



Making a positive difference
for energy consumers

To: Microbusiness customers, suppliers
and other stakeholders

Direct Dial: 020 7901 7125
Email: NonDomesticRetail@ofgem.gov.uk

Date: 31/03/2016

Dear stakeholder

Microbusiness back-billing

Back-bills¹ can cause significant consumer detriment. They represent unexpected charges that businesses hadn't budgeted for and can cause cash flow problems. The Ombudsman and Citizens Advice receive a large number of contacts and complaints from microbusinesses related to back-billing.

As part of our ongoing scrutiny, we sought updated information from suppliers on back-billing performance. We are publishing this information as we consider that it is in the interest of microbusiness consumers to help them understand how suppliers collectively and individually are performing in relation to back-billing.

We welcome that most major suppliers have limited their back-billing duration when they are at fault to one year. We are not planning to introduce a new licence condition to regulate back-billing at present. We do expect suppliers to improve their back-billing performance and make further progress in terms of consistency and robustness of their processes. We have also published today our decision on back-billing for domestic consumers with smart meters, which proposes to improve transparency around suppliers' back-billing policies.²

Background

During 2011, Ofgem received evidence that businesses were being back-billed for periods going back six years or more and for large sums of money. Following a roundtable held by Ofgem, a set of voluntary standards were developed in 2012 to address microbusiness back-billing and most major suppliers have signed up to them.³

In 2013, Ofgem introduced binding Standards of Conduct (SoC) licence conditions which require suppliers to treat microbusiness customers fairly in various matters, including relating to billing. We consider that the SoC applies to activities, such as the processes and procedures that a supplier has in place for accurate billing and the timeframe involved for a microbusiness to receive and pay a bill.

¹ Back-bills are catch-up bills for historical charges and relate to periods further back than normal billing. Our 2015 and 2013 RFIs relate to back-bills issued for a billing period that commenced more than one year prior to the issue date of the back-bill

² Ofgem (2015), Smart Billing for a Smarter Markets-decision, https://www.ofgem.gov.uk/system/files/docs/2016/03/smart_billing_for_a_smarter_market_-_final.pdf

³ Energy UK (2015), Voluntary standards for back-billing of microbusiness energy customers, <http://www.energy-uk.org.uk/publication.html?task=file.download&id=5196>

We issued a request for information (RFI) on microbusiness back-billing to suppliers in 2013 (**2013 RFI**) to evaluate the progress following the introduction of the voluntary industry commitments. We found that:

- The majority of back-bills had duration of no more than three years from the issue date and were less than £2,000 in value.⁴
- Data quality issues appeared, at least in part, to be as a result of systems which were unable to easily identify and report back-bills.
- We noted that we expected to see improvement in suppliers' performance in relation to back-billing.

We issued another request for information last year (**2015 RFI**) to assess whether the voluntary industry arrangements have resulted in improvements in back-billing performance and a reduction in consumer detriment. The section below presents our key findings.

Key findings (2015 RFI)

The Annexes to this letter summarise data provided by suppliers relating to their back-billing of microbusiness customers between October and December 2014. We provide analysis on a consolidated basis as well as on individual suppliers' performance.

We received back-billing samples from 22 suppliers in response to our 2015 RFI, which covered back-bills issued in Q4 2014. We have seen some encouraging developments since our previous analysis in 2013:

- More ambitious voluntary commitments: The seven largest microbusiness suppliers and a number of other firms now have voluntary commitments in place to limit the duration of back-bills to one year. This back-billing duration limit is relevant to 94% of microbusiness customers.
- Reductions applied to back-bills: Analysis of the samples provided shows that suppliers reduced the value of the original back-bill they were going to require from customers by 7% in total. That was due to applying the voluntary arrangements they had in place. We expect larger reductions in the future, as the data doesn't capture the effects of some major suppliers reducing their back-billing duration limits in late 2014-early 2015.
- Duration and number of back-bills: The analysis of the samples received in 2015 and 2013 show some reduction (44 days) in the average duration of back-bills. We also observe a significant reduction in the total number of back-bills issued in Q4 2014 compared to Q4 2012.

