Citizens Advice response to Ofgem's strategic review of the microbusiness retail market

June 2019

citizens advice

Introduction

Citizens Advice provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination. From 1 April 2014, Citizens Advice took on the powers of Consumer Futures to become the statutory representative for energy consumers across Great Britain.

The service aims:

- To provide the advice people need for the problems they face
- To improve the policies and practices that affect people's lives.

Citizens Advice is a network of nearly 300 independent advice centres that provide free, impartial advice from more than 2,900 locations in England and Wales, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particularly dispersed groups.

In 2017, Citizens Advice helped fix 163,000 energy problems through our local network and 61,000 through our consumer service Helpline. Our Extra Help Unit (EHU) specialist case handling unit resolved 8,367 cases on behalf of consumers in vulnerable circumstances, and their Ask the Adviser telephone service handled 2,593 calls from other advice providers in need of specialist energy advice.

Since April 2012 we have also operated the Citizens Advice consumer service, formerly run as Consumer Direct by the Office for Fair Trading (OFT). This telephone helpline covers Great Britain and provides free, confidential and impartial advice on all consumer issues.

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Summary

Citizens Advice welcomes the opportunity to respond to this consultation as part of its statutory role to represent domestic, small business and microbusiness energy consumers in Great Britain. As longtime advocates for further protections for microbusiness consumers, we support the breadth of this call evidence.

The area the Extra Help Unit receives most contacts from microbusinesses is around debt and disconnection (see Figure 1), and the consumer service receives a high volume in these areas as well (see Figure 2). The cases we see are often quite far along in the customer journey, where a considerable debt has been built up and the consumer does not have many options available to them. Therefore, we would like to see much more communication between the supplier and consumer, to prevent a large debt being built up. We would also like to see more repayment options offered to the consumer.

We are pleased that the role that TPIs play in the non-domestic sector is being queried here. We see numerous cases relating to consumer harm resulting from a minority of TPIs/brokers. We are concerned about the lack of regulation in this space. We would like to see more transparency regarding commission levels and the relationship TPIs have with suppliers and the wider market. To promote this, in the short term we are in favour of a Code of Practice. But in the longer term we would like to see regulatory protections in place.

While we are pleased with the range of areas of consumer harm being considered for this review, we think two additional areas deserve attention. The first is Supplier of Last Resort, where microbusinesses lose out on the credit balance protections available to domestic customers - despite having very little power to protect these funds. We are concerned that this issue is not currently being addressed by Ofgem's licensing review.

The second area of additional focus is the impact of vulnerability for non-domestic consumers, where there is emerging evidence of the role issues including mental health can play for the smallest businesses. We understand that this is a complex area, and requires an in-depth consideration. One benefit of the strategic review running through to 2021 is that it should have the time to look at more difficult issues and collect evidence.

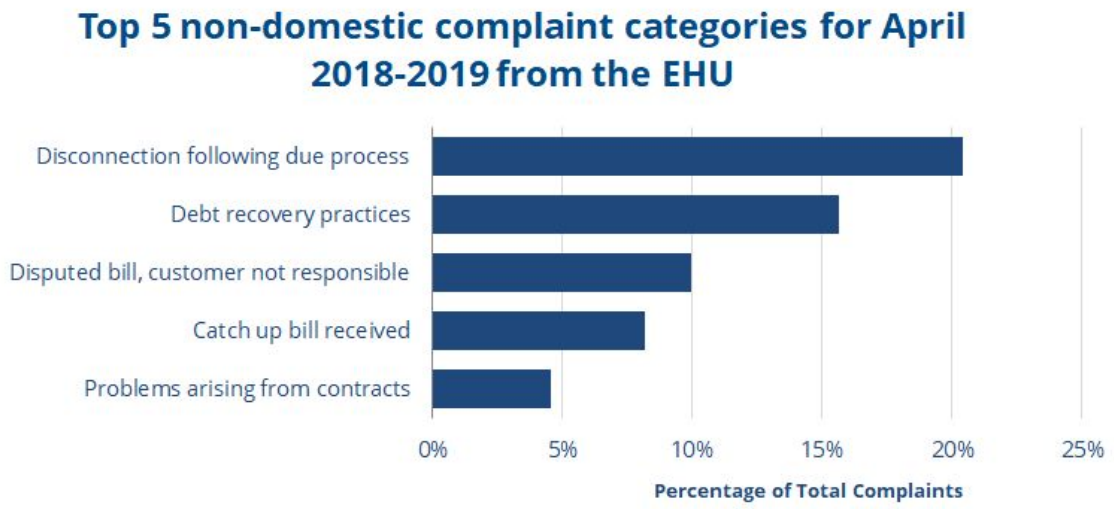

Figure 1: Top 5 non-domestic complaints categories for April 2018-2019, based on 794 complaints to the Extra Help Unit

