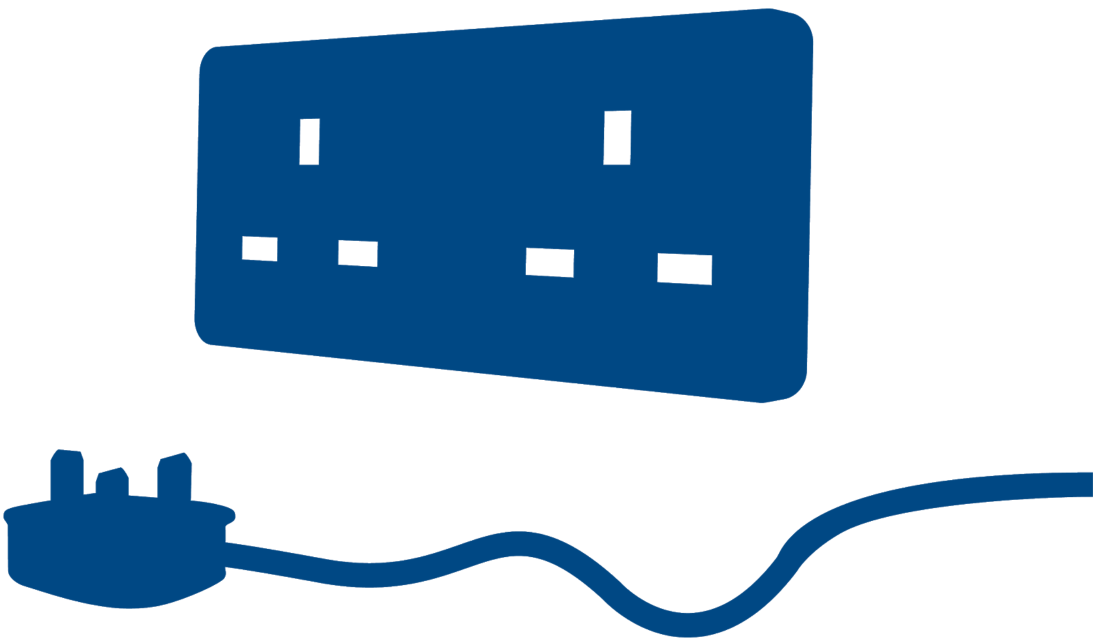
Supplier of Last Resort - good practice guide



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Introduction

In a competitive market, company failure is a possibility that can never be ruled out. While a trade sale of a failing energy supplier remains Ofgem's preferred outcome, this is not always possible. The Supplier of Last Resort (SoLR) procedure was established in 2003 to ensure that when supplier failure occurs, affected domestic customers are guaranteed continuity of supply.

Recently, the SoLR process has been activated repeatedly as an increasing number of energy suppliers have exited the market. This guide is designed to help suppliers understand Citizen Advice's role as a consumer advocate in this process, what kinds of information we need to be able to help consumers, as well as common issues in the SoLR process and so that we can provide examples of good practice.

Recommendations

1. Keep consumers updated about the process

2. Open immediate communication with key third parties (administrator, suppliers, Citizens Advice, Extra Help Unit, Ombudsman Services)

3. Agree a cohesive plan of action with the administrator for what will happen to debt and credit balances

4. Offer one communication point for affected consumers for all SoLR-related issues

5. Make sure all your staff are aware of the extra difficulties these consumers may be experiencing

Increasing number of SOLRs

In 2016 GB Energy left the market, transferring 160,000 customers to Co-operative Energy. This was the first supplier exit in eight years. Since then there have been over 10 additional energy supplier exits, outlined in Table 1. The pace of exits has also increased, as can be seen in Table 2.

The reasons behind these exits are complicated, and cannot be viewed in isolation, but some principle drivers cited by industry stakeholders and those that have left the market include:

1. **New entry**

   Smaller firms have entered a market which was historically dominated by large, well-resourced, vertically-integrated firms; the Big Six. New suppliers often joined the market via innovative offerings, such as “supplier in a box”, which have reduced barriers to entry. Smaller firms have subsequently faced cash flow challenges in light of market changes such as wholesale energy prices and rising policy costs.

2. **Rising and volatile wholesale prices**

   Gas and power prices have recently been on a sustained upward trajectory. For example, in August 2018, wholesale cost for typical dual fuel tariffs rose to £468 a year, exceeding £450 a year for the first time since April 2014 – a 34% increase year-on-year.[1] Wholesale prices have stabilised and then fallen in recent months, but remain comparatively high. Smaller competitors who have been less able to hedge and guarantee energy prices in advance have therefore been exposed to price shocks.

3. **Competition in tariffs**

   In order to build scale quickly, some suppliers have engaged in offering “loss-leading” tariffs, in order to appear close to the top of rankings on price comparison websites.

