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Dear Andy,

Thank you for the opportunity to respond to Ofgem's call for evidence on supplier objections.

The Consumer Futures Energy Team within the Citizens Advice service has statutory responsibilities to represent the interests of GB energy consumers. As such we have taken a keen interest in initiatives aimed at encouraging consumers to exercise their market power, generally advocating removal of blocks to switching particularly where they cause consumer detriment for vulnerable households.

This response addresses first-hand consumer experience of the supplier objections process, through case studies from the Extra Help Unit (EHU) and Citizens Advice Consumer Service (CS). It also highlights a number of issues that we believe are of integral importance as development of proposals to reform or abolish the supplier objections process are considered further.

Citizens Advice does not have suitable evidence for each of the questions posed in this consultation, so our response is not exhaustive. This response is not confidential and may be published on your website.

On balance we are in favour of reform to the supplier objections process and believe that abolition of debt-related objections in particular could help to improve access to the energy market for low income disengaged consumers. However, any reforms will need to go hand-in-hand with shoring up of related processes such as term debt requirements and prepayment suitability assessments.

## Section 2: Key issues

### *3. Whether the existence of any objections regime is consistent with an energy market in which all customers should be able to switch supplier readily (paragraph 2.1)*

Intuitively, the existence of an objections regime in the energy market goes against the principle

of an energy market in which all customers should be able to readily switch supplier. The existence of such a regime may also act as a deterrent for consumers who are in debt with their supplier even investigating a switch for fear their efforts might be wasted. Many households with fuel debt are lower income, so this situation has a bigger potential to impact the choices of poorer consumers than it does other households. If Ofgem's aim is to make the benefits of competition accessible to all then there is clearly an imperative to remove roadblocks to improving participation such as the supplier objections regime.

Our polling highlights that at the moment there is quite a significant disconnect between the percentage of consumers who seriously consider a switch and those that actually go through with one. In the last quarter of 2014, 32% of respondents to the GFK energy tracker responded that they had seriously considered a switch yet just 7% had gone through with one. Of those that seriously considered and then did not switch, 8% reported that it was because the switching process was too difficult, 5% because they had outstanding supplier charges/bills and 3% because they had a bill dispute with their supplier. These results suggest it is likely that the removal of the supplier objections process could have a significant impact on switching numbers.

However, we would urge that protections be put in place as a way of avoiding unintended consequences of abolishing supplier objections, such as suppliers automatically switching smart meters onto prepayment mode as a way of avoiding debt build-up. Such a scenario could unwittingly penalise consumers for whom prepayment may be an unsuitable payment method.

#### *4. Whether the objections regime places sufficiently strong incentives on suppliers proactively to identify customers who may be struggling to pay and at risk of falling into debt (paragraph 2.2)*

Ofgem's last comprehensive review of energy supplier debt prevention in 2010 stated that 'whilst we are pleased that suppliers are taking a more proactive approach to prevent and manage debt, more needs to be done; identifying those who need help is a key part of the proactive follow-up process.'

According to supplier obligation figures from 2012 and 2013, the number of gas and electricity accounts in debt to their energy supplier increased from 5% to 6%. Given household budgetary pressures this in itself is not an indictment of suppliers' work to identify struggling consumers. However, as outlined in the recent Citizens Advice report '*Topping-up or dropping-out: self-disconnection among prepayment meter users*', instances of self-disconnection remain stable (17% of all PPM customers in 2010 and 15% in 2014), suggesting that energy suppliers may still be able to go further to identify consumers who are a debt risk before they come into difficulties. The report also found large differences in supplier practice and level of proactivity in identifying PPM consumers who may be at risk of self-disconnection, suggesting that the industry may have some way to go to ensure it has a coherent approach to ensuring consumers in risk of debt are being treated appropriately. This is particularly important as over two-thirds of prepayment customers reported to Citizens Advice that they are having more difficulty finding the money to top up their meter now compared to last year, although it should be noted that parts of industry have started to move in order to tackle the effects of self-disconnection in recent months.

Overall it appears as though some uniformity could be encouraged by Ofgem on this matter. Should supplier objections be abolished, it would behove Ofgem to undertake an assessment of

suppliers' capacity to proactively manage customers at risk of falling into debt, and draw up best practice to ensure that experience of falling into energy debt is not significantly worse for some than others.