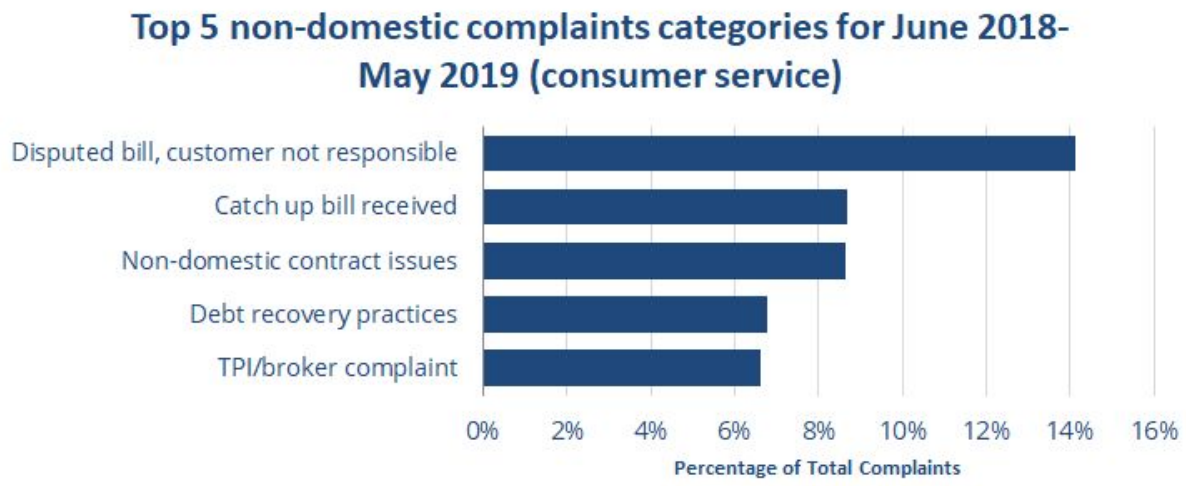

Figure 2: Top 5 non-domestic complaints categories for June 2018 - April 2019, based on 2611 complaints to our consumer service

In support of our responses, we have referenced data and case studies from the Extra Help Unit (EHU) (Figure 1) and the consumer service (Figure 2). We have also referenced our own existing research and forthcoming work which will be published in the coming months, as well as research from other organisations.

Our consumer service also receive calls from microbusinesses around debt issues. During the period of June 2018 to May 2019, we had 189 unique cases where a debt amount was stated in the case notes. From this data, we saw an average debt value of over £8,500. This is only from the cases where a debt

value was specified in the call. These debt levels are self-reported by consumers and aren't verified by call handlers (for example by checking bills).

In addition to research, we publish a non-domestic energy supplier rating table, updated quarterly.[1] This indicates the wide range of supplier performance, and therefore the difference in how consumers experience the market. We also have online advice for consumers in debt[2]. We think there should be better signposting of advice services for microbusiness, so they know where to come for help and do so at an early stage when problems are more manageable.

Relevant Citizens Advice work on microbusiness consumers	
2015	Response to updated issues statement
2016	Microbusiness Contracts Factsheet TPI Factsheet
2017	Smart choices investigating microbusinesses' interest in, and understanding of, smart meters Citizens Advice policy on non-domestic Third Party Intermediaries (TPIs)
2018	Micro and Small Business Engagement in the Energy Market Small businesses have been let down by the energy industry for too long Good Practice Guide - Recovering energy debt from the smallest businesses When brokers go rogue
2019	Citizens Advice Response to BEIS' Consultation on proposals to improve non-domestic consumers' smart metering awareness and data access Cornwall Insights - The role of TPIs in the GB SME and microbusiness energy supply sector (forthcoming - attached with submission) Closing the Protection Gap (forthcoming)

[1] Citizens Advice, How does your non-domestic supplier stack up?, 2019
[2] Citizens Advice, Your energy supply (Citizens Advice support pages), 2019

Response

1) Do you agree that our theories of harm (see earlier in this document and Annex 2) represent the most significant and impactful areas of consumer detriment?

Broadly yes, we agree that the theories of harm presented in the call for evidence document are the most significant areas of consumer detriment currently. We also believe that there are other key areas of consumer detriment and these are discussed in the next section.

One question we have is around the specific definition of microbusinesses (referenced in the review document as a business with an annual consumption of gas of not more than 293,000 kWh and an annual consumption of not more than 100,000 kWh of electricity). It's important to consider those on the margins of these boundaries, so that there are no marginal businesses that would just miss out. Maintaining the reference to number of employees is favoured, but there should also be a flexible definition to make it more inclusive. There is also little evidence to suggest microbusinesses self identify and are even aware that they fall within the current definition, which further promotes the need for a more inclusive definition.

2) Are there any other key areas of consumer harm that should form the focus of our review?

In general, we believe the list of areas of consumer harm presented is comprehensive. However, we do have suggestions for additional areas to be considered for further discussion.

Supplier of last resort (SoLR) protections

We have previously called for Ofgem to extend credit balance protection to microbusinesses.[3] We think this is appropriate because these companies share

[3] Citizens Advice, Citizens Advice Response to Ofgem's Supplier Licensing Review, 2019

many of the characteristics of domestic consumers, and can have few options to protect themselves from supplier failure. Around 75% of microbusiness companies are on negotiated acquisition or retention contracts.[4] While this is a welcome sign of engagement in the market, it will be very difficult and/or expensive for these customers to leave a supplier they know to be troubled and get their credit back.

Other deemed and out of contract customers may have the option to leave more easily to protect their credit. But this may not be a welcome action by customers, as it could cause a struggling company to fail if their only other options were too expensive. This could be avoided if greater protections around credit balances were in place. Before suppliers fail there can often be rumours about their financial health. As an advice organisation, we face challenges if microbusiness customers ask us what they should do in these circumstances as a result of the lack of credit protection.

The recent spate of supplier failures has generally affected suppliers with domestic customers only. However, when Extra Energy failed it had around 20,000 non-domestic customers. These customers had their credit balances voluntarily protected by Scottish Power. But as Scottish Power also said they will claim from the Ofgem Safety Net to protect a portion of domestic customer balances, it could appear that Scottish Power is using the domestic protection to enable this voluntary action for non-domestic customers. We think a formal, ring-fenced credit protection for microbusiness customers in future failures would be a preferable solution.

Without such protections we think microbusiness customers are likely to lose the vast majority of their credit balances. Our analysis of administrator accounts from recent SoLRs has shown that only an average of 10p in every £1 will be paid to non-preferential creditors once assets are realised. This would include former microbusiness customers in the event that their credit had not been protected.

