Centrica plc
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Jonathan Blagrove
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

20 October 2020

By email: CDconsultations@ofgem.gov.uk

Dear Jonathan,

Thank you for the opportunity to comment on the proposed new policy measures presented in the consultation on Microbusiness Strategic Review.

We believe the non-domestic market is working. Ofgem's own research shows that two thirds of microbusiness customers are engaged in the market in 2018[1] and the levels of engagement rise each year. With higher engagement levels, the market is evolving. Some previously accepted characteristics are changing, and we are concerned that Ofgem's proposals appear be based on assumptions that do not reflect the microbusiness market at present and/or where is it heading in the future. Specifically:

1. *Microbusiness customer interactions with energy are not solely via an energy broker.* Around 81% of our SME new joiners in Q1 2020 said they approached British Gas directly, with only 50% using a broker to complete a switch. That proportion is even lower for customers who choose to renew with us. This market dynamic does not appear to have been reflected in Ofgem's assessment of its policy proposals and the extent of perceived customer detriment.

2. *Brokers do not engage with customers only once they have an established relationship with the supplier.* While most broker-led acquisitions are brought to us by brokers with whom we already have an established relationship, we still receive enquiries from brokers with whom we do not have established relationships. It is almost impossible to have a relationship with all the brokers – the market is very active and has many layers with some brokers acting as aggregators for a number of sub-brokers. The nature of broker-customer relationship is not reflected in Ofgem's proposed broker conduct principles, as suppliers cannot be fully sighted on interactions covered by the proposed licence condition when a supplier establishes a relationship with a broker (particularly where these are historic). Only by putting

[1] Micro and small business engagement survey 2018

obligations directly on brokers, either via direct regulation or through a Code of Practice, can Ofgem close this protection gap.

3. *Microbusiness customers are aware of the contracts they enter.* Microbusiness customers are more engaged with energy than domestic customers, with most entering negotiated contracts. As a result, microbusinesses are more aware of the terms of their contracts and require less regulatory protection than it is suggested by the policy consultation.

By failing to reflect these market characteristics, we are concerned that Ofgem's proposals only reflect relatively small issues in the market, based on anecdotal evidence and specific case studies, rather than systematically identifying and addressing root causes of detriment in the overall customer journey. Policy changes should be proportionate, based on evidence and address specific customer detriment. We do not believe Ofgem's proposals meet these criteria.

Our key concerns are:

- **Broker regulation via supply licence condition will not ensure consistent treatment of customers and therefore would not achieve the desired outcomes**. To ensure consistent broker behaviour, the same rules should be applied to all brokers, irrespective of their relationship with suppliers. Seeking to control the behaviours of brokers through regulation of suppliers can only lead to uncertain and inconsistent outcomes for microbusiness customers. Regulation should instead be targeted to address specific detrimental broker practices. We are concerned that Ofgem is pursuing broker regulation via supply licence solely because this is comparatively easy to implement. Ofgem should instead be seeking to tackle the issue of poor broker and Third Party Intermediary (TPI) behaviours by obtaining powers to regulate these parties directly. If Ofgem is concerned that gaining these powers will take time, then a short term solution would be to encourage the development of voluntary regulation (i.e. a broker Code of Conduct) to remedy poor behaviours in the short term.
- **Regulatory proposals should be properly impact assessed and future proofed**. Two of Ofgem's proposals do not meet this criteria: a 14 day cooling off period would not work with the faster switching programme to be introduced in early 2022, and we do not believe the customer benefit from maintaining tariff rates for 30 days after a banned switch would outweigh the costs of a large IT change cost required to implement the proposal.
- **Licence drafting on removing termination notices does not reflect Ofgem's policy intent.** The current drafting is imprecise and may be interpreted as requiring a fundamental change to the market by allowing customers to switch supplier at any point during the contract. Before proceeding further, Ofgem must amend the proposed drafting. Proceeding with the current wording would result to a number of severe unintended consequences, such as undermining the viability of existing fixed term contracts.
- **Ofgem's proposals on broker commission transparency do not reflect what the microbusiness customers want to see.** Only 21% of respondents to our survey wanted to see broker commission on bills, with most preferring to see commission when discussing quotes (68%) or when a written quote is provided by the broker

(61%). We agree that commission disclosure is most beneficial to customers at the point of sale, directly from the broker (where one is used). It is essential that customers who use a broker to are able to make an informed choice and we think Ofgem should introduce a principle on commission transparency to allow suppliers and brokers work out how best to disclose the information to customers.

