



Making a positive difference  
for energy consumers

To licensees, consumers and  
their representatives and other  
stakeholders

27 February 2015

Dear stakeholder

### **Supplier objections: a call for evidence**

It is vital that energy consumers can easily and confidently change their energy supplier. As part of the existing switching process, gas and electricity suppliers may under certain circumstances object to a customer switching to another supplier. Ofgem has proposed to lead the industry towards reliable next day switching by 2019. As part of the journey, we want to take a fresh look at whether objections should be part of a redesigned switching process or whether suppliers should develop other ways of managing risk.

In our draft Forward Work Programme for 2015-16 we proposed to review objections. We envisaged that this would include looking at whether the current arrangements could be improved so that domestic consumers in debt are more easily able to get the best deal, while ensuring suppliers are able to take appropriate steps to have debt repaid. We envisaged that it might also cover some or all objections in the non-domestic markets.

In order to inform this work, we have been seeking, via our Consumer First Panel, to elicit the views of domestic consumers about objections. This research is intended to complement research that we undertook in 2013 in relation to non-domestic consumers. We are now calling for evidence from all interested parties on the potential benefits, costs and risks of reforming, or removing, the right of suppliers to object.

The call for evidence has five sections. The first section sets out the role that objections have played in the gas and electricity markets and outlines current industry practice. The second summarises some of the overarching issues that Ofgem will have to consider in deciding whether or not to pursue reform of objections. Sections 3 and 4 set out, for the domestic and non-domestic markets respectively, some options and their potential impact. The final section briefly addresses the issue of when any reform of objections should come into force. We welcome comments on any aspect of the call for evidence but annex 1 contains a list of the matters on which we would particularly welcome views.

The responses to this call for evidence (and from the Consumer First Panel) will inform our view as to whether reform of objections is in the interests of consumers. If we conclude that reform is desirable in either or both of the domestic or non-domestic markets, we would expect to launch a consultation on formal proposals by the end of 2015. As part of this we would arrange an event to discuss the proposals with stakeholders. We will update stakeholders later this year on our position.

Responses will be published on our website unless marked confidential. Please send yours to us not later than 24 April either by email to [andrew.macfaul@ofgem.gov.uk](mailto:andrew.macfaul@ofgem.gov.uk) or by post to the following address:

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This work is part of our ongoing regulatory role to make markets simpler, clearer and fairer for consumers. We intend to keep the Competition and Markets Authority informed of our thinking as it develops throughout the year.

If you have any queries about this letter, please contact Andy MacFaul on 020 7901 7000 or using the email address above.

We look forward to receiving your views.

