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Dear Mr Fletcher

Energy UK response: Addendum to provisional findings in relation to the CMA's revised AEC relating to the prepayment segment

Energy UK is the main trade association for the energy industry, representing over 80 energy generators and suppliers of all sizes. Our members supply gas and electricity and provide network services to both the domestic and non-domestic market. Energy UK members generate over 90% of capacity in the UK, supply 23 million homes and contribute over £25 billion to the UK economy each year.

Energy UK welcomes the publication of the CMA's addendum to provisional findings and the opportunity to feed into the consultation process. We are keen to focus on Remedy 21 – *Reform the protocol for assignment of debt on prepayment meters*. In particular, we would like to highlight the work already undertaken by industry to improve the Debt Assignment Protocol (DAP), but not noted by the CMA in its addendum.

When considering the supplemental possible remedies proposed with regards to the DAP it is important the CMA take into account the work already undertaken and ongoing by industry to address the concerns previously highlighted by Ofgem and repeated here by the CMA.

Background

As part of its 2014 DAP Review, Ofgem highlighted concerns about the low number of indebted PPM customers successfully switching under the DAP. Ofgem believed that the main reason for this was the existing DAP process requirement for customers, following receipt of a Debt Objection Letter (DOL), to contact the New Supplier and ask to initiate the DAP process. Ofgem, therefore, asked suppliers in spring 2014 to:

1. Develop a set of reforms to remove the need for a prepayment customer with a debt of £500 or less to take action (either proactively or reactively) to "restart" their switch before the end of 2014 (later adjusted to April 2015);
2. Make sure DOLs do not confuse customers and that those who are entitled to switch understand that the switch process will continue.
3. Review their processes so that DOLs are only sent where the customer is unable to switch.
4. Examine the Complex Debt aspect of the DAP to ensure it is fit for purpose.

As referenced by the CMA, Ofgem's requests were confirmed in its September 2014 Open Letter on the DAP¹. The Open Letter also announced Ofgem's intention to amend the supply licence to formally raise the DAP debt threshold from £200 to £500, which most prepayment suppliers had been operating voluntarily since 2012.

1. The POA DAP model

In response to Ofgem's first request, eleven² energy suppliers voluntarily agreed with Ofgem to take steps to change how they operate the DAP by adopting the Point of Acquisition (POA) DAP model.

Under the POA model, suppliers continue to use the existing DAP processes and flows as set out in Master Registration Agreement (MRA) Agreed Procedure (MAP) 13³ and Schedule 9 of the Supply Point Administration Agreement (SPAA). However, instead of waiting on the Old Supplier DOL to prompt the customer to call the New Supplier, suppliers build the provision of information about the DAP and customer agreement to debt assignment in the event of a debt objection into all of their sales channels for all prepayment customers.⁴

By operating the POA model, the New Supplier is then in a position, on receipt of all supply point objections related to a prepayment customer, to continue the switch via the DAP, as per MAP 13 and Schedule 9, as appropriate. The model thereby removes the need for a prepayment customer with a debt of £500 or less per fuel to take action (either proactively or reactively) to "restart" their switch under the DAP. The customer is only required to make one decision to switch, this being at the point of acquisition.

Discussions are currently taking place amongst suppliers under the MRA about how industry systems/processes (see MRA SPF 0094⁵) could/should be amended to adopt the POA model, in addition to other identified process improvements, as the standard cross industry approach to the DAP from later this year.

Ofgem, via their updated Social Obligations Reporting (SOR) on the DAP, has been collecting data on the impact of the POA DAP model since Q2 2015. Energy UK understands the introduction of the POA model has resulted in an increase in the number of customers making use of the DAP. Based on data from eight electricity and seven gas suppliers operating the POA DAP model, as seen by Energy UK, approximately a third of accounts with a debt under £500 that attempted to switch during Q3 2015 successfully switched supplier by the end of the quarter⁶. While more can be done, this is encouraging and a significant increase on the 1% highlighted in Ofgem's 2014 open letter⁷.

It is important to recognise that as a result of the introduction of the POA DAP model, for the first time, significant volumes of accounts are now entering the DAP process. This is, therefore, the first opportunity industry has had to stress test what remains a labour and time intensive process (for example, the need to establish that both the Old and New Supplier are discussing the same customer necessitates manual process elements).

We also, however, remain conscious that two thirds of prepayment accounts with a debt under £500 that attempted to switch during Q3 2015 had not moved supplier by the end of the quarter. In

¹ Ofgem, 'Debt Assignment Protocol Review: the process for prepayment meter customers switching with a debt', Open Letter, 24 September 2014.