We believe Ofgem's proposals need to be refined and further impact assessed before being progressed further. Our answers in Annex 1 aim to provide Ofgem with more detail on the impacts of individual proposals and we expect Ofgem to take the data provided into account. There are some proposals that Ofgem has not considered in the policy consultation that we believe could help better address customer detriment. For example, we believe Ofgem could do more to improve the effectiveness of Price Transparency Remedy (PTR) and help supplier/customer relationship by allowing suppliers to object to deemed customers switching on the grounds of debt.

If you have any questions about this response, please contact Chantal Cirino Chantal.Cirino@centrica.com.

Yours sincerely,

Justina Miltienyte

Regulatory Manager, Retail Market Policy

Centrica

Annex 1: Response to Consultation Questions

Awareness: Knowing about opportunities and risks

Question: What are the most effective ways to ensure that microbusinesses can access key information about the retail energy market?

While consumer groups are relatively active in the microbusiness market, customer awareness of them remains somewhat limited. Microbusinesses are more likely to approach their supplier to request further information and, under the informed choices principle in the Standards of Conduct, suppliers should already be providing customers with the required information for them to understand their contracts. Brokers also provide an important source of information, especially on browsing the market. We believe customers are engaged with the material they receive from us and are able to obtain further information when needed. 82% of our new customers in Q1 2020 said they received all the information they needed from us and did not need to follow up.

That being said, customers can benefit from further impartial information being available from consumer groups, such as Citizen's Advice and Business Energy Debtline. A more centralised information hub for microbusinesses could help provide information relevant to all customers that might be more effective being delivered by a consumer group rather than individual supplier, such as energy efficiency information or links to every supplier's Price Transparency Remedy to help facilitate price comparison.

Browsing: Searching for deals

Question: Do you agree with our proposal to strengthen the requirements to present a written version of the Principal Terms to customers?

We agree that customers should be presented with Principal Terms of their contract in an accessible format, in line with their characteristics, before the contract takes effect. It provides customers reassurance that they are signing up to the agreed contract and gives an opportunity to review and refer to the terms throughout the duration of the contract. This obligation is currently covered by the supply licence and we believe the customers are informed about the contract they enter. 76% of our new SME customers in Q1 2020 agreed that the Welcome Pack they received from us had all of the information they needed.

Requiring suppliers and brokers to provide written Principal Terms during contract negotiation does not reflect how the market effectively operates. Most contract negotiations are done over the phone – 67% of customers who left British Gas in Q1 2020 called other suppliers to search for a new deal. Providing Principal Terms during negotiation over the phone would be difficult and significantly slow down the process. Furthermore, during contract negotiation, Principal Terms would still be in the process of being agreed, so the intent of Ofgem proposal seems unclear – suppliers and brokers would be providing customers with terms of the contract that will be changing, leading to potential confusion later on when the contract comes into effect and the customer is left with two versions of Principal Terms. Instead, we believe the informed choices principle that already requires

suppliers to provide customers with the information they need, is sufficient and the written Principal Terms should only be provided once they are agreed and finalised ahead of supply start date.

Question: Do you agree with our proposal to require that suppliers disclose the charges paid to brokers as part of the supply contract, on bills, statements of account and at the request of the microbusiness customer?

We agree that customers should be aware that brokers receive commission for their services but question whether Ofgem's specific proposal will help customers be better informed. To inform our position on broker commission transparency, we asked our consumer panel in September 2020 about broker commission. The Panel included 114 SMEs, mixed between British Gas Business and other supplier customers. Full research pack is included in appendix A.

Most customers are aware of the fact of broker commissions – our research showed 86% of customers surveyed know brokers are being paid for arranging the energy contracts. 74% thought brokers should be responsible for disclosing the value of commission, rather than suppliers.

More transparency of commission rates should help customers be more confident about the prices they are being charged. However, broker commission structures differ greatly across the market, so having a prescriptive requirement to display commission on supply contracts and on all bills and statements of account is likely to result in inaccuracies in the description of how brokers are being paid in each specific instance. This is likely to result in confusion across customers, and potentially disengagement.