Aside from credit protection, supplier failures can lead to other areas of consumer harm. We have examples of these from the consumer service regarding Extra Energy and Scottish Power, presented below

[4] Ofgem, State of the energy market (p40), 2018

- *The consumer was emailed the new rates by Scottish Power and they are more expensive than the consumer's previous rates with Extra Energy. They want to switch to another supplier, but have been told by their broker that Scottish Power will hold them in a contract for 1.5 years.*
- *Scottish Power contacted the consumer, who thought it sounded like a sales call. The caller couldn't answer any of the consumer's questions. The caller said they didn't have the consumer's meter readings from Extra Energy, yet the consumer had already uploaded them online to Scottish Power.*
- *Someone from Extra Energy called the consumer and said they would make the consumer an offer to pay off their account. The consumer tried to call back but couldn't get through; the number was an unrecognised 0800 number.*
- *The consumer received a call from someone pretending to be Scottish Power saying that they could accept £6,000 of the £9,000 debt on their account if they paid there and then. They were told that if the consumer didn't pay they would get debt collectors involved for the full £9,000. The consumer is looking for a contact number to take them up on this offer.*
    - *The consumer service called Scottish Power who said they did not know the debt process yet, and have not contacted any consumers about outstanding balances*

These cases identify the potential for consumers to be exploited as part of the SoLR process. Some of these issues could be overcome by better communication by the new supplier and the administrators for the failed company. However, greater exploration of the customer journey would be helpful in understanding the timeline and specific pain points that need to be dealt with as a priority.

Vulnerability in the non-domestic sector

There has not been enough scrutiny into the impact of vulnerability on people running small and microbusinesses. We think it is likely that these individuals are at the highest risk of being mis-sold and entering into unmanageable debt. Research we commissioned found potential instances where microbusinesses on a non-domestic contract would be deemed as vulnerable under domestic conditions.[5] However, such consumers do not receive any additional protections

[5] Citizens Advice, Unpublished research (attached with submission), 2019

under the current regulatory and legislative regime. This lack of protection in the non-domestic sector places these consumers at risk.

The case study below provides an example of a supplier that acted sensitively regarding the vulnerability of the consumer. We understand that identifying and accounting for vulnerability can be more difficult in the non-domestic sector, due to the use of TPIs and the nature of customer-supplier interactions. Therefore, addressing this issue requires a focus on the customer journey and the interaction between these actors.

Case Study 1 - June 2018 - Extra Help Unit

The consumer contacted the Extra Help Unit for assistance after learning their energy supplier was planning to disconnect them due to arrears. The consumer also disclosed that their energy debt was one of many. The consumer's property is a Public House and is also the family home. The consumer lives there with her husband and two young children. Furthermore, her husband is registered disabled, receives disability living allowance and regularly spends time in hospital. The consumer was exceptionally upset when explaining her circumstances to the Extra Help Unit caseworker.

The consumer took over the village pub with a view to increasing trade. This unfortunately never worked out as anticipated and trade continued to be minimal. Although she has handed her notice to the brewery, the consumer continues to work and live in the property. There is no alternative accommodation yet on the horizon.

The consumer does not dispute that the supplier is owed money. However, she would like the supplier to confirm that, given the circumstances, any threat of disconnection will be cancelled.

Outcome

Taking into account the on-site vulnerability, the energy supplier contacted the brewery. The supplier confirmed they would be soon taking back responsibility of the property. Once this was confirmed, disconnection action was immediately stopped. The consumer was then contacted by the supplier's credit management team to discuss payment plan options for the balance.

3) Do you think awareness raising materials/initiatives would be of significant benefit to microbusinesses? What key information should any new materials focus on and how would they best be delivered to microbusinesses?

The section on awareness (Part A) in the call for response document raises some important considerations for microbusiness consumers. There is a large amount of useful information for microbusinesses that already exists on the Ofgem website[6], Citizens Advice website[7] and from other advice provides, such as Business Debtline.[8] While increasing awareness is something that we would generally support, there needs to be an underlying appetite to engage and make use of the information provided. Joint research with Ofgem highlighted that most non-domestic consumers are not engaged. Therefore, new materials and awareness raising efforts are unlikely to be transformational in isolation.[9]

Microbusinesses should theoretically know the most about their own energy usage compared to brokers or suppliers. However, due to their size, microbusinesses often do not have the resources to fully engage with the competitive market. The opportunity cost minimises incentive for engagement. Regarding switching, there are fewer tariff choices available to business consumers compared to the domestic energy market. And as business contracts are typically for a longer fixed term, with expensive exit clauses, there are fewer opportunities to benefit from switching. Our recent joint research with Ofgem highlighted that there is a great amount of diversity in how microbusinesses engage in the market.[10]

In light of theses issues, TPIs and suppliers can theoretically fill the knowledge and resource gap required for microbusinesses to make the most of the competitive energy market. However, in a forthcoming report we will be publishing, there is evidence to suggest that some TPIs use their position to act as a barrier between consumers and suppliers. Some are also exploiting consumers by charging high fees, selling expensive contracts, providing misinformation and mis-selling. We support the new Electralink Code of Practice in the short term, as a way to improve TPI behaviour and enable consumers to make informed choices about which broker to use. But in the medium term we

[6] Ofgem, Micro-business consumers: your questions answered, 2019
[7] Citizens Advice Your energy supply (consumer advice pages), 2019
[8] Ofgem, Fact sheet no. BDL50 EWS Commercial energy debt, 2019
[9] Ofgem, Research surveys with business consumers, 2019
[10] Citizens Advice, Micro and Small Business Engagement in the Energy Market, 2018

think that the TPI market should move into Ofgem's regulatory scope, ensuring the whole of the market is captured.

In our experience, some microbusiness customers can get caught out by differences in rights and protections between domestic and non-domestic energy, especially with regards to debt and disconnection. This could be a focus for new awareness raising activities.