We welcome the positive steps taken in reducing the detriment to microbusiness consumers, but our analysis identified some concerns with the consistency and oversight of the voluntary commitments:

- Consistency: We observe there is still significant variation in the voluntary back-billing commitments and two major suppliers still do not have any back-billing limitations in place (Contract Natural Gas and Haven Power).⁵ Based on our analysis,

⁴ Ofgem (2013), Microbusiness back-billing: Publication of supplier data covering April 2012-March 2013, https://www.ofgem.gov.uk/sites/default/files/docs/2013/12/micro-business_back-billing_-_supplier_data_covering_april_2012_-_march_2013.pdf

⁵ Although Haven Power have no formal commitments in place, they have told us they use discretion to resolve back-bills on a case by case basis.

our view is that some suppliers need to have more robust back-billing processes in place.

- Oversight of the voluntary arrangements: We looked at the instances when the back-bill duration exceeded the duration limit stipulated by the supplier specific voluntary arrangements. Our analysis of the samples shows that suppliers did not make a reduction of the back-bill in 86% of such instances, suggesting customers were at fault in the vast majority of such cases. We note that the current voluntary arrangements run by Energy UK/ICOSS do not require the signatories to demonstrate how they comply with the commitments. There is also no requirement on signatories to have an external audit to ensure they all have sufficiently robust internal processes in place.

Next steps

We expect the rollout of smart meters to improve the accuracy of bills significantly and help reduce back-billing instances as some of the commonly cited reasons for back-billing are related to the current metering infrastructure (replacing estimated bills with accurate meter reads, inability to access a meter to get a reading, etc.). We have also today published our decision on "Smart Billing for a Smarter Market" setting out our position on microbusiness back-billing for smart meters. We have outlined our intent to improve transparency on suppliers' back-billing policies and publish their billing performance data on our website. As with domestic consumers, we have decided not to mandate back-bill limit for microbusiness consumers with smart meters.⁶

Transparency

Aligned with today's announcement on domestic back-billing, we plan to monitor and publish non-domestic suppliers' back-billing policies.⁷ This will help to provide consumers and other stakeholders with consistent, comprehensive and up-to-date information. We think it is important that consumers are aware of the commitments made by their energy suppliers in respect of smart meter back-billing. We therefore intend to publish suppliers' policies in summary form on our website, as we do with large suppliers' direct debit policies at present.⁸ Suppliers should also consider how they might make their back-billing commitments transparent to their customers.

Responses to our consultation on smart back-billing also broadly supported our plans to publish performance data in the non-domestic sector. Several respondents noted that we should take care to collect and present the data in a consistent format that enables valid comparison across suppliers. We will press ahead with our plans to publish billing performance data, focusing in particular on back-billing and estimated bills. We will engage with stakeholders to develop metrics and reporting procedures to enable us to do so.

The additional transparency will provide consumers with comparative information on the back-billing practices of all suppliers. It will also provide an additional source of information for intermediaries, such as switching sites, to help consumers compare offers in the market.

EnergyUK and ICOSS are due to review their voluntary code of practice by May 2016. We encourage suppliers to make further improvements in their voluntary back-billing standards to ensure there is greater consistency of the arrangements across all signatories and robust compliance framework.

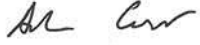
⁶ Ofgem (2015), Smart Billing for a Smarter Markets-decision, https://www.ofgem.gov.uk/system/files/docs/2016/03/smart_billing_for_a_smarter_market_-_final.pdf

⁷ We will formally require domestic suppliers to submit information about their back-billing policies through our statutory information gathering powers. We will consider how this information will be kept up to date.

⁸ Direct debits: what you need to know <https://www.ofgem.gov.uk/publications-and-updates/direct-debits-what-you-need-know>

We also encourage business groups to use this information and help their members get a better understanding of their rights and responsibilities in relation to back-billing.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Adam Cooper".

Adam Cooper

Associate Partner, Consumers and Competition

ANNEX 1: Comparing results from our back-billing information requests issued in 2015 and 2013