Only 21% of respondents to our survey wanted to see broker commission on bills, with most preferring to see commission when discussing quotes (68%) or when a written quote is provided by the broker (61%). This research does not support the view that Ofgem's proposals reflect customer preferences and we agree with the findings of the consumer panel that commission disclosure is most beneficial to customers at the point of sale, directly from the broker (where one is used).

It is essential that customers who use a broker are able to make an informed choice when choosing their supplier. Requiring disclosure of commission at the point of sale would give customers more accurate information about the commission broker will receive. In contrast, disclosing commission once the contract is agreed may lead to customers feeling misled, therefore, worsening of the experience of using a broker or switching supplier.

Question: Do you think that further prescription or guidance on the presentation and format of broker costs on contractual and billing documentation would be beneficial? If so, how should broker costs be presented?

No, we do not agree that more prescription on broker costs is needed. Ofgem should maintain consistency in the regulatory approach and follow the precedent set with domestic

supplier customer communications, where it concluded that prescriptive requirements do not lead to better customer experience.

Prescriptive requirements would not account for different commission structures present in the market and would stifle innovation for new tariffs. A principle to disclose broker commissions to the customer at the right point in time should be sufficient at this point to ensure right customer outcomes. Ofgem should continuously assess the effectiveness of this licence condition and potentially recommend further rules to be included in secondary regulation, such as a Code of Practice, if needed.

Question: What challenges do you think suppliers and brokers may face implementing these proposals?

We see two key challenges with Ofgem's proposals on browsing, as they are currently written. Firstly, the proposed requirement to provide written Principal Terms during contract negotiation phase does not reflect customer preferences to negotiate their contract over the phone. Providing customers with written terms during a fluid negotiation phase would slow down the contracting process, and also fail to provide customer with accurate information regarding the contract to which they ultimately agree.

Secondly, as set out above, providing customers with broker commission on every bill is likely to create customer confusion given the diverse ways in which commission is applied across the sector (e.g. meaning that commission may become due at different times in the customer billing cycle). In addition, the obligation should reflect the fact that suppliers do not always know the full agreement between customer and broker, so any obligation on the supplier should only extend to commission level best known to the supplier. Therefore, we suggest Ofgem implements a principle for suppliers allowing them the flexibility to assess when best to notify customers about broker commission during customer journey, including whether it is best disclosed by the broker, informed by data and customer preference.

Question: Do you have any comments on the associated draft supply licence conditions in Appendix 1 of this document?

We have no further comments on the drafting, other than what has been discussed in our answers above.

Question: Do you think there are other changes which would better address the consumer harm that has been identified?

In response to Ofgem's Call for Inputs (CfI)[2]last year, we highlighted the need to do more to facilitate easier browsing across the market. Ofgem's own evaluation of the Price Transparency Remedy (PTR) concluded that the PTR is not effective[3], yet, Ofgem has not

[2] Responses can be found with Opening statement for strategic review of microbusiness retail market

[3] Evaluation of CMA Price Transparency Remedy

proposed any changes that would help customers compare prices across suppliers. In our CfI response, we suggested that a centralised site with links to all supplier PTRs would help customers obtain quotes quicker. Either Ofgem or Citizen's Advice could provide the centralised location for such site. We believe our suggestion would help address any perceived problems with browsing the market better than Ofgem's proposals.

We are also concerned about placing a requirement on suppliers to ensure brokers provide customers with Principal Terms in writing. Suppliers are limited in their ability to fully oversee broker actions and placing such a specific obligation on them will prove difficult to comply. We discuss our objection to Ofgem's approach of regulation by proxy further in our response.

Contracting: Signing up to a new contract

Question: What do you think the impact of our proposal to introduce a broker conduct principle will be? Are there any particular reasons why suppliers/brokers couldn't achieve the broker conduct principle?

We strongly disagree with the proposal to introduce the broker conduct principle in the supply licence. Regulation of any party should be proportionate to the risks posed to consumers and the types of activity undertaken. Suppliers are not always a part of the relationship between the broker and the end customer and a blanket principle covering all Broker Designated Activities is not targeted enough to address specific instances of broker malpractice. The specifics of contractual relationships between customers, brokers and suppliers makes regulation by proxy in this market particularly ineffective for a number of reasons.