We think there is also a need for better communication between suppliers and consumers. We see cases of consumers being billed incorrectly, facing a large catch-up bill which they can't afford, and then being threatened with disconnection. For cases where the consumer is not billed the correct amount, rules around back-billing will prevent catch-up bills for periods over 12 months. But inaccurate billing for shorter periods than this can present a risk. Greater awareness for consumers around the need to query an erroneous bill would be beneficial. Consumers are likely to assume the bill they have received is correct, and that is a fair assumption to make.

With regards to the availability of impartial advice, we would like to see Citizens Advice highlighted prominently, similar to the domestic energy sector. We currently receive calls from non-domestic consumers, but in fewer numbers than for the domestic sector. Additionally, the consumers that contact us are usually much further along in their disputes. This means we have less opportunity to help the consumer reach a resolution than if we had been contacted earlier. Business Debtline also have the same problem and are often contacted late into the debt process.[11]

Unlike for domestic customers there is no requirement to signpost consumers to advice and redress services, or to provide information that prompts them to engage and helps them to do so. One route to increased awareness could be messaging on or with consumer bills and other communications. We think that elements of Ofgem's new principles-based rules on domestic customer communications could be replicated for microbusiness customers, where the same outcomes are desirable and practicable for businesses.

[11] Money Advice Trust, Taking care of business (p25), 2018

With regards to smart meters, there is a need to accelerate installation in the microbusiness sector to ensure these customers benefit from a technology that they (along with all consumers) are paying for. Currently there are only 80,000 smart meters and 1 million advanced meters installed in the non-domestic sector, compared to 13 million smart meters in domestic.[12] Following a consultation from BEIS[13] the remit of Smart Energy GB has been extended to include microbusinesses. Research we conducted in 2017 set out some policy recommendations for this area.[14] This identified particular considerations for suppliers to keep in mind when interacting with microbusinesses around smart meter installation.

In Q1 2019 the main issue from non-domestic consumer calls on smart metering related to billing and tariff issues. The examples provided below show the impact if microbusinesses are hit with bill shock after the meter installation, which can have a serious impact on their business.

Case Study 2 - Q4 2018 - Consumer service[15]

The supplier installed a smart meter 15 months ago without the consumer's knowledge or permission; the consumer did not realise until the engineer was leaving the premises. The consumer had been receiving bills with no charge and assumed they had a large credit left over. Eventually the consumer received a catch-up bill for £4,000.

Case Study 3 - Q1 2019 - Consumer service[16]

The consumer has received a bill for £1,300 and the supplier says they plan to disconnect the consumer. The consumer says the problems started when smart meters were fitted. The consumer has not been receiving bills for over a year and this has caused a significant build-up of debt. The consumer was advised there was an issue with their smart meters.

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[12] BEIS, Smart Meter Statistics Quarterly Report to end March 2019, 2019
[13] Ofgem, Smart Metering Implementation Programme Consultation on proposals to improve non-domestic consumers' smart metering awareness and data access, 2019
[14] Citizens Advice, Smart choices Investigating microbusinesses' interest in, and understanding of, smart meters, 2017
[15] Citizens Advice, Non-domestic smart meter contacts to the Citizens Advice Consumer Service Q4 2018, 2019 (confidential - attached with submission)
[16] Citizens Advice, Non-domestic smart meter contacts to the Citizens Advice Consumer Service Q1 2019, 2019 (confidential - attached with submission)

These issues could have been mitigated or avoided if the supplier had communicated better with the consumer around the impact of having a smart meter. The supplier could have also checked the accuracy of the consumer's previous bills (e.g. whether they had been estimated and/or if a debt was building up), in order to predict how the consumer would react to having a smart meter installed.

Regarding access to smart meter data, Citizens Advice provided a response to BEIS' Consultation on proposals to improve non-domestic consumers' smart metering awareness and data access.[17] We think that non-domestic customers should be provided with free access to their consumption data and this should be consistent across energy suppliers. We think there should be a consistent policy of allowing non-domestic consumers access to their usage data, and we encourage flexibility in how suppliers provide this. This would also be consistent with broader data access principles which claim that that consumers should have access to, and be able to benefit from, the data that they generate. The majority of the consumer benefit of smart metering is predicated on behaviour change, and access to usage data will be a key element of achieving this.

4) Our evaluation of the CMA's price transparency remedy (published alongside this document) has identified a number of issues at this stage of the customer journey. What do you see as the most impactful issues hindering microbusinesses attempting to effectively browse the market in search of an improved deal/service offering? Please provide quantitative and/or qualitative evidence demonstrating why you believe these issues to be most impactful.

One of the reasons microbusinesses are not browsing the market effectively is the relatively high amount of resource required - something which microbusinesses often lack. This is a result of complexity of tariffs on offer and difficulty in accessing tariff information, as discussed by various suppliers in their responses to the CMA's price remedy consultation.[18] Furthermore, a result

[17] Citizens Advice, Citizens Advice Response to BEIS' Consultation on proposals to improve non-domestic consumers' smart metering awareness and data access, 2019
[18] Ofgem, Evaluation of CMA Price Transparency Remedy – final report, 2019

of this information barrier is that, unlike with the domestic energy retail market, price comparison websites (PCWs) are not widely used. It is not clear why these services aren't more prevalent in the microbusiness sector. We understand there are barriers, such as having a business meter knowing your energy usage profile and requiring a credit score to get an accurate estimated cost, but these should not be insurmountable. Whatever the cause, the result is that consumers turn to other TPIs (brokers) to fill this resource gap.

The vast majority of TPIs provide a valuable service to consumers, negotiating with suppliers on their behalf. The nature of their market position means they generally control contract negotiations and interactions between the consumer and supplier. This can be positive for consumers, especially where TPIs have specific expertise. However, a minority of brokers exploit their position, creating a deliberate barrier between consumers and suppliers. This can manifest as multiple parties between the consumer and supplier; as stated by a supplier in the research we commissioned: "*You will have an aggregator, then a sub-broker, and then maybe a sub of the sub-broker*".[19] Furthermore, the lack of regulation for TPIs means that they can present a risk to consumers if things go wrong. Our research suggests there are a minority of TPIs abusing their market position and exploiting both consumers and suppliers.

