaper tariff, going from credit meter to prepayment, energy efficiency advice etc. Litigation is the last resort. If a customer can switch with debt, our options for recovery become limited and non-paying customers will be subject to litigation earlier and more frequently.

The right to object provides security for suppliers and also helps customers manage debt as this way the customer has to pay before moving and hence address the debt before it increases and / or becomes unmanageable. If this right is removed, the risk would be that the customer could end up with multiple debts, which would make budgeting more difficult and raise the likelihood of default and further action and may compromise their credit rating. There is also a risk that existing debts would render the customer unable to switch to a competitive supplier.

We agree that customer switching and the threat of it are key drivers for effective competition. Competition acts as a spur to delivering better customer service, innovation and lower prices. However, for these improvements to be sustainable within the current market constraints, there must remain an expectation that customers who choose not to pay (rather than those that can't pay) are not given a "free ride" with their costs borne by the majority of honest bill payers.

#### **Section 2.2 & 2.3 : Alternative mechanisms for managing credit risk**

This section seeks views on how likely suppliers would be to facilitate and manage credit without an objections process. npower already does a great deal to try and prevent customers building up debt. We perform credit checks at the point of acquisition and try to direct customers to a more appropriate tariff if there is history of debt and in certain situations request security deposits.

We monitor our customers' circumstances on a regular basis to avoid debt build up and to maintain a positive customer relationship. Examples would be installing a prepayment meter and providing energy efficiency information and advice, customer visits and extensive contact to understand the customer's position and identify the most appropriate solution for that customer.

We also have debt repayment schemes to help customers. In addition, we purchase external data to assess and be proactive to help customers. In our Collections department we are utilising this information to tailor debt plans for customers that suit their financial circumstances and get them back to a non-debt position in the most appropriate timescale.

As a supplier, we implement different and tailored measures to assist the customer, for example, arranging long term payment plans whereby the customer pays off the minimum to reach a sustainable debt-free



outcome. Ultimately, however, the customer still has the responsibility to pay for the energy they have consumed.

Any structural change to the objections process could see an increase in suppliers no longer charging in arrears but up front in order to mitigate the associated risk of debt (we believe some suppliers already follow this practice). We don't believe this is the desired outcome that Ofgem would like to see.

### **Section 2.5 & 2.6 Impact of Smart Meters**

This section suggests Smart meters could increase suppliers' ability to support consumers so that the debt objection would no longer be necessary. This seems to be on the basis of suppliers having better access to data, however, that is not a given. Smart meters do have the potential to help suppliers better manage debt (through the reduction in estimated or incorrect reads, and setting up more accurate direct debit amounts to avoid the build-up of debit/credit on the account). Smart meters may also possibly reduce overheads of debt management, for instance, the technology allows a meter to be remotely switched from credit to prepayment without the need for a site visit, although a site visit would be undertaken for instances where it is deemed necessary such as vulnerability, suitability of the meter etc.

Smart meters will offer the customers greater information and an ability to understand how they use their energy, but a smart meter will not, in itself, help the customers manage their existing debts.

We should also remember that customers will have the right to refuse to have a smart meter fitted.

With regard to related electricity meters, it is our understanding that these will still exist for smart meters, however, we suggest Ofgem seeks clarity from the Data Communications Company.

### **Section 3 : Domestic markets**

Please find comments for each of the options suggested in this section of the call for evidence:

#### **Section 3.1**

##### **1. No material changes to the objections arrangements**

We do not believe there is any need to change the objections arrangements as the current arrangements are working well and there doesn't appear to be a major concern from customers across the industry.

The call for evidence states

"In 2014, the objection rate in the domestic market was around 6 per cent of all transfers in gas and 8 per cent in electricity. Suppliers have told us that more than a third of debt-blocked customers repay their debt and switch shortly after."

These statements seem to suggest that the objection for debt is not a significant barrier to switching and do indeed trigger the customer to pay the debt. However there is no evidence to suggest that the third of debt blocked customers who currently repay their debt and then switch, would pay their debt if there was no objection process to prevent their immediate switch.

##### **2. Retain debt objections but require objecting suppliers to be more proactive in managing the relationship with their indebted customers, possibly including a requirement to move them onto cheaper tariffs to help them repay their debts**

As mentioned earlier in this response, we already do a great deal to help customers with their debt. We offer customers alternative options enabling them to make an informed choice and notify customers of the cheapest tariff, but ultimately it is up to the customer to decide if they wish to change their tariff. Suppliers should not be required to change the customers' tariffs without their express consent/knowledge but should continue to proactively suggest more appropriate tariffs if these are available.



### 3. Abolish debt-related objections

In our view it is essential that suppliers retain the right to object for outstanding debt.

