

# Supplier Performance Report Consultation

## Energy UK response

25 August 2016

### Introduction

Energy UK is the trade association for the GB energy industry with a membership of over 90 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 26 million homes and every business in Britain. Over 619,000 people in every corner of the country rely on the sector for their jobs with many of our members providing lifelong employment as well as quality apprenticeships and training for those starting their careers. The energy industry adds £83bn to the British economy, equivalent to 5% of GDP, and pays over £6bn in tax annually to HMRC.

Energy UK strongly believes in promoting competitive energy markets that produce good outcomes for consumers. In this context, we are committed to working with Government, regulators, consumer groups and our members to develop reforms which enhance consumer trust and effective engagement. At the same time, Energy UK believes in a stable and predictable regulatory regime that fosters innovation, market entry and growth, bringing benefits to consumers and helping provide the certainty that is needed to encourage investment and enhance the competitiveness of the UK economy.

These high-level principles underpin Energy UK's response to Ofgem's consultation. This is a high-level industry view; Energy UK's members may hold different views on particular issues. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

### Executive Summary

Energy UK is supportive of industry transparency and promoting consumer engagement in the market, however, we have significant concerns regarding the publication of Supplier Performance Reports (SPR) by Ofgem and do not believe it will support consumer engagement in the market. Energy UK believes that the complexity of the schemes operated by Ofgem e-serve is not fully recognised in the proposed SPR metrics. We urge Ofgem to undertake further research to demonstrate consumer interest in this data and the appropriateness of the proposed data presentation.

We support the development of a culture of compliance, with suppliers and Ofgem e-serve working together to improve administrative efficiency and scheme delivery. Energy UK and suppliers would have welcomed the opportunity to engage with Ofgem at an earlier stage of the development of the SPR methodology. We believe that there are more appropriate ways for Ofgem to foster a culture of scheme compliance. We are particularly concerned about the potential for negative media in relation to the SPR only reporting energy suppliers' non-compliance events. We have significant concerns that this may have a negative impact on consumer engagement, in contrast to Ofgem's policy intent.

If the SPR is to be published it is important that any information published by Ofgem is clear and consistent. Energy UK, therefore, does not support historical data being published. However, if Ofgem

intend to publish data from October 2015, as proposed in the consultation, suppliers should, at the minimum, be given the opportunity to review and validate any information to ensure there is consistency.

Finally, Energy UK believes that the current scoring matrix is not dynamic enough to account for the high level of difference between schemes. As such, to support the consistent application of scoring Energy UK urges Ofgem to further consider the operational reality of compliance for each scheme and produce operational-level guidance for suppliers on the application of SPR on each scheme accordingly. This will help ensure that the SPR is robust as well as mitigating administrative difficulties which are likely to arise as a result of the interpretative challenge of a single scoring matrix across all schemes.

### **Consultation Questions**

#### **Question 1: Do you agree with our analysis that shows that publishing the SPR will promote the interests of consumers? Please support your answer.**

As per the Energy UK manifesto, we are fully supportive of transparent markets to build consumer and investor understanding and confidence in the industry. However, we are concerned whether publishing Supplier Performance Reports (SPR) will achieve this. Energy UK, therefore, believes that Ofgem should undertake further research to better understand consumer interest in this data.

We recognise Ofgem's efforts to create a culture of compliance through the publication of the SPR, and note that this supports Ofgem's commitment to openness and transparency. However, we do not believe that the publication of the SPR is the most appropriate way to create a culture of compliance amongst scheme participants. Ofgem could succeed in instilling a culture of compliance more successfully via a number of the options outlined by Ofgem in the consultation document, namely improving internal communications, communications with suppliers and using an internal version of the SPR to monitor the impact.

Energy UK has significant doubts that the SPR will be an effective means of promoting the interests of consumers and support their engagement in the industry, as we are not sure what additional information about suppliers' administrative compliance offers consumers.

In addition, we have concerns around the accuracy of the SPR in presenting a supplier's level of scheme compliance. We believe that the proposed methodology is not appropriate to enable the SPR to portray supplier compliance in a fair and consistent manner. As such we believe there is a considerable risk that, without some revision to the scoring methodology, the data would be inaccurate and, therefore, misleading. We therefore urge Ofgem to consider amending the methodology as per Question 2.

As well as accurate, it is essential that the proposed publication is clear, concise and can be easily understood. However, variance between schemes makes the SPR complex and explaining the significance of the proposed metrics and the relevance of this information to stakeholders, in a way that is clear and can be easily understood, is a challenge we don't believe is effectively tackled in the current proposition. We, therefore, urge Ofgem to test how they propose to present data with consumers and consumer groups to ensure that the proposed publication is accurate and intelligible.

Further in the interest of clarity, if the SPR is published, it is essential that, incidents of non-compliance are scored consistently. We, therefore, believe that historical data should not be published if Ofgem intend to publish data from October 2015, as proposed in the consultation, suppliers should, at the minimum, be given the opportunity to review and validate any information to ensure consistency.

Energy UK is also concerned that there are unintended consequences of publishing the SPR. We believe that there is a significant risk that publishing the SPR will attract negative media attention. Negative attention could disengage customers and discourage them from participating in environmental schemes, undermining Ofgem's policy intent and wider ambitions. In addition, by only reporting on incidence of non-compliance, the SPR does not provide stakeholders a balanced view of suppliers' compliance performance.

Finally, there will also be operational difficulties as a result of publishing the SPR, in particular, an increase in the administrative burden of supplier obligations. For example, issue resolution may be negatively affected as the SPR discourages suppliers from self-declaring issues, this is exacerbated by the current lack of clarity over what constitutes an infraction. To help mitigate such risk Energy UK encourages Ofgem to further consider how compliance in different schemes is measured, given their administrative differences, and to provide suppliers with operational guidance that recognises the operational reality of each scheme and makes it clear how suppliers' SPR will be populated accordingly.