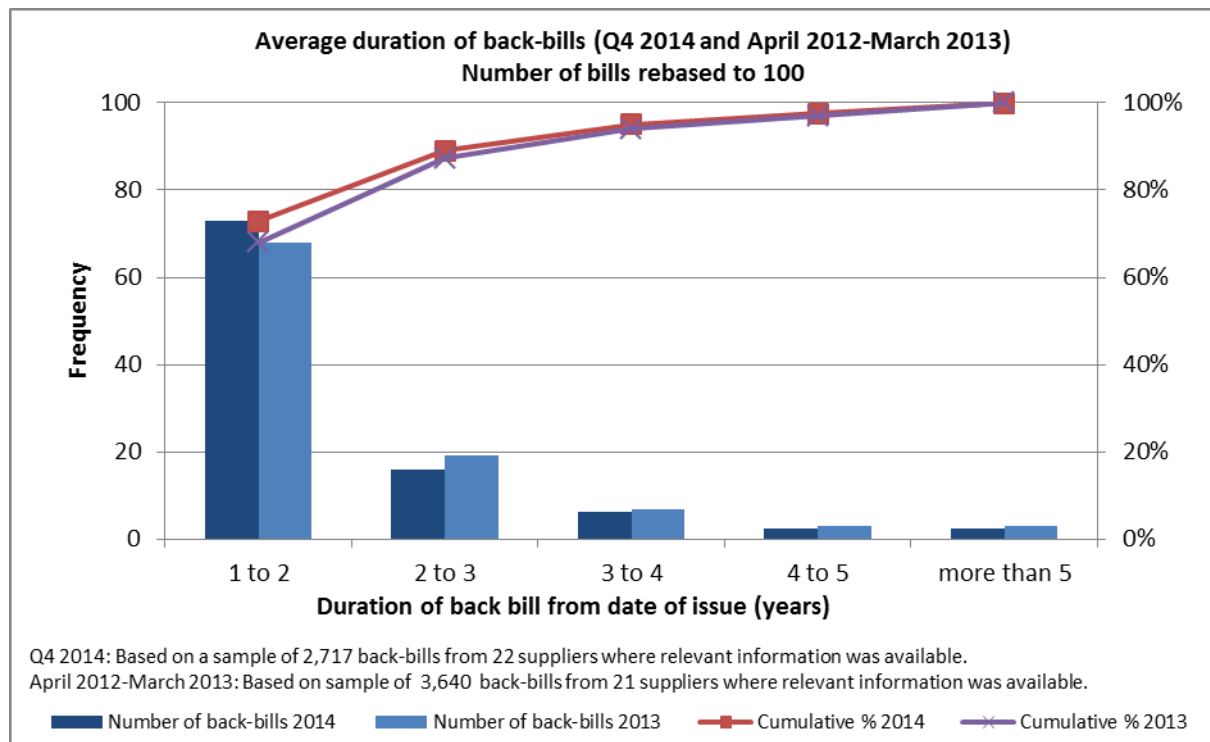
Analysis of supplier samples

Our 2015 RFI covered back-bills issued in Q4 2014, while the 2013 RFI covered back-bills issued between April 2012 and March 2013.

We received a sample of 2,717 back-bills provided by 22 suppliers in response to our 2015 RFI. The data shows the vast majority of back-bills had an average duration between 1 and 2 years in Q4 2014 (73%). Our previous analysis (2013 RFI) found that 68% of back-bills were of that duration (Fig 1). The average back-bill duration was 44 days shorter (6%) in the sample of the 2015 RFI compared to the one in 2013.