Firstly, suppliers are already incentivised to ensure brokers they work with deliver good customer experience at the start of the customer journey. To ensure customers who join us are happy with their broker, we developed a comprehensive broker assurance framework that includes techniques designed to ensure consistent good broker behaviour, remedies to address any shortfalls and a cap on broker commission (please refer to our CfI response for more detail). We believe we already do our best to support our brokers in delivering best service for our customers and expect other suppliers to do the same.

Secondly, while suppliers with established broker relationship should already be doing their best to ensure good customer outcomes, new brokers can still approach suppliers after establishing a relationship with the customer first. In such instances, it would be impossible to enforce obligations on the broker where initial conversations with the customer have taken place without suppliers being aware. Ofgem's proposals do not account for such situation. To ensure compliance, suppliers would have to reject customers that are interacting via brokers they don't have prior relationship with, reducing the choice for that customer and limiting business opportunities for the supplier and the broker. The only way to ensure consistent treatment of customers is to have a set of rules imposed on every broker, which can only be achieved by direct regulation.

Thirdly, when faced with a regulatory obligation, suppliers may interpret the requirement in different ways, resulting in inconsistencies across the market. Brokers will have to develop

separate compliance frameworks for licence interpretations of individual supplier. Running parallel compliance regimes will be costly for brokers, far outweighing the costs projected by Ofgem of direct broker regulation. If brokers cannot afford to work with all suppliers, they will have to withdraw from agreements with some suppliers, resulting in lower coverage of the market for the customers. Ofgem's Impact Assessment should reflect full cost to the industry before Ofgem proceeds to statutory consultation.

Finally, we do not think that the broker conduct rules could be enforceable on the brokers, as it solely relies on supplier's commercial ability to influence broker conduct. It is also unclear how Ofgem would enforce the rules and how liability for non-compliance would be calculated. If detriment is caused by a broker, using supplier market share in redress calculation would not be proportionate and would not fall directly onto the party that caused detriment, i.e. the broker. Suppliers will look to pass through any enforcement costs to their brokers by amending contractual conditions, but changing contractual terms will be costly, potentially disproportionate and of no benefit to customers, as the brokers would still not be held to account directly.

We believe the only way to avoid issues outlined above is to introduce a direct authorisation regime for brokers in the energy market. Direct regulation would be straight forward for brokers to comply with and ensures a consistent treatment across all microbusiness customers, irrespective of supplier they choose to work with. We disagree with Ofgem's assessment that TPI licensing would be costly and complex, especially when compared with the costs of Ofgem's current proposals. Combined costs for suppliers and brokers to implement the proposed broker conduct principle would be significantly higher than costs to Ofgem to implement direct regulation. As an example of costs, our broker assurance framework cost is approximately £100k a year to assure around 100 brokers we work with. We expect it would cost each broker a similar amount to ensure compliance with supplier requirements. If we were to apply our cost estimate across the whole supplier and broker market, the annual cost for the industry will amount to tens of millions of pounds – much higher than any potential cost of direct regulation. These costs need to be accurately reflected in Ofgem's impact assessment, which at the moment is insufficient to understand the materiality of the proposal.

While regulation by proxy would be ineffective and direct regulation might take time to implement, there are alternative ways to ensure good customer outcomes when interacting with a broker in a more timely manner. A TPI Code of Practice would be a quick way to place obligations on brokers and could easily be adapted as time goes on with any new evidence found about its effectiveness on the broker market. Based on the views expressed by suppliers, TPIs and consumer ground that attended industry workshops held in October, it is clear that there is a wide-spread support for a TPI Code of Practice and it is seen as a more effective way of regulating brokers in the absence of direct regulation. We urge Ofgem to engage with Electralink, who is putting together the self-regulation initiative, to see how Ofgem's desired consumer outcomes could be reflected in the TPI Code of Practice until direct broker regulation becomes achievable.

Question: Do you agree that our proposal to introduce specific sales and marketing requirements on suppliers and the brokers they work with is important to help

customers make more informed choices and increase trust in and effectiveness of the market? If so, do you agree that face-to-face marketing and sales activity should be covered alongside telesales activity under these proposals?