4. **Customer Service**

   Some firms have struggled to offer a reasonable level of customer service. This leads to increased demand on the company, and in extreme circumstances has led to Ofgem to impose orders on the company restricting their ability to take on new customers.

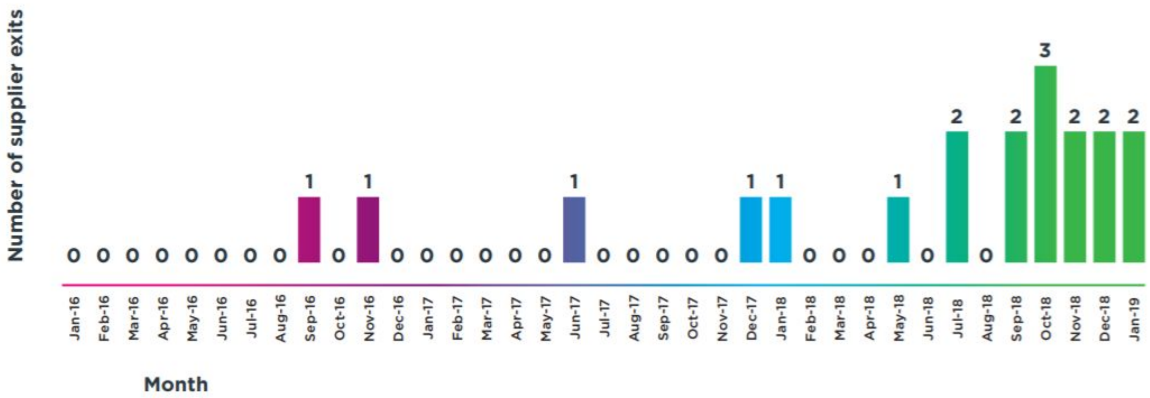
With continuing new entry, volatile wholesale prices, and high levels of competition these conditions seem set to continue at least in the short term.

[1] https://www.cornwall-insight.com/publications/energy-spectrum-and-daily-bulletin/energy-spectrum/issue-635/wide-range-of-retail-tariff-strategies-emerge-amid-rising-prices

Table 1: Supplier failures since January 2018

Failed Supplier	Acquiring Supplier	Date	Customers affected
Future	Green Star	January 2018	10,000
Iresa	Octopus	July 2018	90,000
Gen4U	Octopus	September 2018	500
Usio	First Utility	October 2018	7,000
Extra	Scottish Power	November 2018	120,000
Spark	OVO	November 2018	290,000
One Select	Together Energy	December 2018	39,000
Economy Energy	OVO	January 2019	237,000
Our Power	Utilita	January 2019	38,000
Brilliant Energy	SSE	March 2019	17,000

Table 2: Number of supplier exits January 2016 – January 2019



Source: IGov

How each SoLR is unique

Each SoLR process includes unique factors which can impact who bids to take on a failed supplier's customers, and how to deliver the best consumer outcomes.

Timing - Some SoLR events are expected, with adequate notice given to the market. Others can take place with limited forewarning, necessitating information requests to be made with a deadline of hours.

Supplier size - As illustrated by Table 1, failed suppliers have ranged in size from hundreds to hundreds of thousands of customers. The pool of potential SoLRs can be limited by ability to onboard this volume of customers.

Supplier systems - The compatibility of different systems has meant that while some SOLRs have integrated customers, others have opted to keep them separate, effectively running the acquired company as a white-label arrangement, examples being Spark Energy and GB Energy.

Customer type - Some suppliers specialise in a particular offering, which defines their customer base. For example, Our Power had a high number of prepayment meter customers and was acquired by Utilita, which is also a specialist in that market. The proportion of consumers with high credit balances is also a factor.

Data quality - Ofgem will request a wide range of information from the failing supplier, including details of the customer portfolio. The quality of information such as up-to date contact details, debt levels and public service register registrants will all affect how easily the acquiring supplier will be able to take on new customers while limiting consumer detriment.

Importance of communications

Communicating to customers

Very little data is available immediately after the SoLR, yet consumers want immediate information. Suppliers need to show consumers that they are not being ignored, even if there is nothing to share. Customers might not understand what is happening; the supplier needs to explain it to them fairly and transparently.

Consumers may also have outstanding issues or complaints with the failed supplier. Acquiring suppliers will need to be understanding of consumers' frustration and will need to rebuild trust.

Suppliers should keep consumers informed about the process and updated with how the stages are progressing. Information can be shared through various mediums such as a blog, a bespoke online portal, or social media, as well as the more traditional emails and letters. This process should be set up before the supplier bids in for the SoLR, so they can launch it immediately upon acquisition of the customers.

Suppliers should bear in mind the customer base of the failed supplier. Some suppliers who have gone through the process acquired a very engaged customer base. This is positive as they are likely to read the information provided, but also can drive a large influx of calls, webchat or emails.