If customers are allowed to switch suppliers without clearing any outstanding debt, it would not address the underlying issue (whether the customer has chosen not to pay, or cannot pay) and, could in fact, leave the customer in a worse position. Requiring a customer to clear any outstanding debt prior to switching suppliers provides a better experience as the customer would commence with their new supplier on effectively “a clean slate”. Debt objections prevent customers from building up multiple and unmanageable debts by moving between energy companies.

We believe, it is better that we work with the customer to try and support them in paying their debt off with payment plans and then continuing to ensure they are on the most appropriate rate and structure which supports their individual financial circumstances. Objecting to customers transferring between suppliers when in debt allows suppliers and customers who already have a relationship to identify the best solution to allow repayment of any debt.

Debt objections are a critical tool in helping suppliers manage their debt exposure. If debt objections were removed and next day switching implemented then serial switching would inevitably increase as some customers would see this as a means to avoid paying their debt. As a result, levels of supplier bad debt would rise, along with costs and prices, meaning honest bill payers would be disadvantaged.

There is also a real risk that removing debt related objections could be damaging for small suppliers and in fact be a barrier to entry for challenger companies.

Until there is a robust alternative with a sound, proven business case and a clearer consumer benefit case that ensures compatibility with other regulatory requirements and initiatives, debt objections must remain.

#### **UK water industry example**

- *In the UK water industry, customers do not have contracts with companies so they do not need to provide their details to secure services. This means there is no objection process to stop customers leaving behind bad debt when they move properties. This means Bad debt currently adds an average of £15 to every water customer's bill and the Government is committed to tackling this to lower bills.*

### 4. Abolish objections that relate to erroneous transfers

In 2014 Ofgem amended LC14A requiring suppliers to take reasonable steps to prevent an erroneous transfer. Objections provide a way to help suppliers prevent an erroneous transfer and to meet this obligation. Furthermore, and more importantly, it can help prevent an adverse customer experience. To implement an obligation then shortly thereafter, remove a tool to help meet it would result in poor regulation.

Suppliers should, under no circumstances, object when the switch is to resolve an erroneous transfer.

### 5. Abolish objections to do with related electricity metering points

We cannot see the value for customers or suppliers in abolishing related meter objections nor a reason why a customer would want different suppliers for each meter. Likewise, it is difficult to think of a reason why a supplier would want to register just one of the related meters.

From a customer perspective we believe it would be simpler and clearer if the customer had both meters billed on one bill from one supplier rather than being split between two suppliers.



If related meter objections were removed there could be issues in allocating customer payments between the meters if one of them switched to a different supplier.

We are not aware of any major customer issues regarding related meter objections and would suggest related meter objections remain for the above reasons.

## **6. Abolish objections relating to indebted customers with Green Deal Plans (objections linked to the Green Deal were introduced by the Secretary of State)**

Green Deal objections prevent a customer switching to a supplier who is not a Green Deal provider. Therefore, objections related to Green Deal must stay as currently not all electricity suppliers have acceded to the GDAA and therefore cannot bill or remit the necessary payments for the existing Green Deal plan. The customer may not be aware that their intended supplier cannot manage their green deal plan, and therefore, there needs to be an automatic process that would prevent a customer switching to a supplier who is not a Green Deal licenced supplier. Removing these objections would add complications to the recovery process for the losing supplier, the Green Deal Finance Company and the Green Deal provider. This issue would of course not arise if all suppliers were mandated to be Green Deal Licenced suppliers.

## **7. If we were to abolish debt-related objections, we could**

### **a) extend the DAP to all domestic customers or**

As with the option of abolishing debt objections, expanding the Debt Assignment Protocol (DAP) to all domestic customers would be a major risk to small suppliers from a cash flow perspective. They would find themselves in a position of having to make payments to the previous suppliers before collecting any payments from the new customers. Again this risk could prevent potential new suppliers from entering into the market. This risk would also apply to established suppliers due to the uncertainty it would bring.

This option would not be possible in a next day switching world. Suppliers would not be able to perform the necessary checks in time if, for example, the call to agree a contract is made at 4pm and the registration flow has to be sent by 5pm.

We believe that retaining the right to object for debt remains a better solution than extending the DAP process to all customers as the DAP process takes more time to complete and the level of risk would also increase as suppliers would have to take on all customers regardless of debt.

As mentioned previously, if customers are allowed to continually switch suppliers, transferring the debt with them, it does not help them address the issue of their outstanding debt and may mask the true extent of their indebtedness.