**Question 2: Do you agree with this method of scoring and the definitions we are proposing? If not, what alternatives do you suggest?**

Energy UK supports the maximum scoring approach proposed in the consultation. However, it is essential that scores recognise the differences between schemes and can be applied fairly, so that different levels of non-compliance are recognised as well as a supplier's response and any aggravating factors Ofgem may take into account, such as repeated offences.

It is essential that scoring is applied consistently across schemes to ensure the schemes are comparable. The Ofgem-administered schemes are all very different, as such scoring compliance infractions against a common standard is inherently difficult. During bilateral discussions with Ofgem members have noted that incidences of business-as-usual practices which relate to administrative processes have been identified as incidents of non-compliance. This has been identified as a particular concern with regard to the Energy Companies Obligation. Consequently, Energy UK proposes that Ofgem should produce operational-level guidance for suppliers on the application of SPR on each Ofgem e-serve scheme, recognising the operational realities of each scheme. This would improve the robustness of the SPR and support the development of a culture of compliance.

In addition to a consistent application of operational-level compliance, it is essential that the scoring matrix is clear and applied consistently. Energy UK members have expressed some concerns with the application of the scoring methodology presented by Ofgem during bilateral discussions, during which the severity ratings attributed to issues did not always correspond accurately with the guidance. As such, Energy UK asks that Ofgem are receptive to interpretational challenges during the consultation period. We also believe that suppliers should be able to discuss potential issues with Ofgem prior to a formal infraction being placed on the SPR, to help resolve issues as expediently as possible, in the interests of Ofgem, suppliers and consumers.

Energy UK supports the checking procedures proposed to ensure that scores are consistent across both schemes and infractions, however, we note there remains a level of subjectivity behind the scoring mechanism. Members believe that Ofgem should be required to evidence why a particular score is attributed for a particular issue, on an issue-by-issue basis. This transparency will support the fair and consistent reporting of data which is crucial to Ofgem's objective of developing a 'culture of compliance'.

In addition, we believe that the scores should be removed when a compliance issue is related to an administrative issue at Ofgem, such as a delay or lack of clarity. This would improve the robustness of the SPR and support the development of a culture of compliance.

**Question 3: Do you agree with the data we plan to publish?**

Energy UK has significant concerns regarding the appropriateness of the proposed graphs in conveying data that is accurate, intelligible and useful to consumers.

In order to ensure data is accurate a consistent approach is required. Energy UK is not supportive of historical data being published. We believe that the scoring methodology requires some revisions to ensure that it is appropriate and consistent between schemes. Therefore, if Ofgem intends to publish data from October 2015, as proposed in the consultation, at the minimum suppliers should be given the opportunity to review and validate any information to ensure consistency.

As data consistency is essential, it is not clear why some Obligated Parties would appear to be absent despite delivering certain schemes. This would appear incompatible with the aim of providing improved

transparency. To enable a fair comparison between suppliers, noting that not all suppliers participate in the same schemes, Energy UK believe that scheme-specific results should be published.

We also note that Ofgem intends to record the time it takes for an incident to be resolved, this is affected by Ofgem administration and propose that this time is discounted from the recorded figure to ensure that the data accurately reports suppliers' practices.

In addition, we note the importance of consistency in the presentation of data and, therefore, wish for Ofgem to clarify how they intend to divide suppliers when presenting summary tables or charts, as per the statement in the consultation that Ofgem 'do not propose to include all suppliers in the same summary table or chart'.

Regarding intelligibility, the current proposal for presenting the data also lacks clarity as there is no scale to assist interpreting the data. We believe suppliers' SPR scoring should be comparable, for this reason complaint statistics are reported per 100,000 customers. Energy UK anticipates members will respond individually on how this could be achieved.

Finally, as a result of the complexity of the data, multiple graphs are required to build the picture of supplier compliance performance. As such the message and relevance is not easily intelligible, and poses a risk of confusing stakeholders. It is vital that Ofgem test how they propose to present data with consumers and consumer groups prior to publishing the SPR to ensure that the data is intelligible and of interest to consumers.

#### **Question 4: Do you agree with our proposed timings of publication?**

For the most part Energy UK agrees with the proposed timings of the publication.

However, we believe that the two week period prior to publication in which a supplier can review their SPR scores and raise any questions or concerns prior to publishing the data is likely to be insufficient, especially if complex or legal issues are raised. Energy UK would like to see this period extended to four weeks to allow sufficient time for challenge and review in order to enable all stakeholders to have confidence in the result.

We also note that one way of mitigating against contested scores would be for Ofgem to provide evidence to suppliers as to why a particular score is attributed for a particular issue, on an issue-by-issue basis, during this review period.

In addition, a quarterly publication of the SPR makes comparisons between schemes misleading due to the frequency with which different schemes are reported. Some schemes have annual determinations (e.g. Warm Home Discount), whilst others are reported more frequently (e.g. ECO is monthly). Energy UK believe that Ofgem should, therefore, collate data quarterly but only publish the SPR once per year.

#### **Question 5: Do you have any comments on the SPR webpage we propose?**

Energy UK would like to assert the importance of comparability between suppliers to offer clarity and intelligibility to the data. We note there are multiple ways of recognising the relative performance of suppliers'. Energy UK anticipates members will respond individually on how this could be achieved.

In order to provide a proper context for the data, ensuring it is comparable, there should also be more detail on the background of each of the obligations, for example a brief summary of each obligation administered. This will help to put the information and data published into context, informing the consumer more effectively and avoiding any risk of misunderstanding.