From our forthcoming research report, suppliers highlighted the following when interviewed:

- *"Some are not working in the customer's best interest and are not comparing the market like they say they are"*
- *"TPIs can completely distort the price signals that suppliers can provide to customers"*
- *"I have seen a growth in four or five year contracts, a few years ago it was two or three, and that's because brokers are getting 90% of commission upfront."*

The research also found that suppliers are concerned they face regulatory and reputational risk if TPIs do not present or offer the appropriate products to the consumer. In contrast, TPIs are at a much lower risk, acting as "gatekeepers" and controlling access to customers and suppliers.

[19] Citizens Advice, Cornwall Insights - The role of TPIs in the GB SME and microbusiness energy supply sector (forthcoming - attached with submission), 2019

Case Study 4 - November 2018 - Extra Help Unit

The consumer runs a fish and chip shop. They recently became aware that their gas supply had been transferred to a different supplier without their permission or consent. The consumer is of the belief that this was the actions of a rogue energy broker based on the fact that, in the months leading up to the transfer, they were receiving regular and harassing calls asking them to switch.

The consumer's previous supplier confirmed that they received a change of tenancy request from an authorised third party which led them to releasing the supply when requested. An account was set up with the new supplier in an incorrect name and the gas switched.

Through their own enquiries, the consumer learned that the individual broker who processed the contract had been dismissed from their post due to changing consumers to new suppliers without consent.

This example points to the need for a Code of Practice for TPIs. This would help improve TPI performance and enable consumers to avoid companies that were not members of the Code. In the longer term we think that such a Code should become mandatory, or be replaced with regulatory oversight by Ofgem.

5) What do you see as the key issues micro-businesses face when they come to enter into a new contract for their energy supply? Please provide quantitative and/or qualitative evidence demonstrating the extent and impact of the consumer harm caused by these issues in the form of both financial and non-financial detriment.

'Problems arising from contracts' was the fifth highest complaints category the EHU received from April 2018-2019 in the non-domestic sector. We believe that improving transparency with regards to contracts, and specifically, commission levels for brokers/other TPIs, could go a long way towards solving the issues we see.

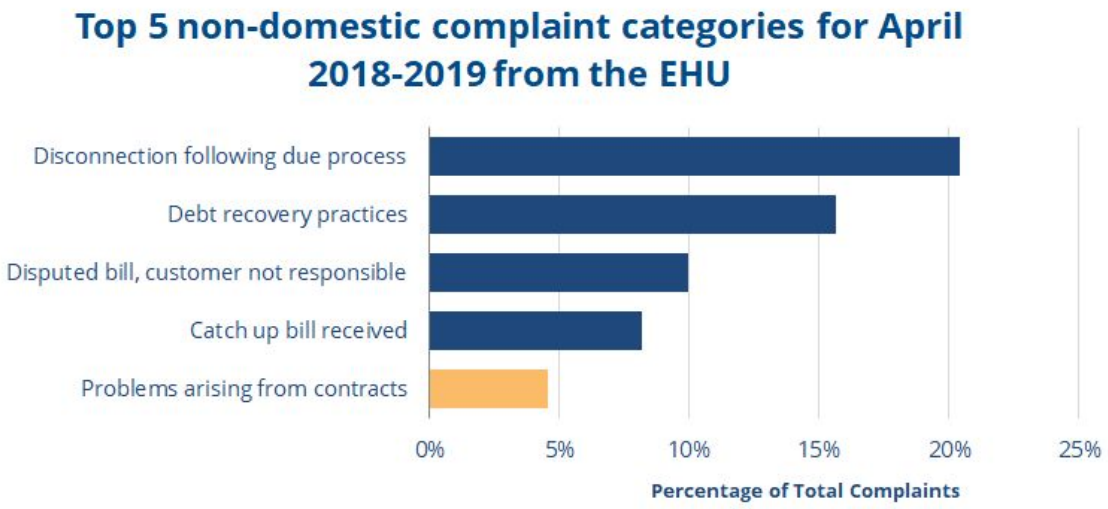

Figure 3: Top 5 non-domestic complaints categories for April 2018-2019, based on 794 complaints to the EHU

Similarly, 'Non-domestic contract issues' places third highest (out of a total of 74) in issues recorded by our consumer service. The breakdown can be seen in the figure below.

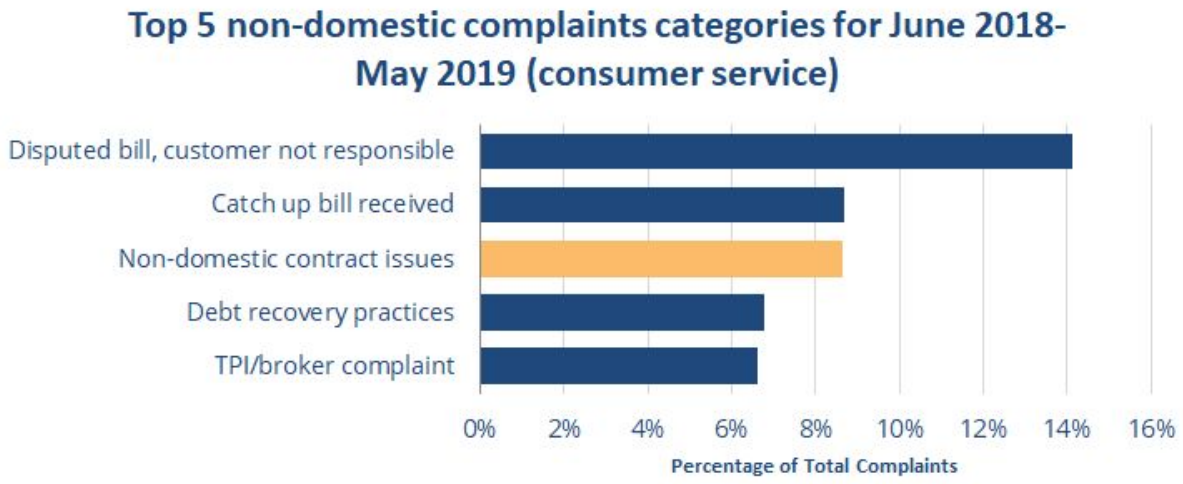

Figure 4: Top 5 non-domestic complaints categories for June 2018 - April 2019, based on 2611 complaints to our consumer service