Yours faithfully

**Philip Cullum**  
**Partner, Consumers and Sustainability**

## CALL FOR EVIDENCE

### **Section 1: Introduction**

#### ***The role of supplier objections***

- 1.1 Supplier objections are an established feature of the gas and electricity supply markets in Britain. Objections were originally introduced because of the risk that some customers might switch supplier regularly in an attempt to avoid paying outstanding bills and because suppliers could only disconnect customers' premises - the most severe sanction for non-payment - if they were still the registered supplier.
- 1.2 In that context, if customers with debts switched supplier, the costs to suppliers of collecting these debts was judged likely to increase significantly. The costs of unrecovered debts and increased debt recovery activity from suppliers would ultimately be borne by the rest of the suppliers' customers. The solution was to give suppliers the right to object to transfers if the customer was in debt.<sup>1</sup>
- 1.3 Gas and electricity suppliers now use objections to manage various types of risk. In the domestic market these are non-payment of outstanding bills and erroneous transfers. In the non-domestic market it also includes any specific contractual terms that the customer and the supplier may agree between them. Standard condition 14 of the supply licences set out the circumstances under which a supplier may raise an objection to a switch.
- 1.4 The vast majority of objections in the domestic market occur because a customer is in debt. Before objecting to a transfer on grounds of debt the supplier must have written to the customer to request payment and the debt must have remained outstanding for more than 28 days. Prepayment meter (PPM) customers with a debt of £500 or less may still switch using industry arrangements known as the Debt Assignment Protocol (DAP). Under the DAP the debt moves with the customer who must repay it to the new supplier. Large suppliers have voluntarily applied a debt limit of £500 from 1 November 2012 and small suppliers have done so from 1 April 2013. We are now consulting on modifying licences to formalise this change.
- 1.5 In the non-domestic market objections are a contractual matter between consumer and supplier. These contracts usually allow objections if the consumer is in debt or has provided insufficient notice of termination (where fixed-term contracts allow consumers the benefit of fixed prices enabled by the supplier purchasing energy in advance against the security of the contract).
- 1.6 Electricity suppliers may also object to a transfer if
  - there is a relationship between multiple Meter Point Administration Numbers and the new supplier has not applied to transfer all the related meter points
  - a customer with a Green Deal Plan is in debt or is seeking to switch to a non-Green Deal supplier.
- 1.7 Where a domestic or non-domestic supplier objects, it must notify the customer as soon as reasonably practicable after making the objection. This notice must state why the objection was made and how the customer may resolve it. The supplier must also advise the customer about energy efficiency and debt management and provide information about any cheaper deals that it can offer.

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<sup>1</sup> At the start of domestic gas competition suppliers were also able to object when they had not received a termination notice. This right has since been removed.

## ***The objections process***

- 1.8 The objections process is set out in detail in the Master Registration Agreement (MRA) for electricity and in the Uniform Network Code (UNC) for gas. Under both codes, the losing supplier is notified of the intended transfer and has a period of time to consider whether to block the transfer. The incumbent supplier may block a transfer by raising an objection during the 'objection window'. The supplier may withdraw its objection within a set timeframe.<sup>2</sup>
- 1.9 Where there has been a change of tenancy, the supplier may have a deemed contract with the consumer. For gas and electricity switches, the gaining supplier can include a change of tenancy indicator in the request to switch to inform the losing supplier that a change of tenancy has taken place. In electricity, the gaining supplier must use reasonable endeavours to identify if a change of tenancy has taken place and must retain evidence for at least a year. These reasonable endeavours and evidential requirements do not exist for gas.<sup>3</sup>

## ***The current position***

### *Domestic objections*

- 1.10 In 2014, the objection rate in the domestic market was around 6 per cent of all transfers in gas and 8 per cent in electricity. The vast majority of the objections relate to debt with most of the rest being made to stop erroneous transfers.<sup>4</sup> We understand that suppliers' systems are typically set up to repeat a transfer attempt after an objection in the hope that the reason for the objection has been resolved (for example if a debt has been paid).
- 1.11 As noted above, where an objection has been made, suppliers must offer advice about any of their other tariffs that may be preferable to the customer's existing deal. They must also offer advice about energy efficiency and debt management. **We would welcome information about the number of customers who are provided with energy efficiency and debt management advice under these circumstances and about the number of customers who choose to switch to a cheaper tariff with the same supplier following an objection. It would be helpful if suppliers could provide data by year for each of the last three years.**
- 1.12 Suppliers have told us that more than a third of debt-blocked customers repay their debt and switch shortly after. Therefore, the number of different customers ultimately blocked from transferring will be lower than the figures given above. However, vulnerable, low income customers are likely to be disproportionately affected, with the result that those who are struggling most to pay their bills may be trapped on relatively expensive deals.

### *Non-domestic objections*

- 1.13 The non-domestic objection rate is significantly higher than in the domestic market. The latest information we have suggests that the gas objection rate for Big Six customers was about 22 per cent in Q4 2014 with an average of 29 percent in 2014. The average industry objection rate was about 32 per cent in 2014. Most objections are for contractual reasons such as giving the supplier insufficient notice to terminate the contract.

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<sup>2</sup> Annex 1 contains flow charts setting out the objections processes in more detail.

<sup>3</sup> We considered the objections process during the Retail Market Review. We focused on the use of the Change of Tenancy (COT) flag and this work led to modifications of the MRA.