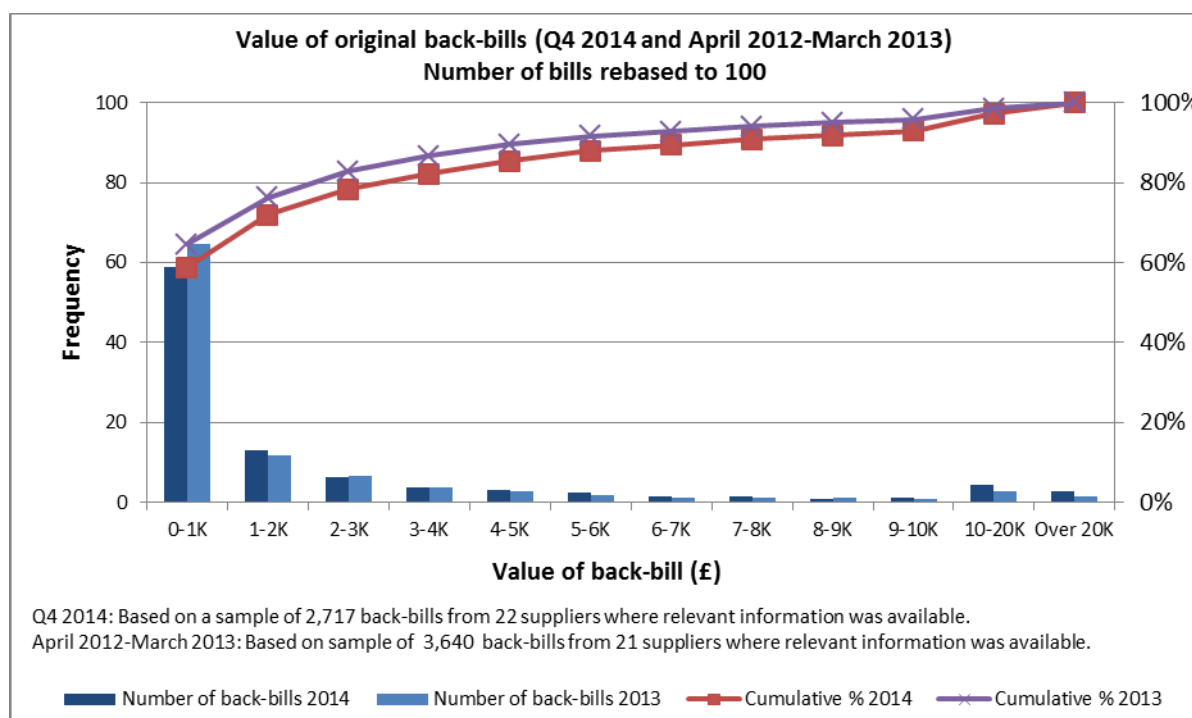
Since the number of back-bills was different in both samples, we have rebased them so that the total number of all back-bills in each sample adds up to 100. This is helpful in presenting the results from both samples in a more comparable way in the figures below.

Figure 1: Duration of back-bills



The analysis also shows that the majority of back-bills were less than £2,000 (72% of the back-bills sample in 2014 and 76% in 2013). The average values of back-bills for the whole samples were about £2,000 in the 2013 and £3,000 in the 2014 samples respectively (50% increase). This can be partly explained by the greater number of high value back-bills (over £20,000) in the latest sample. If we exclude the back-bills over £20,000 from both samples, the difference between the average back-bill value is reduced to a 23% increase (average back bill of £1,975 in 2014 compared to £1,610 in 2013).

Figure 2: Average value of back-bills in the samples



Analysis of total number and value of back-bills (Q4 2014 and Q4 2012)

We have also analysed the total number of back bills issued by suppliers and the total value of those bills in the last three months of 2014 and 2012 (Fig 3). The data shows that there was a significantly lower number of back-bills issued in Q4 2014 compared to Q4 2012 (a reduction of about 50%) and the total value of back-bills was lower by about 30%.

The average amount of a back-bill was about 50% higher in Q4 2014 compared to Q4 2012 (about £2,650 compared to £1,747 in Q4 2012). This is in line with our analysis of the samples provided by suppliers which suggested that a greater number of high value back-bills were issued in Q4 2014.

Figure 3: Total number and value of back-bills in Q4 2014 and Q4 2012

	Total number of all micro-business back-bills	Total value (£) of all micro-business back-bills	Average back-bill
Total back-bills in Q4 2014	14,414	33,610,819	2,665
Total back-bills in Q4 2012	28,023	48,951,327	1,747

ANNEX 2: Voluntary commitments on back-billing for microbusiness customers (2015 RFI)

Energy UK and ICOSS run voluntary industry standards for back-billing of microbusiness energy customers. These voluntary standards outline the customer responsibilities in relation to bills and energy suppliers' commitments. When a customer has fulfilled their responsibilities, the signatories to the standards commit to limit any back-bill to 3 years for electricity and to 4 years for gas customers. This is the baseline commitment and most of the current signatories go beyond this obligation and have reduced the duration period.⁹ These billing standards can be used by the Ombudsman in its rulings and by Citizens Advice.

Analysis of the information request we sent to suppliers shows the major energy providers in the market were signatories of the code at the time of the request (with combined market share of 93%). Some suppliers were not signatories to the Energy UK/ICOSS standards, but their own individual commitments were more ambitious than the baseline standard (combined market share of 2%).