Shell Energy set up a ring-fenced phone number for affected customers. They tagged the customers on their system so they could ensure any incoming calls were correctly allocated.

Communicating internally

Poor internal communications can lead to confusion among supplier's customer service agents, and relaying of incorrect information to consumers. It is important that the supplier has clear and accurate information, shares this with frontline staff, and follows up on any reports of misinformation immediately.

Messaging should also be consistent across all channels. Suppliers need to manage the messaging so that consumers receive the same information regardless of the means they use to get it.

One supplier created a cross-organisation team for the SoLR led by the customer service department. They implemented a strong governance structure, and reported to senior management daily. They introduced daily updates to inform stakeholders across the company.

Common consumer issues

Each SoLR is unique. The processes, complaints, data quality and customer base of the failed supplier will all drive different contacts. Below we've outlined some common issues that occurred across SoLRs.

"Is my credit protected?"

The most commonly asked question is if the consumer's credit is protected. Suppliers should ensure this information is clearly signposted, along with managing expectations for the timescales of returning the credit. Consumers should be clearly told:

- Who is paying the credit balance
- When to expect to receive it (even if it is initially a rough estimate which is later updated)
- What they need to do to claim it back
- Contact details for who to contact if they have any queries or further questions

Suppliers should also appreciate that some consumers may have been relying or budgeting on using the built-up credit with the failed supplier to pay for their energy (for instance, if the supplier fails approaching winter and the consumer had built up credit to cover the increased usage).

Some consumers might be owed significant sums (we've helped some consumers who claimed they were owed over £1000 of credit by their old supplier). Consumers might also have been trying to claim the credit back from the old supplier for some time.

"Who is the new supplier?"

Consumers may have no knowledge of who the supplier taking over is. There are often concerns about:

- Are they legitimate?
- Why have they been chosen for me?
- Who are they?

Suppliers should reassure consumers that they are a licenced supplier and provide the consumers with information on their business and background, as some may be frustrated that their choice has been taken away.

"My new tariff is more expensive"

Consumers may have to pay substantially more following SoLR than with their previous supplier. This could affect consumers' budgets, leading to debt or difficulty topping up. The difficulties posed by new tariffs may become immediately apparent for prepay consumers if the standing charge is significantly higher than their previous tariff.

Consumers may be frustrated by the lack of choice or price increase notice. Suppliers should remind consumers that they can switch away after the move has been completed, and provide support for consumers who may struggle to afford or budget with the new tariff. Suppliers should provide clear information to the consumer as soon as possible about the details of their new tariff and an explanation as to why they are being transferred onto a new (more expensive) tariff.

"I have an outstanding complaint"

In recent SoLRs, we have supported many consumers who had open complaints with the supplier before their failure. Some acquiring suppliers have taken on the complaints that were open at the Ombudsman Services: Energy, and spoken to the consumers to try and reach a resolution.

Suppliers should be aware (in all departments) of outstanding issues, and appreciate that some consumers have been trying to solve issues for a significant time before the SoLR.

"Why is this taking so long?"

Consumers aren't aware of the processes and complications that can occur in a SoLR. Suppliers should update customers during the process, inform them of expected timescales and make sure they don't feel forgotten.

"Should I cancel my DD?"

Consumers are told by Ofgem not to cancel their direct debit (DD). We repeat this information to consumers during the SoLR. If a supplier has other processes or plans for customers who pay via DD, they should inform the consumers and us as soon as possible with a clear pathway on what the consumer needs to do and any deadlines.

Specific SoLR issues

As mentioned above, different customer bases will drive different issues and different needs from the supplier. We've outlined some key customer segments that suppliers should be aware of. This list is not exhaustive and suppliers should consider other common issues in their SoLR plans such as if a consumer switched or moved during the SoLR.

Prepay customers

SoLRs produce several unique problems for prepay customers, such as

- Difficulty topping up as usual (e.g. previous supplier's website or app)
- Delays in issuing or receiving new top up cards
- Potential for prepay balances to be lost on transfer with SMETS1 meters
- Confusion around what is happening to existing debt on the meter
- Changes to friendly, discretionary and emergency credit amounts and policies

These issues might cause consumers to disconnect or stop using energy. It's important prepay customers can have easy access to the supplier to enable them to get back on supply as quickly as possible.

Any differences from the policies of the failed supplier, or any actions the consumer needs to take must be clearly communicated to the consumer as soon as possible. Consumers should also be signposted to additional help if further assistance is required.

Microbusiness consumers

Currently microbusiness customers' credit balances aren't protected under the safety net. If the SoLR is not protecting the credit balance, they should be aware the consumer might have lost money with the old supplier.