<sup>4</sup> Erroneous transfers amount to around 1 per cent of all transfers. This may appear low but the impact of the error can be significant for affected consumers and are costly for suppliers to resolve.

- 1.14 Our research with non-domestic consumers has highlighted concerns that suppliers do not always comply with the objection requirements (for example, by threatening to object where they have no right to do so and by not providing clear and timely notice to customers when an objection has been made) and that as a result some consumers have been wrongly moved onto more expensive out-of-contract rates at the end of their fixed term contracts. **It would be helpful to receive more detailed information about the extent of these practices.**
- 1.15 Ofgem has imposed financial penalties on several suppliers for non-compliance with the objections rules, such as British Gas and, most recently, Spark Energy. We remain committed to using our investigation and enforcement powers as necessary in relation to potential breaches of these rules.

## **Section 2: Key issues**

### ***Objections in a competitive market***

- 2.1 Customer switching and the threat of it are fundamental drivers for effective competition. They act as a spur to innovation, better customer service and lower prices. All consumers should be able to enjoy these benefits. In particular, it is not obvious that the customers who are struggling most to pay their bills should be prevented from switching to a cheaper tariff offered by another supplier. Objections are not a typical feature of a competitive market and are rarely seen in other utility markets at home or abroad. Rather, contractual disputes are typically left to the courts or arbitration to determine. **Ofgem will have to consider whether objections remain appropriate. We welcome views on these matters.**

### ***Alternative mechanisms for managing credit risk***

- 2.2 Ofgem will need to consider whether objections are a more or less efficient mechanism for managing those credit risks compared to the alternatives and whether those alternatives may make switching a more complex process. The current objections arrangements may not place sufficiently strong incentives on suppliers to identify and support customers who may be struggling to pay and at risk of falling into debt. We know from our social obligations monitoring data that the number of PPMs installed at domestic premises because of customer debt during 2013 - 454,885 - was 18 per cent higher than in 2011.
- 2.3 Suppliers have a duty to supply domestic customers, though they can specify on what terms they are willing to do so. If suppliers cannot make objections, they are likely to use other methods of managing their credit risks. For example, suppliers may have greater recourse to PPMs and security deposits and may increase termination fees. Disconnections could increase. There could also be an increase in bad debt that suppliers seek to recover from their remaining customers.
- 2.4 **We seek views on how suppliers would be likely to facilitate and manage credit without an objections process. Any evidence about other markets at home or abroad where there are no objection rights or where they have been removed would also be welcome.**

### ***Impact of smart meters***

- 2.5 Smart meters will improve suppliers' ability to monitor debt issues and provide tailored advice and assistance. Smart meters can switch between credit and PPM mode without the supplier having to replace the meter. **They could therefore increase suppliers' ability to support consumers so that debt objections are no longer necessary. We seek views on how likely an outcome that is.**

2.6. Smart meter roll out may also remove the need for related electricity meter point objections. **We seek views on this as well.**

### **Section 3: Domestic markets**

#### ***Options***

3.1 If we were to seek to reform objections in domestic markets, there are a variety of options we could pursue. We welcome evidence about their potential effects. The main options that we have so far identified are:

1. No material changes to the objections arrangements
2. Retain debt objections but require objecting suppliers to be more proactive in managing the relationship with their indebted customers, possibly including a requirement to move them onto cheaper tariffs to help them repay their debts
3. Abolish debt-related objections
4. Abolish objections that relate to erroneous transfers
5. Abolish objections to do with related electricity metering points
6. Abolish objections relating to indebted customers with Green Deal Plans (objections linked to the Green Deal were introduced by the Secretary of State)
7. If we were to abolish debt-related objections, we could
  - extend the DAP to all domestic customers or
  - adopt arrangements like those in Ireland where suppliers cannot object to a customer leaving but new suppliers can refuse to take on a customer with debt above a certain level (€225 is the threshold in Ireland)
  - introduce new rules for example around security deposits.