Transparency of costs will need to come from both suppliers and brokers and be presented in a way which is clear to the consumer. Our forthcoming research showed some suppliers in favour of greater transparency in order to curb excessive broker commission levels. Many interviewees were of the opinion that it would be in the interests of consumers to have full visibility of commission

levels, but that this could not be undertaken by one or more suppliers on their own. Therefore this would require a centralised obligation.

One supplier stated *"It is the lack of transparency from the TPI's side, and as suppliers we would very much like specific commissions to be placed on the bill. If the customer knows what they are getting, then why would a TPI mind having it on the customer's bill? We don't have a problem in having our margin on the bill."*

Providing consumers with accurate information about what they are paying for is in line with principles of TPI behaviour developed by Ofgem, in conjunction with Citizens Advice.[20] Further to this, TPI commission levels currently vary widely, but without clear evidence that those with high rates add significantly more value compared to those with lower rates. Greater visibility of commission levels would help consumers evaluate whether the TPI's service was worth the cost.

Brokers and TPIs also add additional steps in the communication between consumers and suppliers. The result is that, if there is a breakdown in communication or any miscommunication, the consumer is ultimately the person who suffers. The example below provides such a case.

Case Study 5 - Q1 2019 - Consumer service

The consumer's contract was due for renewal in November 2018. The consumer's broker made the supplier aware in September that they wanted to terminate the contract. At the beginning of November the consumer received a letter with a reminder to renew their contract. The supplier then disputed they ever received a letter from the broker and advised that consumer had not cancelled within the 30 day period. The supplier placed the consumer on a higher tariff and the consumer has now received bills for the following months at around £170 more than what was agreed. The supplier has now cancelled the contract and the consumer is currently disputing the final bill of £238.

Furthermore, despite the CMA ordering suppliers to stop locking microbusinesses into automatic rollover contracts[21], we still see cases of consumers disputing the negotiation of new contracts (example provided

[20] Ofgem and Citizens Advice, Third Party Intermediaries: what your small business needs to know, 2015
[21] BEIS, CMA helps microbusinesses combat energy overpricing, 2017

below). This is a clear area of consumer harm which has been identified previously. While the example below is down to a communication breakdown with the TPI, the consumer is left disputing a large cost due to the large default contract rate, despite following the correct procedure.

6) Do you have evidence demonstrating the extent and impact of malpractice by brokers dealing with microbusinesses? We are seeking both qualitative and quantitative evidence demonstrating consumer harm in the form of both financial and non-financial detriment.

We understand that TPIs play an important and useful role in the microbusiness energy market. They fill a resource and expertise gap that many microbusinesses have due to the complexity of the non-domestic energy market. Our forthcoming research looks specifically into the role of TPIs from both suppliers' and consumers' points of view. Their opinion was that the majority of intermediaries behaved in a fair manner and communicated clearly what their customer was paying for, and how much they were paying for it. However, there is a minority group that are not behaving responsibly and are abusing their position between consumers and suppliers. Below are some comments from suppliers.[22]

- *"I have heard recorded calls between TPIs and their customers where the TPI says, 'Just claim mis-selling and you can get out of your contract" adding, "This happens half a dozen times a week and doesn't just happen to us – it is a murky old world."*

- *"This is the irony of the whole situation, trust has eroded in energy suppliers and customers will be told by brokers that they are totally independent and offer them a completely free and impartial view of the market."*

While suppliers can find the interaction with irresponsible TPIs difficult and unhelpful, consumers are at a much higher risk from malpractice. Furthermore, as TPIs act as a middleman between consumers and suppliers, suppliers may

[22] Citizens Advice, Cornwall Insights - The role of TPIs in the GB SME and microbusiness energy supply sector (forthcoming - attached with submission), 2019

not recognise the extent of any potential detriment until quite far along in the customer journey. Examples are provided below.

Case Study 6 - November 2018 - Extra Help Unit

The supply for this property switched to a new supplier without the consumer's permission. The consumer believes that a rogue broker is responsible - the switch was completed with a paper, signed contract, agreed via a 3rd party broker. As this was a paper contract agreement there are no copies of any sales recording.

Supplier response

"Our investigation has concluded that the consumer's signature does not match with the contract that we hold. We are going to liaise with the 3rd party broker and investigate this fraudulent contract. Please advise the complainant to contact their previous supplier and have them arrange an erroneous transfer which we will accept and allow the site free to leave. We apologise for any inconvenience this may have caused."

Case Study 7 - October 2018 - Extra Help Unit

The consumer stated they agreed a verbal contract with a supplier via a broker, however, they feel that they were not provided with full and comprehensive information. The consumer attempted to contact the broker to cancel however the contact details provided were wrong. The consumer has since been advised that the contract that was agreed is legally binding.