There are also suppliers with no current commitments on limiting back-bill duration. Contract Natural Gas and Haven Power are the largest suppliers in this category (combined market share of 3%).¹⁰

Some suppliers, including 3 of the largest providers, changed their voluntary arrangements between late 2014 and early 2015 by reducing the back-bill duration to 1 year. This is a positive development that could reduce consumer detriment.

'Standard 5' of the Energy UK/ICOSS voluntary arrangements includes a commitment from suppliers to publicise the voluntary standards, as an industry, through communication channels and a targeted communications campaign. There is no standard at present which commits suppliers to ensure that all their microbusiness customers understand their rights in relation to back-billing arrangements or know where to find any relevant information.

The current standards do not require any formal monitoring or assurance (at an industry or firm level) so that suppliers can demonstrate how they apply the commitments and whether they have sufficiently robust processes and procedures in place. This is in contrast to the **domestic** voluntary industry Billing Code, which requires all signatories to be audited against the code's commitments by an external auditor (PwC). PwC reviews the processes, procedures and controls in place to assess how each member complies with the code. PwC carried the first year of audit in 2015.¹¹ The external audit may help identify best practice and raise the standard of the Billing code. It may also provide greater confidence to other stakeholders and customers that suppliers are complying with the code's requirements.

The table below summarises the responses to our information request in relation to commitments to limit back-bill duration for the suppliers who returned back-billing samples.

⁹ Energy UK (2015), Voluntary standards for back-billing of microbusiness energy customers, <http://www.energy-uk.org.uk/publication.html?task=file.download&id=5196>

¹⁰ See footnote 5 on Haven Power.

¹¹ Energy UK (2015), Billing Code Audit 2015, <http://www.energy-uk.org.uk/publication.html?task=file.download&id=5277>

Figure 4: Commitments for limiting back-billing duration when supplier is at fault

Supplier	Signatory to E-UK/ICOSS	Electricity back-bill limit (years)	Gas back-bill limit (years)	Change of voluntary standard during/after Q4 2014
E.ON	Yes	1	1	
British Gas Business	Yes	2	2	1 year for electricity and gas from Dec 31 2014
Npower	Yes	2	2	1 year for electricity and gas from 15/12/2014
EDF Energy	Yes	3	3	1 year for electricity and gas from 27/10/2014
SSE	Yes	1	1	
Scottish Power	Yes	1	1	
Opus Energy	Yes	1	1	
Total Gas & Power	Yes	3	5	1 year for electricity and gas from Jan 2015
Contract Natural Gas	No	NA	6	
BES	Yes	3	3	1 year for electricity and gas from Jan 2015, signatory to Energy UK/ICOSS code from 2015
Haven Power ¹²	No	6	NA	
Utility Warehouse ¹³	No	3	3	
Gazprom	Yes	3	4	
Dual Energy	No	1	NA	
Corona Energy	Yes	NA	4	
Ecotricity	No	2	2	
DONG Energy	Yes	2	2	
Ovo Energy	No	1	1	
Crown Energy	No	NA	NA	
Axis Energy	No	NA	NA	
GDF SUEZ	Yes	1	1	
Economy Gas	No	NA	NA	

	Energy UK/ICOSS signatory with 1 year back-bill duration limit at time of RFI
	Energy UK/ICOSS signatory with 1 year back-bill duration limit from end 2014/early 2015
	Energy UK/ICOSS signatory
	Not a signatory, but internal standard in place
	No back-billing commitments in place

¹² See footnote 5.

¹³ Utility Warehouse's internal standards apply a consistent threshold to both fuels and provides a higher commitment than that contained in the Code of Practice.

ANNEX 3: Summary of supplier back-billing samples (RFI 2015)

The back-billing samples provided by suppliers in response to our information request included data on reductions made due to the application of voluntary commitments to limit back-bill duration; duration and value of back-bills; and key reasons for issuing back-bills.

Sample analysis – reductions made to back-bills after applying voluntary commitments

We asked suppliers to provide us with the amount of the original bills and the final amount, after any reductions due to applying voluntary back-billing standards in the samples they submitted to us.

Reductions were made in 14% of instances when the back-bill duration exceeded the duration limit of a supplier's voluntary standard.¹⁴ We are concerned as to whether there is sufficient consistency across suppliers in applying their voluntary commitments as the data shows those were not applied in the vast majority of 'late' back-bill instances.