*5. Alternative methods that suppliers might adopt to facilitate and manage credit risks in the absence of an objections process, including any evidence from other markets where there are no or very limited rights to object or where such rights have been removed (paragraph 2.4)*

With respect to other markets and approaches to debt, we are reluctant to draw too many parallels. Energy is an essential service so the governance arrangements that cover it and mechanism for dealing with debt has to reflect that people will, in general terms, be unable to lead a normal life without at least some heat for their home or means of cooking food. Debts built up on say, a mobile phone bill, are not indicative of debt being very much likely to build up for domestic gas and electricity. People have very different incentives for their payments which suppliers might not accurately assess by recourse to analysis of behaviour in completely different markets.

This being said, another essential service market, water, could be a useful comparator. In that sector, suppliers are not permitted to cut off supply to consumers. As a result customers are often advised that water bills should be paid off after other debts.

With reference to other means of managing credit risks, enhanced use of credit checking may become more prevalent. As above, this needs to be based on the consumer as an energy consumer not as a general consumer because of the fallacy that people treat all markets equally. A consumer may be in debt to a non-essential service provider precisely so they can pay their essential services first and avoid being disconnected. The models suppliers use must become more sophisticated.

Given energy suppliers are set to gain far more accurate information following the installation of smart meters, the problem of consumers building up large debts due to inaccurate billing should become a thing of the past in any respect.

*6. The potential impact of smart meters on suppliers' ability to manage credit risk and the implications of this for suppliers' right to object (paragraph 2.5)*

The arrival of smart meters should allow energy suppliers access to far better information, such as accurate consumption data, by which to judge whether consumers are at risk of debt in this specific market. Smart meters should also give suppliers far better tools to stop debt building up and recover debt, in particular the ability to remotely switch consumers between credit and prepayment modes.

Given this, it would appear less necessary for suppliers to have the current objections process retained. This being said, there are some consumer protections we would encourage Ofgem to consider enhancing in order to ensure that suppliers do not manage their credit risks at the expense of the health and well-being of their customers. Firstly, we would recommend that clearer requirements around treatment of term debt are put in place. Even under the current DAP, we have seen evidence that debt has not always been transferred across from old suppliers to new suppliers, and that suppliers' pursuit of term debt has not always taken ability to pay into account. We would like Ofgem to explore whether additional requirements could be

put in place around the pursuit of term debt to ensure consumers can benefit from access to cheaper tariffs and repay any debt at an affordable rate.

We would also want the process by which suppliers decide to switch consumers onto prepayment terms to be reviewed, in particular to evaluate whether stronger suitability tests are required. We have seen case studies (such as the one below, provided by the Extra Help Unit) in recent months where consumers who are not suitable for prepayment meters have been fitted with them in any case. When switching to prepayment mode becomes even easier, it will be even more crucial that energy suppliers carry out checks to ensure it is a suitable arrangement for households in question –

*Domestic Case Study 1 – The consumer who has poor eye sight and mobility was in and out of hospital over extended periods while they received treatment. Despite the fact that the consumer was on the Priority Service Register the supplier took the decision to fit a prepayment meter whilst the consumer was in hospital for a period of time. The consumers meter was located outside. The build-up of standing charges meant that when the consumer returned to his property and tried to add credit to the meter, 70% of his credit was used up on covering the standing charges.*

#### *7. The potential impact of smart meters on related electricity meter point objections (paragraph 2.6)*

We understand that, with a Central Registration System, margin for error in switching processes should be far lower than at present.

### Section 3: Domestic markets

#### *8. The potential impact of each of the options listed and of any other options we should consider, for example from other British or international markets (paragraph 3.2)*

In relation to the options listed, we would encourage Ofgem to investigate the abolition of debt objections and their replacement by other means of managing risk. However, as per our comments earlier in this response, we would hope that any expansion of credit checking would involve suppliers taking into account attitudes to debt particular to the energy market. We would also want areas in which there are a potential knock-on effect, such as term debt recovery and rules around switching customers to prepayment, to be reviewed.