One way of potentially mitigating the above would be to include a cooling-off period with any contract negotiation. As this exists in the domestic sector, we believe it could be applicable to microbusinesses. This would allow microbusiness customers to change their mind if they feel they were pressured into a decision or given inaccurate information. This is particularly important when contracts are agreed verbally, another aspect which some consumers are not always aware of. We would hope that a consequence of a cooling-off period would be that TPIs would be less inclined to pressure consumers in to a deal on the phone, as this tactic would have less chance of being successful. This is a measure that Ofgem's Chief Executive said it would consult on in 2017.[23] It is not clear why this was not subsequently pursued, but should clearly form part of the strategic review.

[23] Ofgem, Ofgem reply to letter from Secretary of State (2017)

7) Can you provide evidence demonstrating the extent and impact of any consumer detriment caused by providers approaches to dialogue with consumers about debt management issues? We are seeking both qualitative and quantitative evidence demonstrating consumer harm in the form of both financial and non-financial detriment.

Of the calls received by the EHU from microbusinesses, the highest proportion were related to 'Disconnection following due process' (~20%) and 'Debt recovery practices' (~16%) (out of a total of 45 categories).

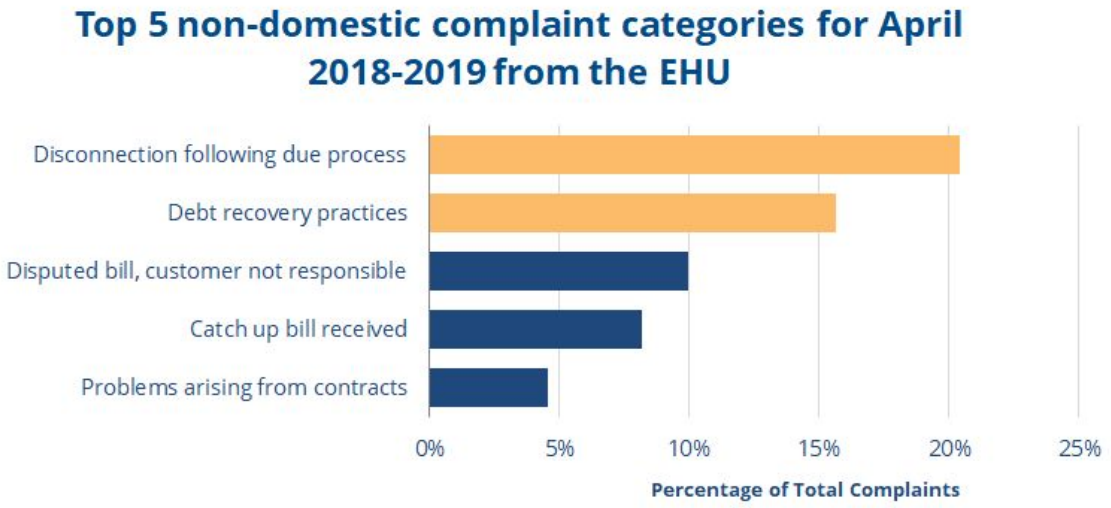

Figure 5: Top 5 non-domestic complaints categories for April 2018-2019, based on total of 794 complaints to the EHU

Similarly, our consumer service receives a high volume of calls in these areas, with both appearing in the top 6 complaints categories as shown in the figure below (out of a total of 74 categories).

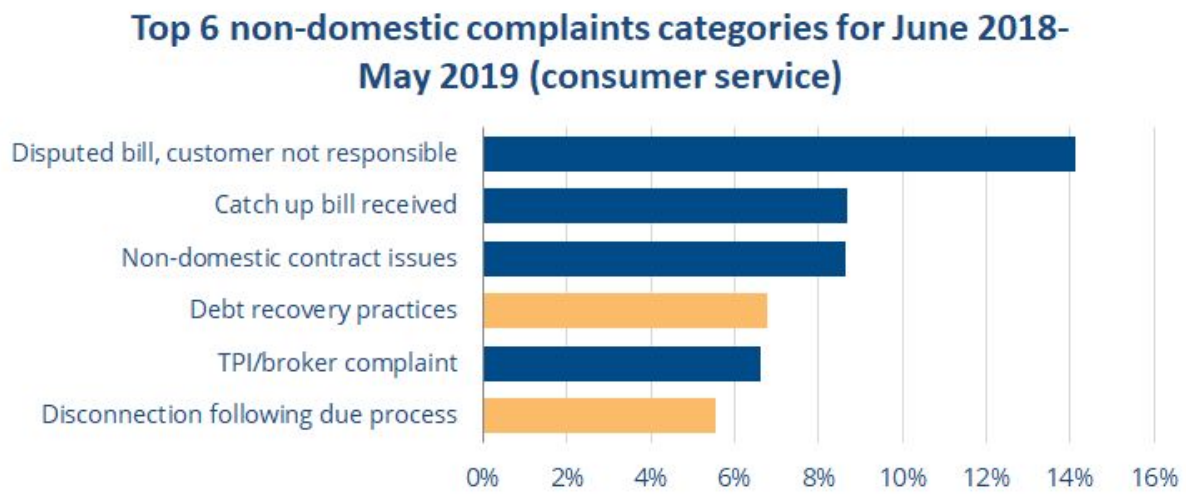

Figure 6: Top 6 non-domestic complaints categories for June 2018 - April 2019, based on 2611 complaints to our consumer service

The high numbers of calls for these two categories shows that this is an issue that suppliers don't handle well enough, and the detail of the cases demonstrates the considerable consumer detriment that can arise. A specific example is provided below which explores this issue in more detail, including the application of high disconnection and reconnection fees.

Case Study 8 - April 2018 - Extra Help Unit

The consumer contacted the Extra Help Unit after their takeaway business had their electricity disconnected by their supplier on the grounds of debt. The consumer had been told that there was a debt of £6,000 due to no payments. The consumer said that they hadn't been receiving bills from the supplier and this was the reason why they were not making payments. The consumer offered to make an upfront payment of £1,000 however the supplier refused, instead insisting that the balance be paid in full along with a security deposit.