Regulation is only effective where there is a clear need to address detriment, i.e. competitive market cannot deliver the desired outcome. We do not agree that the sales and marketing requirements meet this principle of good regulation and are, therefore, redundant.

Suppliers are already incentivised to ensure customers are informed about the contract they enter. A bad sales experience would lead to a poor start of the customer journey, potentially leading to the customer switching at the earliest opportunity. Ofgem's proposals in the consultation seem to be based on specific case studies presented by consumer groups that do not reflect majority of customer experience. 97% of our new SME customers were satisfied with the knowledge of British Gas sales agent and the same was true for 92% of customers interacting with a broker. 86% of our customers also felt that the products offered by our sales agents were tailored for their business needs and the same applied to 93% of customers using a broker.

Question: Do you agree that our proposal to introduce a cooling-off period for microbusiness contracts represents an effective way to protect consumers during the contracting process? If so, do you agree that the length of the cooling-off period should be 14 days?

We do not agree with the proposal for cooling off periods, as we have evidence that microbusiness customers do not see any value in them. British Gas used to offer 10 day cooling off periods for all direct SME sales. In Q4 2019, only 1.41% of new customers eligible for the cool off period chose to take it up and cancel the contract. At the same time, 30.8% of eligible customers chose to remove the cooling off period altogether. As a result, we have chosen to remove the offer for cooling off period due to such low customer demand.

We are concerned that Ofgem is not addressing the right issue here – lack of information. If the customer is fully informed during the sales process, which over 90% of our new joiners surveyed said they do, there is little need for a cooling off period. Business customers are usually sophisticated and aware of the terms of their energy supply contracts. By providing Principal Terms before contract start date and broker commission at the point of sale, we do not think that there would be any reason remaining for the cooling off period.

Coupled with other proposals, introduction of cooling off periods would also have certain unintended consequences that Ofgem has not considered in the consultation. At present, suppliers and brokers are aware that once the contract is signed, the sale is complete. Introduction of cooling off periods in a market where price negotiations are standard would encourage outgoing supplier to re-engage the customer to offer new deals, potentially increasing unwanted contact. In addition, cooling off period would not achieve Ofgem's stated aim to make the switching process easier for customers. Once the customer is on supply, reversing the switch becomes complex and customer experience would suffer. We also question how cooling off period would work once faster switching is implemented and switching process becomes much shorter. While we do not agree that there is evidence to support introduction of the cooling off period, if Ofgem continues with the proposal, as a

minimum, the cooling off period should be valid up to a day before supply start day or 14 days after the contract is signed, whichever is earlier.

Question: What challenges do you think suppliers and brokers may face implementing these proposals?

Our answer to previous questions on contracting already indicated some of our concerns about implementing the proposed broker principles in the supply licence. The key challenge to implement the outlined proposals to contracting will be ensuring consistent application of rules under regulation by proxy. To ensure compliance, every supplier will interpret and set expectations to each broker they work with. These expectations, along with pass through of any fines, will have to be transposed into commercial contracts with the brokers, requiring contract renegotiation.

From broker perspective, it is unlikely that requirements from each supplier will be exactly the same, therefore, brokers will have to develop extensive compliance framework to cover each supplier's regulatory interpretations. Overall, we see the cost to the industry of implementing regulation by proxy a lot higher than Ofgem's cost assessment for alternative regulatory options, including direct broker regulation. Based on the cost assessment and the practicalities of implementation of Ofgem's proposal, it is difficult to justify proceeding with current proposals.

Question: Do you have any comments on the associated draft supply licence conditions in Appendix 1 of this document?

SLC 0A.4 need amending to make it clear that the licensee is not responsible for ensuring brokers meet the Designated Activities. We read that the broker conduct principle would only apply to Broker Designated Activities (as defined).

Broker Designated Activities also needs formatting as the numbering in the definition is incorrect.

Informed choices principles need to be amended to:

[X] Where a Micro Business Consumer to whom the licensee or Broker has provided information in the course of Face-to-Face Marketing Activities or Telesales Activities enters into a or Non-Domestic Supply Contract with the licensee, the licensee must maintain, or ensure that the Broker maintains, a record of the information which it provided to that ~~or~~ Non-Domestic Customer in accordance with this licence condition for a period of 2 years.