The SME market has a significant amount of third party intermediaries. Suppliers should be aware that brokers may be contacting the consumers to urge them to switch immediately, and giving contradictory advice to the affected businesses.

Suppliers should ensure they send out clear communication as soon as possible to explain what to expect, and expected timescales for the SoLR process.

Warm Home Discount

Consumers who were on the Warm Home Discount might have questions such as:

- Will they still receive it?
- Are they (still) eligible under the new supplier's core or broad group?
- When do they need to apply and how?
- When will they get their payment?

Suppliers should make sure that the information is clearly provided to the consumers, along with clear steps of what the consumer needs to do and when.

Restricted meter and time of use tariff customers

Consumers who are on restricted meters or have time of use tariffs might find the pricing change challenging. They may require more information or support around:

- Understanding new timings if moved to a new time of use tariff, or understanding the implications of being moved to a new single rate tariff
- Energy efficiency advice if they are facing considerable cost increases
- Understanding the implications of the change for the specific consumers, for instance what it means for a consumer on an EV tariff, or for a consumer with electric heating

Administrators and the administration process

Most administrators are new to the SoLR process themselves, and will not know what common processes are for the energy industry. Suppliers should be prepared to have to explain what may seem to be very simple energy processes to them.

Suppliers should initiate contact with the administrator as soon as possible to plan the process. They should arrange when communications will be sent out, and how to refer issues between each other.

The administration process can take a long time to begin debt collection activity. The consumer might not be aware that they were in debt with the failed supplier and the final bill or debt-collection notices could come as a shock. Suppliers should inform consumers that the final bill from the old supplier will take time to produce, and that anything owed to the old supplier will need to be paid back.

It is important that the final bill is presented as a final bill, and not a debt collection notification. It should present usage data and a summary of debit against usage.

Octopus Energy developed a process for consumers to check the final bill themselves. The consumer could verify it was correct to their understanding, or select what was incorrect. The system automated the process for minor errors, allowing the team to spend more time addressing complex cases.

Suppliers who don’t take on debt or final billing

Energy is an essential service which is why energy suppliers are required to take into account a consumer's ability to pay.

Administrators don’t have the same requirements as suppliers via their licence. This means that consumers don’t have the

- Options to pay for debt via alternative methods (such as fuel direct or prepayment meters)
- Ability to negotiate a long repayment plan
- Protection of back-billing against supplier errors

As long as administrators remain outside of the same requirements as suppliers, we would hope that debt and final billing will always be adopted by the SoLR.

It is important to highlight that best consumer outcomes are most likely to be achieved when acquiring suppliers take on existing consumer debt. Where the SoLR does not do so, many consumers will face debt collection issues.

Suppliers should be aware that administrators might be chasing consumers for debt, and that consumers don’t have the same protections as they would if a supplier collects debt. Some administrators have asked consumers for the whole debt in one payment, others have given very short repayment timescales. These may cause knock-on-effects for the consumer when paying for their current energy usage.

The supplier should make sure that the consumers know who the administrator is (and debt collection agency if relevant), and are informed of the timescales for the debt collection process. This can prevent confusion with the consumer being contacted by an unknown company asking for money.

Consumers who have fallen into arrears with their new supplier might be chased for two debts. This may confuse the consumer if they don't understand why they are being billed twice. Suppliers should attempt to harmonise debt collection with the administrator, and offer extra support to consumers who are experiencing multiple collection activities.

It is useful for Citizens Advice and the Extra Help Unit (EHU) to have contact details for the administrators, so we can liaise directly with them for issues that arise.

Green Star Energy treated all customers who received a bill from the administrators as transiently vulnerable as the consumer would have bill-shock from the failed supplier. Consumers can receive bills going back more than 12 months as administrators are not subject to the back-billing rules.

Supplier checklist

It is important the consumers are reassured and receive accurate information about the SoLR process. We have provided this checklist for suppliers to ensure that they have the information needed, as well as a guide to what information we require. Each SoLR is unique and additional information might be needed depending on the supplier who has failed.

On the day of announcement

- Contact details and opening hours for the affected consumers
- Contact details for the EHU for any off-supply cases, and details of how emergency metering jobs will be completed
- The tariff the customer is moving onto, and if it is more expensive than their existing one
- For DD customers: guidance if consumers should cancel their DD, and what the process for DD is going forward
- For prepay customers: the methods they can use to top up
- For smart customers: whether and how their meter will be affected

As the information becomes available

- A timeline of when the consumer should be expecting to hear from the supplier (both generally, and for the welcome pack with full information), and when the transfer will be complete

- The methods the supplier plans to use to communicate to consumers
- Who is going to be collecting debt and when, including contact details for the administrator if relevant

Third party communications

All suppliers we spoke to for this guide highlighted the importance of having open and clear communications with third parties from day one, including Ofgem, the administrators, Citizens Advice and the EHU.

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