#### *9. The potential impact of abolishing domestic debt objections (paragraph 3.4)*

Broadly, abolition of objections would have the immediate positive effect of eliminating abuse of the current model, at the very least. The EHU regularly deals with situations of this nature, where a customer has been blocked either with no reason given, or by a supplier that subsequently applies ex-post reasoning and does not follow license conditions around issuing the objection (e.g. by informing the consumer in writing of the objection). Please see below two examples of such abuses of supplier objections (customer/supplier names and particulars have been removed for data protection purposes) –

*Domestic Case Study 2 - The prepayment customer transferred to the supplier involved in October 2011. The consumer then attempted to transfer to another supplier in March 2013. The supplier trying to take the supply made two attempts but both of these were blocked. There was no debt on the account, but in the response to us the supplier stated "The consumer is just supplied on a rolling contract and there have been no further attempts by X to acquire the electricity supply since we raised two objections on 5 March 2013 & 14 March 2013 because No Valid Cancellation Received". The letter to the consumer stated "Our company raised these objections because we had received no notification from yourself that you wanted to leave us". There was no suggestion that the supplier had attempted to contact the consumer with the reasons for their objection as stipulated in Licence Condition*

*Domestic Case Study 3 - The consumer transferred to the supplier involved in April 2014. The supplier was unable to bill due to technical problems. The consumer was concerned about a balance accumulating so attempted to transfer to another supplier. However the transfer was blocked and no reason was provided. The consumer who was eligible for the Core Group of the Warm Home Discount was also worried that he would miss out on the data matching exercise.*

*The consumer was referred to the EHU in October 2014. The case was closed in March 2015 once we had confirmation that the consumer was being billed, a payment plan agreed and a goodwill gesture of £100 had been applied to the account. The consumer was still with the supplier he switched to in April 2014 however.*

Abolition of debt-related objections could open up the benefits of competition to a cohort of consumers that hitherto may have been denied access. We have seen several examples recently of low income households who have been unable to switch due to a prohibitive supplier policy that is beyond their control. For example, they build up a large credit debt because they are denied a prepayment meter and therefore cannot switch, or a dispute over billing errors means they are kept with their current supplier due to a situation which is neither their fault or of their making. There may also be situations where consumers could significantly reduce their ongoing energy costs by switching but are prevented from doing so due to debt; this could act effectively as a poverty trap, locking-in consumer detriment. In these situations it would be preferable for consumers not to be penalised for circumstances beyond their control as may be the case presently.

#### Section 4: Non-domestic markets

Before discussing the impact of potential change, it is worth making it clear that we consider the current rate of objections prima facie evidence of the abuse, by some suppliers, of the current objections process. As the consultation states, some suppliers object when they have absolutely no right to, hoping that this will stop the customer trying to switch again and so retain business in an anti-competitive fashion.

It is perhaps telling that the big six objection rate is significantly lower than the whole market average. This situation tallies with our (largely anecdotal) analysis that it is some of the smaller suppliers who object most frequently and with no legitimate rationale. You will know from referrals we have made to you in the past the associated behaviours these suppliers also exhibit in terms of their consumer policies generally. In short, it is often the same suppliers who object who have the highest contacts with the Citizens Advice Consumer Service (CS) and our EHU, as

well as having very poor policies for dealing with debt and disconnection.

Cases illustrating the problem and how this accompanies generally poor supplier behaviour include the following;

*Non Dom Case Study 1 - Consumer was offered very high rates so decided to go to supplier B. A asked for proof that consumer is responsible for the property now. Consumer sent all that information and it was received. The next day consumer received a phone call explaining the out of contract rates and he needs to sign up with A to stop the high rates. Consumer was happy to be sent a bill for these rates and pay the bill when he receives it but supplier A won't allow him to switch supplier. Consumer has no debt with them and they are still stopping the contract. Consumer doesn't understand why A are not allowing him to transfer to B. A are rejecting transfer due to lack of proof that C is responsible for the property.*

*Non-Dom Case Study 2 - Consumer has no contract with A, tried to switch to B but a block was put on transfer. Consumer has received letter saying notice to disconnect due to debt which consumer says is not hers and is the previous tenant's debt. Consumer had to mail B and asked why account not with them and was told transfer denied due to debt. Also that A didn't agree the initial change of tenancy as no proof of tenancy received despite not asking for proof. A are charging three times as much as B would have.*