(b) are directed at or incidental to identifying and communicating with Micro Business Consumers for the purpose of promoting the licensee's ~~or~~ Micro Business Consumer Contracts to them and includes entering into such contracts with such customers.

Question: Do you think there are other changes which would better address the consumer harm that has been identified?

To address perceived customer detriment caused by broker conduct, regulation should be implemented consistently across all brokers operating in the market, irrespective as to how many suppliers they work with. We believe only direct regulation can achieve that. There are multiple options for direct regulation that have been summarised well in the Citizens Advice paper published in December 2019[4] and we believe they should be given due consideration. We appreciate that Ofgem would need to obtain new powers to regulate the broker market and it could be a lengthy process. To plug the gap until direct broker regulation is possible, we suggest Ofgem endorses voluntary self-regulation of brokers initiative that is currently developed by Electralink and industry participants, and enforces customer protections already available to microbusiness customers.

Dialogue: Two-way communication with service providers

Question: Do you agree that our proposal for a mandated ADR scheme represents an effective way to fill the existing consumer protection gap where a microbusiness has a dispute with their broker?

Yes, we agree that mandating brokers to sign up to an ADR scheme would help customer protection. At the moment, there is no established process to settle disputes between a broker and a customer. The proposal of a mandated ADR scheme is right in principle, but the consultation provides little detail on the specifics about the scheme to allow informed assessment. Before progressing with the proposal, Ofgem should answer the following questions:

- Would brokers/suppliers be allowed to choose the ADR provider? If so, who will be responsible for accreditation?
- Could a contract between supplier and customer be cancelled as part of the dispute, even if supplier is not part of the complaint?
- Who would be responsible for enforcing the ADR decision? Suppliers have a licence obligation to comply with the Ombudsman ruling but without direct broker regulation, there is no clear route for enforcement of any broker related decision.
- If the broker is found at fault in the dispute, would all suppliers who work with the broker be found non-compliant with the broker conduct licence condition?

The still unanswered questions above indicate how the ADR proposal is still at a very early stage. If Ofgem introduces a licence condition on suppliers to only work with brokers signed up to the ADR scheme, we assume suppliers should then be allowed to determine which ADR scheme is the right one, rather than one prescribed by Ofgem. We believe there are benefits by using different ADR providers. We currently use an independent ADR provider for our services customers, which follows similar steps to those under Energy Ombudsman process, except there is an additional provisional stage between case raised and final determination, where potential remedies are discussed/ negotiated between parties. We find that having the additional step is helpful to arrive at a reasonable resolution.

Given potential difficulty in enforcing decision, we would support an independent ADR provider accreditation scheme that also has the powers to enforce the decisions directly on

[4] Regulation of Third Party Intermediaries in the Energy Sector

the brokers. Any enforcement action taken via suppliers will not be effective and will leave brokers to continue with poor practices, as they would not face direct consequences.

Question: What challenges do you think suppliers and brokers may face implementing our proposal regarding dispute resolution?

Given lack of details about the ADR proposal, we cannot comment any further about challenges of implementation. We urge Ofgem to consult on the ADR scheme separately, once requirements for the scheme are agreed.

Question: Do you have any comments on the associated draft supply licence conditions in Appendix 1 of this document?

We have no further comments on the associated draft licence conditions.

Question: Do you think there are other changes which would better address the consumer harm that has been identified?

We have no alternative proposals for the dialogue stage of the customer journey.

Exiting: Switching away from an old contract

Question: Do you agree that termination notice requirements represent an unnecessary barrier to switching and should be prohibited? If so, do you agree that a prohibition on notification periods should apply to both new and existing contracts?

Removing the requirement to hand in termination notices for microbusinesses at the end of their fixed term contract would make the switching process easier and allow customers to switch without unnecessary restrictions. However, the draft licence conditions do not reflect Ofgem's policy intent that has been confirmed to us by Ofgem during the consultation period. While we understand that Ofgem is looking to remove termination notices at the end of contract, the drafted licence condition implies that the customer would be able to leave the contract at any point during the fixed term without prior notice. If the drafting is left unchanged, it would fundamentally change the market and remove the appeal of fixed term contracts, which is not the policy intent, as confirmed by Ofgem in the industry workshop on 14 October 2020. Suppliers price their contracts based on the level of hedging certainty, allowing them to buy energy in advance at cheaper rates. Having to account for increased risk of customer leaving mid-contract would increase contract prices and exit fees for customers, therefore leading to further detriment.