The data shows that back-bill reductions due to applying the voluntary standards have resulted in a 7% decrease of the **total** original back-bill amount in the sample, totalling £0.6 mn. The seven largest microbusiness suppliers accounted for almost the entire amount of back-bill reductions in that sample (99.5%).

Suppliers who had a one year duration limit on back-bills contributed significantly more to the total reductions amount. We cannot make definitive conclusions why companies differ in the amount of back-bill reductions they make as there may be differences in their customer base and the way they apply their own standards. However, as more suppliers have introduced a one year limitation on back-bills in 2015, we expect further improvement in consumer outcomes.

Sample analysis: average duration and back-bill value

We received back-billing samples from 22 suppliers and a total of 2,717 back-bills. The average duration of back-bills from the issue date was 667 days. The average back-bill amount was around £3,000.

The table below summarises the duration and value of back-bills for the suppliers who returned samples for Q4 2014.

¹⁴ There were 1236 back bills that exceeded the standard. 167 back-bills were reduced where the duration of the bill went beyond the supplier's voluntary standard and further 44 reductions were made within the time duration stipulated in the standard.

Figure 5: Summary of supplier samples

	Average of Final Back-bill Amount	Average of Duration from issue date (days)	Average of Original Back-bill Amount	Number of back-bills in sample
BES	6,173	644	6,374	13
British Gas Business*	5,550	778	5,790	300
Contract Natural Gas	892	587	892	300
Corona Energy	7,079	737	7,079	101
Crown Energy	1,163	888	1,163	20
DONG Energy	4,826	755	4,845	13
Dual Energy	4,426	532	4,426	17
Ecotricity	859	659	859	12
EDF Energy	1,738	623	1,786	300
E.ON*	1,824	773	2,663	300
Gazprom	1,122	964	1,122	14
Haven Power	615	519	615	300
Npower	5,685	679	6,009	300
Opus Energy	3,832	684	4,174	256
Scottish Power*	3,007	682	5,237	15
SSE	1,990	711	2,166	241
Total Gas & Power	2,862	593	2,862	205
Other ¹⁵	6,112	903	6,112	10
Grand Total	2,954	669	3,176	2,717

* Any comparisons of individual supplier performance need to be treated with caution. There are differences in the customer base as well as the internal processes when dealing with back-bills. We note below some of the major sample issues we observed.

Scottish Power submitted a total of 15 back-billing cases for the three month period. The low number of back-bills was explained by the migration of all microbusiness customers to a new billing system, which started in March 2014. Customers were billed up to the date before their migration date and most customers were migrated to the new system by the end of April 2014.

British Gas Business used a different sampling methodology. It provided random back-bills in that period instead of the first 100 bills for each month, in order to provide a more representative sample.

Utility Warehouse explained that as they only apply back-billing for a maximum three year period, the calculations spanned only the last three years. As such, they were not able to provide an original back bill amount covering the entire unbilled period.

E.ON provided only the value of the original back-bill that relates specifically to back-billing for previously unbilled consumption, but in some instances has included current consumption.

¹⁵ This includes 5 other suppliers whose sample sizes were less than 10. The Average of Final Back-bill Amount, Average of Duration from issue date (days), and Average of Original Back-bill Amount for this row is given as an average across those 5 suppliers. However, the Grand Total is calculated including those suppliers' individual figures, rather than the average of those suppliers together.

Sample analysis: Key reasons for issuing back-bills

We asked suppliers to rank the most common reasons for issuing back-bills. Our analysis of the responses suggests change of tenancy issues were the leading reason, followed by failure to use accurate reads/use of estimates due to lack of actual reads.

Smart meters should significantly reduce the need for back-bills, as actual and accurate readings will replace the need for estimated bills. Also, we observed a lot of instances where suppliers issued back-bills due to customers not allowing access to the meter, customers failing to respond to meter read requests and incorrect opening/final reads. Smart meters should help address those issues as well.

ANNEX 4: Analysis of total number and value of back-bills (RFI 2015)

Our analysis found there were 14,414 microbusiness back-bills issued in Q4 2014.

The table below summarises the individual supplier responses for all the back-bills they issued in Q4 2014.