### **b) adopt arrangements like those in Ireland where suppliers cannot object to a customer leaving but new suppliers can refuse to take on a customer with debt above a certain level (€225 is the threshold in Ireland)**

In this scenario a customer with debt may be refused by every other supplier that they want to move to and would ultimately have to stay with their current supplier. Debt objections are partly about protecting the interests of the losing supplier from a debt recovery perspective, so no system should allow the gaining supplier to determine the losing suppliers' exposure.

The research from the Irish market suggests that this type of an arrangement can lead to large amounts of bad debt. In Ireland, prior to 2011 there was no debt flagging process. This led to serial switching to avoid paying bills and the accumulation of a number of debts with various suppliers in the market. This debt was more difficult to manage than if the customer had a debt with only one supplier, making it less likely they would pay them off. Business customers also took advantage of the lack of objections process in Ireland, if they were in economic difficulty, they were able to just switch supplier, with no objections to this, and avoid paying their bill.



The press had even highlighted this loophole in Ireland and the ability for a customer to switch between suppliers unhindered – leaving the loophole open to abuse from people wanting to avoid paying their bills. This would inevitably occur in the UK if the ability to object was removed.

The Commission for Energy Regulation (CER) stated in a consultation response that limiting the possibility for such debts to accumulate (by adding an objections process) would create more market certainty and may encourage further market entry by new retail suppliers

### **c) introduce new rules for example around security deposits.**

If a customer is unable/unwilling to clear the debt with their current supplier then we are unclear as to how they will be in a position to pay a security deposit with another supplier. The security deposit may only help protect the supplier up to a certain level. To be meaningful, the level of security deposit may be too high to utilise for most customers with a poor credit record.

**Section 3.4 : We welcome views on the impact of removing debt objections in the domestic market, including any potential impacts not listed above. This could include supporting evidence or experience from international energy or other comparable markets where no such right exists or where it has been removed.**

Please see appendix at the end of this response for supporting evidence from overseas market.

## **Section 4: Non domestic markets**

The main differences between the markets are the fact that in domestic we have to offer supply terms and face an increased risk of taking on debt, which is not currently the case in the non-domestic market. Many of the comments raised in the domestic section of this response also apply to the non-domestic market, for instance objections provide security for suppliers and also help customers manage debt as this way the customer has to pay before moving and hence address the debt before it increases instead of it being moved around suppliers.

Suppliers in the non-domestic market have the right to object for contractual terms. Removing this right would place an overwhelming risk on suppliers who, in advance, have to purchase large amounts of energy to cover the period of the contract as the consumption would be considerably higher than domestic. In addition, suppliers would also have to face a higher mark to market risk. As a result, there will be a significant risk of increasing costs for honest customers who will be cross-subsidising the poor payers.

Abolishing debt and contract objections in the non domestic market would pose a massive risk to smaller suppliers and as a result act as a barrier to entry.

Please find below our comments for each of the options suggested in the call for evidence.

### **Section 4.1**

#### **1. No material changes to the objections arrangements**

We support this proposal as the process currently works well and there do not appear to be industry wide adverse impacts on customers.

#### **2 . Redefine the contractual right to object to exclude debt-related objections**

This would create a massive commercial risk for suppliers and weaken our credit position so we do not agree with this proposal. Removal of objections for debt will be detrimental to suppliers and may push prices up for customers. Debt objections serve a critical purpose in the business market and we want to see the right to object retained. Debt in the non domestic sector is higher than in the domestic sector and



would increase if there were no rights to object as customers would leave with a debt which the supplier would have difficulty recovering. One consequence of this proposal could be that suppliers' use of credit vetting may result in suppliers refusing to offer terms to bad payers or charging a higher risk premium to customers with no or a poor credit history, thereby restricting their access to competitive products.

### **3. Abolish the contractual right to object entirely**

As mentioned above removing the ability to object for contractual reasons would place enormous risk on suppliers. With large consuming customers, suppliers have to purchase large volumes of energy to cover the period of the contract. Successful energy forecasting and management of risk allow suppliers to offer competitive rates to customers. It would be unfair and unwise to expect a supplier to for instance purchase three years of energy for a large use customer such as a factory or supermarket and allow the customer to switch suppliers a month or two into that contract.

When the customer has a contract, retaining the right to object is key to maintaining a stable competitive market. Most business customers want fixed length contracts as that gives them certainty over costs and reduces administrative pressure for renewals. For suppliers, contracts with known durations allow them to hedge their commodity costs more effectively. Removing the objections for contract would increase suppliers' costs, and add additional costs from the increase in switching activity. This would also have a series of dramatic effects that would be destructive rather than merely disruptive. The changes would be poor for suppliers, but be even worse for business customers. The most immediate impact would be that fixed term contracts would be largely redundant. Although suppliers would have recourse to law to enforce the duration of contracts should customers want to switch suppliers, the costs involved would make this unattractive. Furthermore, an increased use of court action to enforce business contracts would damage the reputation of suppliers as a group. For this reason alone, Ofgem should not proceed with the proposals if it wishes to strengthen the trust relationship between customers and suppliers. Moreover, nPower business no longer uses auto rollover provisions and this should reduce the need to use objections for customers in contract. The customer will know when a fixed term contract will end and that they can leave at any time after by giving notice.