To avoid unintended consequences, we suggest Ofgem reviews licence drafting to be explicit that termination notice ban only applies to end of contract notifications, in line with confirmed policy intent. Removing termination notice for existing contracts would constitute a change in contract terms for all SME customers so, for simplicity, we would support the ban

on termination notices for new contracts only. Customers in existing contracts would be aware of the expectation of a termination notice so we do not see any customer detriment for only applying the requirement for future contracts.

Question: Do you agree that our proposal to require that suppliers continue to charge consumers on the basis of the rates in place prior to a blocked switch for up to 30 days represents an effective approach to limiting the financial impact of switching delays? If so, do you agree that the time period should be 30 days?

Ofgem's consultation is unclear about the extent of customer detriment that the proposed change aims to address. As such, we question whether the customer benefit would outweigh the costs of implementation.

Maintaining the same tariff rates for 30 days for a specific scenario of blocked switches will be a complicated and costly IT and billing system change. Switching process is largely automated and we would need to amend our systems to identify whether the switch was blocked, stop follow up communications, amend information provided to the customer and change the billing system to allow the tariff rate to be extended. These changes are complex and will require time to ensure they are implemented correctly.

Blocked switches mainly occur due to miscommunication between the customer and supplier or wrong information provided by the broker. Before proceeding with the change, we suggest Ofgem issues a request for information to suppliers to better understand the reasons for blocked switches. If the pattern emerges, Ofgem could then address the underlying concern for the blocked switches, which is likely to be poor communication.

Question: What challenges do you think suppliers and brokers may face implementing our proposals regarding improving the switching experience?

As mentioned in our answers above, the key challenge for implementing proposed changes to switching experience is that the costs will certainly outweigh the benefits. We suggest Ofgem further investigates root causes of poor switching experience before proposing IT system changes.

Question: Do you have any comments on the associated draft supply licence conditions in Appendix 1 of this document?

<u>Termination notice requirements</u>

As stated in our answers above, the following drafting suggests the customer can end their contract at any time during a fixed contract or switch at any time during a fixed term contract.

7A.11 In relation to a Micro Business Consumer Contract that contain a fixed term period, the licensee must ensure that during the Initial Period a Micro Business Customer is not required to give any form of notice to terminate the Micro Business Consumer Contract or to switch supplier.

The licence condition should be specific that the Micro Business Customer is not required to give written notice within 30 days of the end of the Initial Period for the contract to be terminated but should not suggest that the Micro Business Customer can end the contract before the expiry of the Initial Period.

30 day contract extension following blocked switches

In SLC14A.3 'Microbusiness Customer' is not defined. The licence uses Micro Business Consumer in SLC7A. 'Relevant Micro Business Customers' is used in 7D but is narrower than Micro Business Consumer. More consistency is needed.

SLC14.3A states that if a supplier has objected, they would put the customer on a deemed contract – deemed contract is not the right contract for this particular circumstance (as the customer is known to the supplier), it could cause confusion for the customer and more would end up being classed as deemed. In addition, moving customers on deemed rates would remove supplier ability to object to the customer switching on contractual grounds next time, even if the initial objection was on contractual grounds and has not been resolved. We suggest removing deemed contract as an option from SLC14.3A

Question: Do you think there are other changes which would better address the consumer harm that has been identified?

We do not agree that customers face significant barriers when exiting their contract with the supplier but can see how termination notices at the end of fixed term contract could be considered unnecessary. In general, all perceived barriers in exiting could be addressed with more targeted information to customers to manage their expectations.

At the exiting stage of customer journey, we see indirect consumer harm presented by higher bad debt charges (BDC) caused mainly by deemed customers. In our response to Call for Inputs, we highlighted that our BDC could reduce by approximately 35%, if we were allowed to object to deemed customers switching on the grounds of debt. Reducing bad debt in the industry is beneficial to all customers and Ofgem should commit to doing more to help suppliers reduce it. As the next step, we suggest Ofgem should issue a Request for Information to all suppliers on bad debt attributed to deemed customers and the processes adopted to reduce it. This would help Ofgem understand how prevalent the issue is and share good practice already present in the market.