Outcome

The supplier confirmed to the Extra Help Unit that the outstanding account balance was £3,734 which accrued due to no payments being made towards the account for the past ten months. The supplier confirmed that multiple bills had been issued between the last payment and the disconnection.

As well as payment of the balance in full, the supplier asked for a security deposit of £2,598, a disconnection fee of £449 and a reconnection fee of £115, all to be paid before reconnection would be considered. The consumer was unable to afford this payment and the supply remained disconnected.

We believe the most important consideration is that dialogue between the supplier and consumer is opened as early as possible and maintained, especially in cases where debt is building up. It is also vital that accurate bills are issued by suppliers. We see many cases like the one above where the consumer is unaware that a debt is building up. This could be through not receiving a bill or only receiving estimated bills. If a supplier is not receiving correct payment, in order to treat customers fairly and prevent a debt building up, they should contact the consumer. As a backstop protection suppliers are unable to bill for energy used more than a year ago if the consumer is not at fault. But even bills built up over months, rather than years, can be very large for microbusinesses to manage.

Case Study 9 - Q1 2019 - Consumer service

The consumer last received communication from the supplier in January 2019, and then in March they received a bill requesting around £1,600. This needed to be paid in full or the consumer would be disconnected on April 4th. The consumer did not have the funds to pay, which was explained to the supplier, but they were told that if full payment was not received the disconnection would go ahead.

Once a debt has been built up, suppliers should offer manageable repayment plans following discussions with their customers. It should be a last resort for requiring a large one-off payment that may drive the microbusiness to failure.

Our consumer service also receive calls from microbusinesses around debt issues. During the period of June 2018 to May 2019, we had 189 unique cases where a debt amount was stated in the case notes. From this data, we saw an **average debt value of over £8,500** and a **total debt value of over £1.5 million**. This is only from the cases where a debt value was specified in the call. These debt levels are self-reported by consumers and aren't verified by call handlers (for example by checking bills).

Mean Debt Amount	£8,716.46
Median Debt Amount	£4,000.00
Total Debt Value	£1,647,411.72

Table 1: Microbusiness consumers stated debt figures, from 189 consumer service cases, June 2018 to May 2019

Of these 189 cases, it's worth noting that there were **62 cases of disconnection**, **70 cases of threatening disconnection** and 67 cases where the debt amount was disputed.

Number of microbusinesses disconnected	62
Number of microbusinesses threatened with disconnection	70
Number of microbusiness which disputed the debt amount	67

Table 2: Microbusiness consumer cases on debt and disconnection, from 189 consumer service cases, June 2018 to May 2019

Finally, the services of consumer advice groups, such as Citizens Advice and Business Debtline, need to be signposted much more prominently to microbusinesses. We recommend Citizens Advice contact details appear on energy bills (as with the domestic energy sector) and debt letters, and for Business Debtline to appear on debt letters. It is the experience of both organisations that consumers get in touch too late in the debt process, at which point the help which can be given is more limited.

8) Are you aware of microbusinesses facing significant and impactful issues when they come to exit a contract with their provider?

We receive calls with regards to cancelled contracts not being actioned and final account reconciliation. Although this is a relatively low volume of complaints we receive, the case study provided in the next section is an example of detriment being caused.

Also of relevance is our response to Ofgem's consultation on Supplier Guaranteed Standards of Performance for Switching.[24] In this response we called for micro-business customers to be protected by the new Guaranteed Standards as Ofgem data showed a higher erroneous transfer rate for non-domestic compared to domestic consumers.[25]

[24] Citizens Advice, Supplier Guaranteed Standards of Performance for Switching, 2018
[25] Ofgem, Erroneous Transfers, Summary policy issue paper - for DA discussion, 2016

9) Please provide evidence of the extent and impact of consumer detriment caused by the issues you have commented on in response to the above question. We are seeking both qualitative and quantitative evidence demonstrating consumer harm in the form of both financial and non-financial detriment.

The example below details how the consumer faced a financial penalty for factors outside of their control.

Case Study 10 - October 2018 - Extra Help Unit

The consumer's lease ended 30th September 2018. Contact was made with the supplier on 1st October 2018 to explain that he had vacated the property and to ask for a final bill. The supplier insisted that his account would not be finalised until he provided details of the new tenant. In the meantime he would be billed on deemed rates.

The consumer tried explaining that he does not know the new tenant personally and that the supplier would need to ask the landlord. The supplier continued to hold the consumer responsible and sent a letter stating a recent transfer request had been blocked. This transfer request was made by the new tenant.

Outcome

The supplier confirmed to the Extra Help Unit that they would require a copy of a lease from the new tenant before closing the consumer's account. Until this happened, he would continue to be held responsible despite the consumer having no control over this process.

Fortunately the new tenant supplied a copy of the lease. Only then did the supplier agree to close the consumer's account and issue a final bill.

In this case, the consumer was made responsible for the new tenant despite having no relationship with them. Furthermore, the consumer faced financial detriment for this. We believe that, in this case, the landlord should have been the primary point of contact, rather than the outgoing business.

The case study provided below is repeated from Question 5 as an example of consumer harm when exiting a contract. This was primarily due to the breakdown of communication between the consumer and their broker.

However, the continuing consumer detriment is a result of expensive default rates applied and the continuing dispute with the supplier.

Case Study 5 - Q1 2019 - Consumer service

The consumer's contract was due for renewal in November 2018. The consumer's broker made the supplier aware in September that they wanted to terminate the contract. At the beginning of November the consumer received a letter with a reminder to renew their contract. The supplier then disputed they ever received a letter from the broker and advised that consumer had not cancelled within the 30 day period. The supplier placed the consumer on a higher tariff and has now received bills for the following months at around £170 more than what was agreed. The supplier has now cancelled the contract and consumer is currently disputing the final bill of £238.