Customers wishing to have the certainty that fixed term contracts provide could still enter into them but suppliers may introduce security deposits or termination fees to protect themselves against the high costs of having bought energy which may become a stranded cost in the event of a customer leaving before their agreed end date.

Unscrupulous TPI companies may seek to benefit from serially switching customers to obtain commissions rather than creating a good deal for customers. Without a properly regulated TPI market, many customers may be at risk of misleading sales practices as some TPIs seek to maximise their revenues at the expense of their customers.

Furthermore, potential new entrants may see this risk as being too high and therefore be deterred from entering into the market.

### **4. Abolish objections relating to erroneous transfers**

Please see related comments from the domestic section of this response.

### **5. Abolish objections to do with related electricity metering points**

Regarding associated supplies (multi-MPAN sites), it would not be possible for one MPAN to be transferred to another supplier and the other(s) remain with the existing supplier. We have to bill customers in the same way that we are billed by distribution to ensure that pass-through charges are invoiced correctly. This would not be possible if the related MPANs were registered to different suppliers.

Please also see the comments from the domestic section of this response.



**6. Abolish objections relating to indebted customers with Green Deal Plans (objections linked to the Green Deal were introduced by the Secretary of State)**

Please see related comments from the domestic section of this response.

**7. If we were to abolish debt-related objections, we could**

**a) extend the DAP to all non-domestic customers or**

Removing the ability to object but then allowing the new supplier to refuse to take the customer on will not increase switching rates. The net result may probably stay the same but with significantly less satisfied customers.

Introducing an equivalent Debt Assignment Protocol in the business market will increase the risks to suppliers, especially as 10% of businesses cease to exist each year.

Please see related comments from the domestic section of this response.

**b) adopt arrangements like those in Ireland where suppliers cannot object to a customer leaving but new suppliers can refuse to take on a customer with debt above a certain level (€600 and €1200 are the respective thresholds for small and medium-sized businesses in Ireland)**

Please see related comments from the domestic section of this response.

**c) introduce new rules for example around security deposits.**

Security Deposits wouldn't outweigh the risk. We already request security deposits from customers who don't pass our existing credit vetting.

Please see related comments from the domestic section of this response.





## **Appendix**

Below is our understanding of some of the EU member states:

### **Germany**

- Suppliers cannot object for debt but can object for contract. This applies to both domestic and non-domestic.
- If the customer falls into debt the supplier can cancel that customer contract resulting in the customer being moved to the basic tariff. If the debt continues to build the customer could be disconnected by the provider of the basic tariff (this is often the Distribution System Operator (DSO)).
- This results in a poor customer experience, higher costs for disconnections and reconnections.

### **Czech Republic**

- Suppliers cannot object for debt but can for contract.
- The new supplier is not informed of outstanding debt but is informed of existing contract.
- Suppliers can check a bank association register with customer permission to assess debt but this would be costly to implement in the UK and would have Data Protection risks.

### **Belgium**

- Suppliers cannot object at all. This applies to both domestic and non-domestic.
- A customer can switch supplier with one month's termination notice otherwise the losing supplier can claim compensation.
- In Flanders, if the customer has persistent bad debt the supplier can 'drop' the customer who will then be supplied by the DSO (Netbeheerder). The latest figures published show that for both electricity and gas, ca. 3% of the household market in Flanders is now supplied by the DSO (these will be customers who can no longer get a contract with a supplier due to debt, or are unable to leave the DSO due to existing debt). This is higher than two of the new entrants in this region, making them 7<sup>th</sup> out of 9 suppliers.
- The lack of right to objections is very costly and has led to extremely high rates of bad debt for suppliers. The switching rates for both gas and electricity across the different regions in Belgium are very high.
- The new supplier can refuse to take supply if the customer has an outstanding debt with them (but these are exceptional circumstances).

### **Poland**

- Suppliers cannot object at all. This applies to both domestic and non-domestic.
- Suppliers can impose penalties (fines) on customers for the early termination of a valid contract.
- Persistent non-payment results in disconnections or court action if the customer has switched suppliers.

### **Conclusion**

- In our view the UK energy market is a market leader in Europe. We believe that UK market change of supplier objections help provide a better service to customers, with less risk of disconnections.

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