**3.2 We welcome views on these options and on whether there are other options that we should consider, for example from other British or international markets.**

#### ***Potential impacts***

3.3 We have highlighted below some of the possible positive and negative impacts of abolishing domestic debt objections. The list is not exhaustive and at this stage we have not considered either the likelihood of their occurrence or, in the case of the negative impacts, any actions that might be taken to mitigate them:

- increased switching by indebted consumers to cheaper tariffs which should help them manage their debt better
- suppliers might become more proactive at advising on debt
- reduced costs of managing an objections process if it applies only to erroneous transfers, related metering points and/or the Green Deal
- more credit checking, requests for security deposits or use of PPMs

- an increase in prices for other customers if suppliers smear the costs of unpaid debts across their customer bases
- might discourage new entrants if they perceive greater credit risk

**3.4 We welcome views on the impact of removing debt objections in the domestic market, including any potential impacts not listed above. This could include supporting evidence or experience from international energy or other comparable markets where no such right exists or where it has been removed.**

**Section 4: Non-domestic markets**

***Options***

4.1 If we were to seek to reform the objections arrangements, there are a variety of options that we could pursue. We welcome evidence about their potential effects. The main options that we have so far identified are:

1. No material changes to the objections arrangements
2. Redefine the contractual right to object to exclude debt-related objections
3. Abolish the contractual right to object entirely
4. Abolish objections relating to erroneous transfers
5. Abolish objections to do with related electricity metering points
6. Abolish objections relating to indebted customers with Green Deal Plans (objections linked to the Green Deal were introduced by the Secretary of State)
7. If we were to abolish debt-related objections, we could
  - extend the DAP to non-domestic customers or
  - adopt arrangements similar to those in Ireland where suppliers cannot object to a customer leaving them but new suppliers can refuse to take on a customer with debt above a certain level (€600 and €1200 are the respective thresholds for small and medium-sized businesses in Ireland)
  - introduce new rules for example around security deposits.

**4.2 We welcome views on these options and on whether there are other options that we should consider for example from other British or international markets.**

***Potential impacts***

4.3 We have highlighted below some of the possible positive and negative impacts of abolishing domestic debt objections. The list is not exhaustive and at this stage we have not considered either the likelihood of their occurrence or, in the case of the negative impacts, any actions that might be taken to mitigate them:

- fewer consumers would be moved onto high out-of-contract or deemed rates
- reduced administrative burden for consumers as they could not be blocked if they did not provide sufficient notice of termination

- suppliers might avoid 'high debt risk' consumers
- more credit checking or requests for security deposits, especially from large consumers
- higher termination fees as suppliers price in the risk of purchasing longer-term energy contracts
- the requirement to trade out of its wholesale market position means that a supplier would be exposed to fluctuations in the price of electricity or gas.

4.4 For debt-related contractual objections, the impact of removal may be similar to the domestic market. However, there are two differences that could affect consumer outcomes. First, there is no obligation to supply in the non-domestic market. The removal of the right to object on grounds of debt may reduce the willingness of suppliers to offer contracts to some customers and reduce competition in those parts of the market perceived as a high debt risk. This might especially affect some small non-domestic customer. Second, PPMs are less common in the non-domestic market and might not be suitable for larger customers. It is more likely that such customers would be required to provide security deposits.

**4.5 We welcome evidence on the impact of removing debt objections in the non-domestic market. We also welcome evidence on the impact of removing all contract objections in the non-domestic market.**

**4.6 In each instance, we welcome any evidence or experience from international energy or other comparable markets where no such rights exist or where they have been removed.**

### **Section 5: Timing of any changes to objections**

5.1 Any changes to the objections arrangements might need to be signalled some time in advance of them having effect. For example, we would welcome views on how much notice would be needed in the non-domestic market to allow parties to make the required changes to contracts. Alternatively, we could seek to apply any new rules only to new contracts. We took this approach when changing the gas non-domestic objection rules.