*Non-Dom Case Study 3 - Consumer has been trying to move away from A since September. Contract ended 12th October - consumer notified A of cancellation on 1st September by post and phone. Consumer submitted final readings to A and first readings to chosen new supplier B. Readings accepted fine but on 15th September consumer was told he couldn't move supplier. B then contacted consumer to tell him that A were objecting transfer. A told consumer they shouldn't have rejected transfer and was a mistake. After multiple transfer requests transfer still blocked. Consumer received multiple credit notes and was told to ask B to re-apply a further time. Each time consumer spoke to A they submitted readings - always accepted. Transfer still not complete - A are still objecting. Consumer is now receiving electric bills and credit notes - doesn't know whether coming or going. Consumer is now getting late payment charges and is on out of contract rates as well. Consumer has spent nearly seven hours on phone to multiple advisors with no resolution.*

In addition, even if the objections are legitimate, insofar as the customer is still in a fixed-term contract, this represents a part-failure of supplier communications. Objections represent at best a failure of understanding on consumers' part that is somewhat due to suppliers.

Because of this we are very happy that Ofgem is reviewing the process in this market especially.

*10. The potential impact of each of the options listed and of any other options we should consider, for example from other British or international markets (paragraph 4.2)*

It is clearly untenable to do nothing and keep the 1 in 3 objections ratio; if there is a case for the domestic market there is most certainly a case in the non-domestic market. Abolishing the objections process entirely may also be a radical step too far, at least in the absence of other changes and without a proper consultation.

Similarly it is unlikely that removing the erroneous transfer or metering points rule would be of

consumer benefit, even if it is being abused by some suppliers. They are also, as you say, only a small number of objections currently but individual cases may be complex and thus take up significant supplier and consumer time. Better monitoring may be useful here.

The Green Deal provisions are of extremely limited importance given the very low levels of non-domestic Green Deal plans. Has anyone at all been objected to because of Green Deal debt in this market?

#### *11. The potential impact of abolishing debt objections in the non-domestic market*

The absence of a duty to supply in the non-domestic market makes the implications of abolishing debt objections much more complex. If suppliers could not object because of debt it is very possible that they will not take on the most risky customers who, based on their past or unknown behaviour, are most likely to get into debt (though smart metering might offer some innovative approaches here e.g. smart prepayment). These customers will then find themselves in a much less competitive market because fewer suppliers will take them on; perhaps many customers would find themselves stuck on very expensive deemed rates for long periods of time. This would need to be offset against the number of consumers who currently end up on expensive out of contract rates because of illegitimate objections.

The realistic alternative to not offering terms at all would be for suppliers to demand significant security deposits to balance the perceived debt risk. Ofgem should investigate whether the impact of these deposits would be more or less detrimental to customers than the current regime. Similarly if Ofgem considered that termination fees would rise significantly.

The extension of the DAP to the non-domestic market is an intriguing possible solution to high security deposits and lack of offerings and we would urge Ofgem to investigate it fully.

#### *12. The potential impact of abolishing all contractual objections in the non-domestic market (paragraph 4.6)*

As discussed above, this would have major consequences because of the debt risk. We also consider that suppliers should, probably and on balance, be able to block for erroneous transfers but that these cases should be automatically sent to Ofgem for monitoring of potential abuse.

As a preliminary position we could be in favour of limiting objections to technical issues (erroneous transfers and meter registration problems) whilst removing debt as a legitimate reason, pursuant to the issues above being properly investigated and consulted on.

### Section 5: Timing

#### *13. The timing of any changes to the objections regime (paragraph 5.2).*

In terms of timescale, we believe any changes would be best timed so as to take effect after the set-up of a Central Registration System for meters and to coincide with the implementation of the wider switching process reforms. This arrangement will mean that energy suppliers will have a long lead-in time for the introduction of the new arrangements but also ensures that as many

consumers as possible will be able to take advantage of the benefits of quicker switching. However, it could also be the case that a phased approach is desirable over the period following introduction of new switching arrangements, perhaps making them applicable to new and renewed contracts only.

We hope this response is useful to you in your ongoing development of prospective arrangements for reliable next day switching. This initiative is of great interest to Citizens Advice, so we are keen to remain engaged with Ofgem and industry as plans develop further and take part in any related stakeholder meetings or workshops.

Should you wish to discuss further any of the views expressed in this response further, please do not hesitate to contact us directly by email at [Daniel.Walker-Nolan@citizensadvice.org.uk](mailto:Daniel.Walker-Nolan@citizensadvice.org.uk) and [Andrew.Hallett@citizensadvice.org.uk](mailto:Andrew.Hallett@citizensadvice.org.uk) or by phone respectively on 03000 231 565 or 03000 231 353.

Yours sincerely,

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