² British Gas, Ecotricity, EDF Energy, E.ON, First Utility, Npower, Spark Energy, Scottish Power, SSE and Utility Warehouse adopted the POA DAP model on 30th April 2015. Following discussions with Ofgem, Utilita also adopted the POA DAP model on 1st July 2015.

³ <http://tinyurl.com/gqoftxn>

⁴ The annexes of MRA MAP 13 and SPAA Schedule 9 provide for such an approach by the New Supplier.

⁵ <http://tinyurl.com/gm8fnwh>

⁶ Either via the DAP or by clearing the debt with the Old Supplier and removing the objection.

⁷ Ofgem, 'Debt Assignment Protocol Review: the process for prepayment meter customers switching with a debt', Open Letter, 24 September 2014.

order to better understand the reasons for this, Energy UK and its members are reviewing data and continuing to engage with Ofgem to identify other emergent issues with the process. Where appropriate, industry is committed to working with Ofgem to continue developing the DAP process with a view to facilitating switching for indebted prepayment customers.

2. Debt Objection Letters

To coincide with the launch of the POA model, suppliers adopting the POA model updated their DOLs to ensure the letters:

- Explain what steps the customer needs to take if they have not previously agreed to use the DAP to complete their switch, i.e. advising them to contact their New Supplier to discuss the DAP; and
- Explain to the customer that if they have already agreed with their chosen supplier to proceed with their switch under the DAP in the event of a debt objection (the POA model) that their switch will continue and that debt information will be shared with, and debt assigned to, the New Supplier to facilitate the DAP.

To support the launch of the POA model in April 2015, Ofgem agreed to contact suppliers not adopting the voluntary POA model to help raise awareness of the model and encourage them to make similar changes to DOLs to help ensure letters do not confuse customers and that those who are entitled to switch understand when and how the switch process will continue.

3. Sending DOLs only where the customer is unable to switch

With regards to Ofgem's 2014 request that suppliers review their processes so that DOLs are only sent where the customer is unable to switch, it is important the CMA fully considers how the DAP operates.

The Protocol, as set out in MAP 13 and Schedule 9, assumes that prior to the initiation of the DAP the Old Supplier has issued a Notice of Objection on the grounds of outstanding charges. Ofgem requires the Old Supplier, under the supply licence, to send a DOL to a customer each time they raise a Notice of Objection. There is also no requirement on the New Supplier to make use of the DAP in the event of an objection, only that the Old Supplier be able to assign debt if the customer agrees with the New Supplier to use the DAP to facilitate their switch.

In addition, the DOL itself has value as a communication in reminding the customer of the DAP process and that debt information will need to be shared with, and debt assigned to, the New Supplier to progress their switch. The DOL thereby offers one way for an Old Supplier to demonstrate that they have processed a customer's information fairly and to support the customer journey through the DAP process.

To, therefore, ensure that DOLs are only sent where the customer is unable to switch, substantial reform of the DAP, industry and supplier IT systems and the relevant licence conditions would be required. Any such changes must carefully be considered to avoid unintended consequences and are likely to command significant time and expense.

Furthermore, the CMA should remain mindful of Ofgem's ongoing work in relation to its review of objections and the recently launched Switching Significant Code Review (SCR). As part of the SCR and objections review Ofgem and industry will need to consider more broadly the role and operation of debt assignment and the DAP as part of future registration and switching processes. Industry is focused on ensuring the SCR and objections review deliver positive outcomes for consumers and industry.

It is also important to highlight, that one of the advantages of operating the POA DAP model should be to that customer's do not receive multiple DOLs from their Old Supplier, improving the customer journey and limiting any potential for confusion. By operating the POA model the New Supplier can immediately begin the DAP process in the event of an objection, removing the need for repeat registration attempts to try and win the customer and resulting objections and DOLs from the Old Supplier.

4. Complex debt

Based on the latest SOR data provided by suppliers to Ofgem, Energy UK understands the Complex Debt aspect of the DAP process does not currently appear to be a major issue wrongly preventing customers from switching via the DAP⁸. We do not, therefore, believe Complex Debt flagging requires significant further action at this time, as previously suggested by Ofgem and now the CMA. Suppliers, however, continue to monitor their use of Complex Debt flags.

The CMA must also recognise that Complex Debt flagging forms part of the DAP to help ensure that only genuine debts are transferred between suppliers. The flags, therefore, offer a level of protection for both consumers and suppliers.

I hope you find our comments helpful and I would be happy to discuss these matters further.

Yours sincerely

Lawrence Slade
Chief Executive

⁸ Based on data from nine suppliers operating the DAP POA model, as seen by Energy UK, only 27 of 737 D0307 flows sent by Old Suppliers in Q3 2015, where the level of debt was greater than £0 and less than £500, reported a Complex Debt. The D0307 is the industry flow used by the Old Supplier to send electricity debt information to the New Supplier.