Drax Group plc
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31st July 2018

Sent via email to SwitchingCompensation@ofgem.gov.uk

Dear Ms Clark,

Supplier Guaranteed Standards of Performance: Consultation on Switching Compensation

We welcome the opportunity to provide our views on the above consultation. This is a joint response on behalf of Haven Power and Opus Energy which are both part of Drax Group Plc. Haven Power is the UK's 5th largest non-domestic electricity supplier by volume. Opus Energy is the UK's 6th largest non-domestic gas and electricity supplier by meter count with over 300,000 supply points.

We acknowledge the importance of getting the switching process right; it is imperative for both consumer trust and a functioning competitive market. To that end, until improvements stemming from the Faster Switching reforms become a reality, there may be a need for new Guaranteed Standards in the domestic sector. However, as non-domestic suppliers, we are not in a position to offer detailed commentary on the cost/benefit or application of the proposed Standards to the domestic market.

In response to consultation question 22 and the possible future application of the standards to the non-domestic sector, we have not seen any evidence to suggest such measures are needed or would be beneficial. A recent study has shown that 90 per cent of UK businesses have switched supplier in the last five years compared with 45 per cent of domestic consumers that have never switched. This increased level of switching has provided the necessary motivation for non-domestic suppliers to proactively improve switching performance and compensate consumers when suppliers fall short. This, in turn, has created sufficient consumer trust and engagement in the non-domestic market to drive the high switching levels.

Moreover, it is important to recognise that there are distinct differences between how the domestic and non-domestic markets operate, which make the adoption of these standards unnecessary and inappropriate. In particular:

- There is an obligation to complete a switch within 21 days, but the vast majority of businesses request a specific supply start date to coincide with the end of their existing fixed-term contract, and suppliers are scrupulous in ensuring the switch takes place on that day. On the rare occasions when a switch is delayed, it is common practice to compensate the non-domestic customer in order to protect the relationship with that customer. Perversely, introducing automatic compensation may in fact reduce the levels of consumer protection that the competitive pressures of the market already deliver.

- Price Comparison Websites (PCWs) are commonly used by domestic consumers, which according to Ofgem's analysis is where a significant number of domestic erroneous transfers appear to arise. However, PCWs are rarely used by business consumers, who instead prefer to use brokers / Third Party Intermediaries (TPIs). Those brokers present their own challenges for the switching process, which would not be tackled by the proposed standards.

- There are added complexities with final bills and credit refunds in the non-domestic sector which would make arbitrary timelines a cause for concern. For example, access to final meter reads can take longer and settlement reconciliations can have a greater absolute effect on final bills. Equally, credit refunds can be delayed due to the need to validate the payees' details before issuing a refund. These challenges are far less prevalent and material in the domestic sector.

Further explanation as to why we believe the proposed new Standards are inappropriate for application to the non-domestic market is provided in the appendix.

I hope our response is helpful. Please contact me should you wish to discuss our views further.

Yours Sincerely,

June Mallett

Regulation Manager

Appendix

Delayed switches

In paragraph 2.10 of the consultation, Ofgem cites 9% of domestic switches as being delayed for invalid reasons in 2017. We have seen no evidence to suggest that there is a similar magnitude issue in the non-domestic market. The majority of business customers switch on their chosen supply start date. Any switching delays are by exception and customers are likely to receive compensation reflecting the length of the delay and any financial detriment caused.

As an example, over 80% of our current portfolio of retail customers (across Opus and Haven) have agreed to a fixed term contract and, should they wish to switch supplier, they would typically agree a new supply start date well in advance. Assuming this is broadly representative of the non-domestic market, the proposed standards would in practise only apply to less than 20% of non-domestic consumers, while imposing considerable costs on suppliers for implementation and operation.

Erroneous Transfers

Erroneous Transfers are less frequent in the non-domestic market and industry activity, such as the MRA work around improvements to plot addresses, stands to drive the number down further.

It is also worth noting that, while compensation may offer an incentive for suppliers to check data accuracy when they are dealing directly with the customer, if the customer uses a Third Party Intermediary (TPI), this may be the only avenue for the supplier to validate information. Unregulated TPIs/brokers can often be reluctant to allow suppliers to engage directly with their clients seeking to switch, but are not then held accountable when switches go wrong. A mandatory TPI code of practice governing TPI behaviours and the provision of accurate information would have a more positive impact on non-domestic consumers than automatic compensation.

Final bills

In our experience, the priority of non-domestic customers is to receive an accurate final bill based on an actual read. Our overriding concern with compensation for final bills not issued within 6 weeks of a switch is that this is likely to lead to an increase in estimated final invoices and replacement bills at a later date, e.g. following a disputed final read. The end result being additional work for the customer to balance their accounts and ultimately a poor switching experience.

Automatic compensation may also act as a disincentive to the customer to engage with suppliers (such as to provide accurate meter reads), if they sense an opportunity to “game” the system in order to receive a payment.

Credit refunds

Credit refunds can take longer to process in the non-domestic sector as more checks need to be done to validate the payee. This is further complicated where a business ceases to trade and there is no business entity or Officer to engage, or when they change their trading premises, trading name or business banking details, and we need to validate before issuing a refund.

In addition, the proposed standards do not mention a refund threshold, leading us to conclude that consumers will be awarded £30 regardless of the value of the refund. Business customers are less likely to engage and provide the necessary information in order to provide a credit refund where the amount is small. The prospect of compensation may act as a further incentive not to engage should any information or action be required from the customer before we can make the credit refund. This is also exacerbated, because under the standards, if the refund remains outstanding, the customer will qualify for further payments associated with a credit refund of negligible value.

A further complication comes from refunding a credit balance based on an estimated read, as the customer may be reluctant to pay the money back if the account is later rebilled to an actual read and found to be in debt. This risk is more material for non-domestic suppliers where the credit refund could amount to a substantial amount.

Compensating party

Notwithstanding our views on the appropriateness of applying the standards to the non-domestic sector, we also disagree with the concept of the faultless party paying compensation, as it is both unfair and sets an awkward precedent. In particular, mandating the losing supplier to pay for a delayed switch, when the outcome is completely outside of their control. Responsibility for selecting the supply start date, ensuring the switch takes place on that date, and validating an accurate meter point number, rests entirely with the gaining supplier. Additionally, to expect the customer to engage with the losing supplier as well as the new supplier, in order to receive their compensation, represents a poor customer experience and is at odds with Ofgem’s aspiration for a clean and uncomplicated switching process.