Figure 6: Total number of back-bills and average value (Q4 2014)

	Total number of all micro-business back-bills (Q4 2014)	Average final back-bill (£)	Back bills per 1000 customers (rounded)
BES	13	6,173	0.4
British Gas Business	3,951	3,845	6
Contract Natural Gas	427	1,060	10
Corona Energy	101	7,079	12
Crown Energy	20	1,163	10
DONG Energy	13	4,826	3
Dual Energy	17	4,426	2
Ecotricity	12	859	3
EDF Energy*	4,194	1,746	20
E.ON	2,271	2,522	3
Gazprom	14	1,122	1
Haven Power	547	1,032	18
Npower	2,094	2,065	8
Opus Energy	269	3,787	2
Scottish Power	15	3,007	0.1
SSE	241	1,990	1
Total Gas & Power	205	2,862	5
Other ¹⁶	10	6112	1
Grand Total	14,414	2,665	6

* The average back-bill value for EDF Energy is based on the months of November and December only. EDF Energy was unable to provide the total value for October due to system changes. We have made the appropriate adjustments to the Grand Total average for to reflect that.

We observe that there is significant variability among the suppliers in relation to number of back-bills issued relative to the size of their customer base (back-bills per 1000 customers) which reflect on different practices, customer profiles and other operational factors. However, we observe that the major suppliers who have been most ambitious in their voluntary arrangements (those who had in place a 1 year duration limit) had on average a significantly lower proportion of back-bills relative to their customer base.¹⁷

¹⁶ This includes 5 other suppliers whose sample sizes were less than 10. The Average final back-bill and Back bills per 1000 customers (rounded) for this row is given as an average across those 5 suppliers. However, the Grand Total is calculated including those suppliers' individual figures, rather than the average of those suppliers together.

¹⁷ The average number of back-bills for British Gas Business, EDF Energy and Npower was 11, while for SSE, E.ON and Opus Energy (used instead of Scottish Power as the sample was relatively small due to earlier migration of its customers to a new system) was 2.

ANNEX 5: Back-billing data request and publication

Ofgem is publishing this letter setting out advice and information for the benefit of consumers applying the Gas and Electricity Markets Authority's (GEMA) powers under section 48 of the Electricity Act 1989 and section 35 of the Gas Act 1986. As is required under those provisions Ofgem has consulted with suppliers to whom information included in this advice relates, and has taken responses to such consultation into account in effecting publication.

We asked suppliers to provide similar information in our 2015 and 2013 RFIs.¹⁸ We tried to minimise the burden on suppliers to provide us with the information necessary to conduct our analysis in the 2015 RFI by:

- Limiting our back-bill sample to October-December 2014 (we previously asked for a sample spanning over one year);
- Requiring a summary of the top reasons for back-billing in 2014, rather than having to specify this for every case; and
- Asking for the sample to include back-bills for any reason, regardless of fault.

The table below summarises some of the key differences between our 2015 and 2013 RFIs¹⁹:

Figure 7: Comparison between the 2015 and 2013 microbusiness back-billing RFIs

2015 RFI	2013 RFI
Sample size and time coverage	
Limit the back-bill sample and the questions on total number/amount of back-bills to Q4 2014.	Back-bills sample covered period April 2012- March 2013. Total number of back-bills and overall amount was provided by the suppliers for each of the 12 months.
Sample includes the first 100 back-bills for each of the 3 months (maximum 300 per supplier).	Each supplier was asked to provide 25 bills for each month where the reason is wholly or partly supplier fault.
Qualitative data	
Suppliers were asked to provide a summary of the top reasons for back-bills, rather than specifying them for each case.	Suppliers were required to provide the reason for each back-bill in the sample from a drop-down menu.
Additional information in RFI 2015	
Suppliers were asked to provide the original value of back-bills and final value (after any reductions have been made).	Suppliers were not asked to provide final value of back-bills as it was too early for voluntary arrangements to be having an impact on possible bill reductions.
Breakdown of data per meter type: standard and smart/advanced meter	N/A
Information on how suppliers are monitoring back-billing	N/A

¹⁸ Ofgem (2013), Microbusiness back-billing: Publication of supplier data covering April 2012-March 2013, https://www.ofgem.gov.uk/sites/default/files/docs/2013/12/micro-business_back-billing_-_supplier_data_covering_april_2012_-_march_2013.pdf

¹⁹ Note: Regent Gas, Good Energy and First Utility were included in the 2013 RFI and not in the 2015 RFI. Axis, Economy Gas, and Ovo Energy were included in the 2015 RFI and not in the 2013 RFI.