5.2 There are several options as to when any changes might take effect, such as

- when a customer enters into a new contract
- when we implement the wider switching process reforms
- when the customer concerned has had a smart meter installed
- when the roll out of smart meters is complete
- several years after all the mass roll out of smart meters.

**5.3 We seek views on all these options.**



## **Annex 1 List of issues**

We welcome any evidence relevant to our consideration of supplier objections. In particular, we are seeking views and/or evidence on the following matters.

### **Section 1: Introduction**

1. The number of domestic customers who, following an objection,
  - are provided with energy efficiency and debt management advice
  - decide to switch to a cheaper tariff with the same supplier (paragraph 1.11)
2. The extent to which non-domestic suppliers may not be complying with objection requirements and/or the extent to which their customers are being moved inappropriately onto more expensive rates (paragraph 1.14)

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

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

### **Section 4: Non-domestic markets**

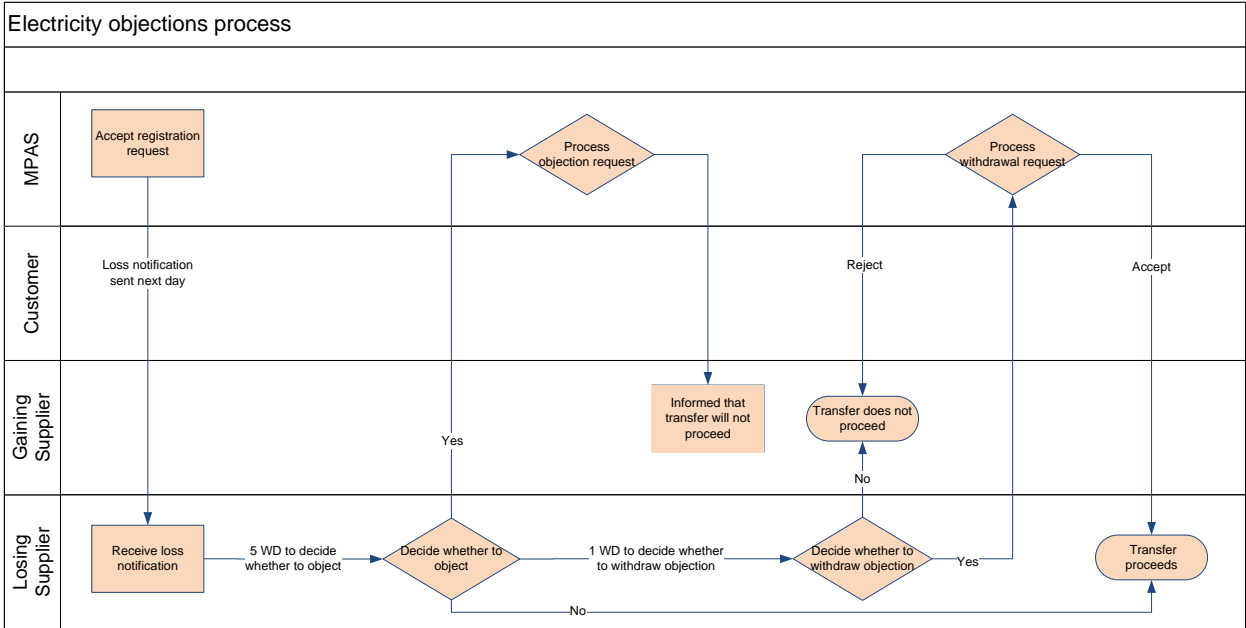
10. The potential impact of each of the options listed and of any other options we should consider, for example from other British or international markets (paragraph 4.2)
11. The potential impact of abolishing debt objections in the non-domestic market (paragraph 4.5)
12. The potential impact of abolishing all contractual objections in the non-domestic market (paragraph 4.6)

### **Section 5: Timing**

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

**Annex 2 Flow charts of the current objections processes**

The electricity objection process is set out below:



In gas, the losing supplier can object to a transfer before D-2, which is called the "objection deadline". The process is set out below:

