Penalty notice

NOTICE OF DECISION TO IMPOSE A FINANCIAL PENALTY PURSUANT TO SECTION 27A(1) and (5) OF THE ELECTRICITY ACT 1989

Date: 16 June 2025

Notice of decision of the Gas and Electricity Markets Authority ("**the Authority**") to impose a financial penalty on Farringdon Energy Limited trading as Champion Energy ("Farringdon"), Company number 09256369, registered address at Endeavour House 3rd Floor, Coopers End Road, Stansted, England, CM24 1SJ in relation to its compliance with its obligations under Standard Licence Condition ("**SLC**") 4A.1 of the Electricity Supply Licence.

1. Summary

1.1. The Authority has made a determination to impose a financial penalty on Farringdon regarding its contravention of its obligations under its supply licence. The Authority is satisfied that Farringdon has contravened SLC 4A.1 (a) and (b) as it did not have and maintain robust internal capability, systems and processes to enable it to efficiently and effectively serve its customers and to efficiently and effectively identify likely risks of consumer harm and to mitigate any such risks. This resulted in Farringdon, without legitimate reason, collecting payments for energy not supplied to customers.

1.2. The Authority has taken account of the relevant facts and circumstances of the contraventions. It has taken account of representations received from Farringdon on 12 November 2024 in response to the Authority's penalty proposal notice dated 6 November 2024 (**The Representations**), which are appended to this notice.

1.3. The Authority hereby confirms its original proposal to impose a penalty of £223,676. However, it will deduct from this penalty £9096 which Farringdon paid to customers as a goodwill payment.

1.4. By way of background, the Authority issued a Provisional Order (PO) to Farringdon on 9 May 2024[1]. It appeared to the Authority that Farringdon was contravening SLC 4A.1(a) and (b) and as a result was receiving payments from circa 200 customers in respect of electricity Farringdon had not supplied. It appeared to the Authority that that electricity

[1] Farringdon Energy Provisional Order

was, unknown to the customers, being supplied by licensed suppliers other than Farringdon.

1.5. The information obtained by the Authority in the course of its investigation found that Farringdon had been accepting payments without legitimate reason from 25 customers to whom it did not supply energy. This caused a total detriment of approximately £175,000 to those customers. In determining the level of penalty, the Authority has also taken account of the potential impact of Farringdon's contravention. Farringdon had not documented the systems and processes it claimed to have to deal with ensuring it manages customer accounts correctly (i.e. to ensure it only takes payment in respect of energy it has supplied). Farringdon claimed that systems and processes existed in the undocumented knowledge of one employee of the company. Undocumented systems and processes, in the view of the Authority, are insufficient to ensure that Farringdon has and maintains robust internal, capability, systems and processes to enable it to efficiently and effectively serve each of its Customers (as required by SLC 4A.1(a)) or to identify likely risks of harm and to mitigate any such risks (as required by SLC 4A.1(b)). Operating in such a way does not build resilience into Farringdon's processes such that if the employee is unable to work or fails to follow processes correctly it is likely that mistakes will be made (as has indeed occurred) which will adversely impact consumers. Many more than 25 customers could have been impacted given Farringdon's disregard of the SLC.

1.6. Since the PO, Farringdon has taken appropriate remedial actions. However, applying the criteria in section 3 of this Notice, the Authority is satisfied that a penalty should be imposed for the contraventions set out in the PO. In determining the amount of the penalty, the Authority has considered the factors set out in section 4 of this Notice.

1.7. In accordance with section 27A (2) of the Electricity Act 1989, the Authority is satisfied that it would not have been more appropriate to proceed under the Competition Act 1998.

2. The Authority's view on contraventions

2.1. SLC 4A.1 came into effect in early 2021. It states that the "*licensee must ensure it has and maintains robust internal capability, systems and processes to enable the licensee to: (a) efficiently and effectively serve each of its Customers;* [and] *(b) efficiently and effectively identify likely risks of consumer harm and to mitigate any such risks".*

2.2. The Authority issued a PO to Farringdon on 9 May 2024 on the basis that it appeared to the Authority that Farringdon was contravening and likely to contravene SLC 4A.1 because it appeared:

a) Farringdon had been receiving payments from in the region of 200 non-domestic customers and consumers ("Customers") for supply of electricity that Farringdon had not supplied and had not informed the Customers that it had not been supplying.

b) The Customers were, unknowingly, being supplied by other energy companies, and there was evidence that these energy companies were not being paid for their supply.

c) There was evidence that these Customers were unknowingly accruing debt to the true suppliers of their electricity.

2.3. After the PO was issued, Farringdon informed the Authority there were two legitimate circumstances in which customers were paying by Direct Debit ("DD") to, but not receiving supply from, Farringdon. These were:

a) Customers deemed a credit risk, from whom Farringdon requested advance payments to build credit to mitigate risks. Farringdon identified 270 customers within this category.

b) Customers permitted to switch from Farringdon, despite being in debt to Farringdon. In this instance, the customer continued to pay Farringdon, following the switch, to cover the outstanding debt. Farringdon identified 3 customers within this category.

2.4. On 5 June 2024, Farringdon informed the Authority it had identified 14 customers, referred to as "Prejudiced Customers", who, for no legitimate reason, were paying DD without receiving supply. On 20 June 2024, Farringdon revised this number to 16. In June 2024, Farringdon informed the Authority it had employed an independent consultant who had identified a further 9 Prejudiced Customers. In total, Farringdon identified 25 Prejudiced Customers.

2.5. Evidence provided by Farringdon to the Authority indicates that, since 2021, it allowed 30 customers to switch to another supplier despite being in debt. These customers continued making DD payments to pay off this debt. Of these 30 customers, 21 (70%) were Prejudiced Customers because Farringdon continued to take payments after the debt was cleared. In addition, Farringdon provided evidence of 4 cases in which they failed to provide supply but set up, and continued to take, direct debits.

2.6. Farringdon had no documented internal systems and processes to manage customers' accounts and payments. As at the time of receiving the PO, Farringdon had failed to identify it was taking DD from customers illegitimately, in some cases since 2021. Farringdon claimed to have policies and procedures in place but these were in the mind of one employee relying on personal knowledge and experience. Farringdon had no contingency

plans or resilience in place to manage customer accounts and payments should a change in management be necessary. This is a contravention of SLC 4A.1 because, by operating in such a way, Farringdon did not have or maintain the robust internal capability, systems and processes required by SLC 4A.1(a) and (b).

2.7. For the reasons above, the Authority is satisfied that Farringdon has contravened SLC 4A.1(a) and (b).

3. The Authority's view on whether to impose a financial penalty

3.1. In deciding whether to impose a penalty, and in determining the amount of any penalty, in respect of a contravention or failure, the Authority is required to have regard to its Statement of Policy with Respect to Financial Penalties and Consumer Redress[2] ("the Penalty Statement").

3.2. The Authority is required to carry out its functions under Part 1 of the Electricity Act 1989 **(EA 89)** including the taking of any decision as to the imposition of a penalty, in the manner which it considers is best calculated to further its principal objective set out in section 3A EA 89 having regard to its other duties. In formulating its view whether it is appropriate to impose a penalty, the Authority has considered all the circumstances of the case, including The Representations and the specific matters set out in the Penalty Statement.

Penalty Statement – General Criteria in relation to imposing a financial penalty and / or making a consumer redress order

3.3. In accordance with the Penalty Statement, the Authority has considered various factors in deciding whether to impose a penalty including those listed at paragraph 4.1 of the Penalty Statement i.e. (a) the seriousness of the contravention or failure; (b) the impact of licensees' behaviours, including the extent to which the failure damaged the interests of consumers or other market participants; and (c) deterrence, including whether a financial penalty and/or restitution payment is necessary to deter future contraventions or failures

[2] Statement of Policy With Respect to Financial Penalties And Consumer Redress 2022 | OFGEM, drafted in accordance with Section 27B (2) EA 89 and section 30B GA 86

by all market participants and encourage compliance. We have addressed seriousness and impact together due to overlaps in these considerations, then deterrence.

3.4. Seriousness and impact of the contravention or failure

3.4.1 Farringdon did not have the robust capability, systems or processes required by SLC 4A.1(a) or (b) in respect of the management of customer's money. Any such capability, systems or processes in that regard were undocumented, in the mind of one employee. The obvious risk presented by this resulted in 70% of customers who were allowed to leave while paying a debt becoming Prejudiced Customers. It also resulted Farringdon taking payments from four Prejudiced Customers who never, at any time, received supply. This complete lack of documented processes / systems and the impact it had (and could have had) amounts to a serious breach of SLC 4A.1. Farringdon failed to engage with the SLC, putting Customers at risk of harm during the day-to-day running of Farringdon's business. In addition, there was no contingency plan or resilience in place to manage customer funds in the event of that one employee being unable to work.

3.4.2 Having initially identified 14, then a further two, Farringdon identified a total of 25 Prejudiced Customers. It was unable to reliably assure the Authority there were not more. Given the clear lack of control over customer accounts, the contravention could have significantly impacted many more Customers.

3.4.3 Farringdon's failure resulted in it receiving £177,271, which it was not entitled to, from the 25 identified Prejudiced Customers. This could have been prevented had Farringdon complied with SLC 4A.1, for example by having a process of conducting regular account reviews.

3.4.4 Farringdon have made attempts to reimburse money taken from Prejudiced Customers, which were all small businesses. However, it could not contact six of them. The Authority has not been able to ascertain precisely why these customers cannot be contacted. If they have ceased trading, these unnecessary payments may have impacted on these business' liquidity.

3.4.5 Of the 19 Prejudiced Customers Farringdon was able to contact, it offered a goodwill payment by way of apology. The goodwill payments totalled £9,096; one Prejudiced Customer receiving £3,000, the remaining 18 receiving payment of approximately 5% of the detriment they had suffered. The Authority has taken account of this in determining what penalty should be imposed (see paragraph 6.2 below).

3.4.6 The impact of the contravention on these small businesses cannot be fully determined but is likely to be significant. The breach, resulting in money being taken from customers for no legitimate reason, would likely have continued without the Authority's intervention.

3.5 Deterrence, including whether a financial penalty and/or restitution payment is necessary to deter future contraventions or failures by all market participants and encourage compliance.

3.5.1 The integrity of a supplier's management of customers' money relies on robust systems and clear internal policies and procedures. Customers must have confidence that suppliers will manage their accounts effectively. Farringdon's failure showed disregard for the duty imposed by SLC 4A.1 over a sustained period and resulted in significant detriment to the Prejudiced Customers, including 70% of the customers who Farringdon allowed to switch to another supplier while paying off a debt.

3.5.2 Whilst Farringdon has not previously been the focus of enforcement action, a strong deterrent message must be sent to focus its attention on taking its licence obligations seriously.

3.5.3 The Authority also considers it necessary for a strong deterrent message to be sent to the wider market, to encourage the compliance of all suppliers and put them on notice that breaches of this nature will be penalised.

3.6. Taking the above factors into account, the Authority considers it necessary to impose a penalty.

4. Determining the amount of the financial penalty

4.1. The Penalty Policy outlines the steps that should be taken in calculating the penalty amount for any given case. This is a six-step process, and the Authority's views and determinations for each of these steps is laid out below.

Step 1 – Calculate the detriment and gain

4.2. The Authority, in reviewing all the available evidence, has attempted to obtain information that would allow it to quantify the full gain to Farringdon and detriment suffered by the consumer in this case. When the Prejudiced Customers were identified, the detriment was calculated by Farringdon to be £177,271. Where possible, since the PO was issued, Farringdon has voluntarily refunded some of the Prejudiced Customers. We understand it

has refunded £86,706 to customers who are now with other suppliers and kept £52,562.28 on account at the request of customers who had switched back to Farringdon. This equates to about 80% of the detriment being refunded. Farringdon has been unable to locate customers to repay the remaining 20%, circa £38,000. It is noted that the customers who were refunded also received the aforementioned goodwill payment.

4.3. The effect of the financial gain to Farringdon over the contravention period cannot be fully determined or quantified as it is unknown how Farringdon used these additional funds over the long period of breach or if any interest was earned.

4.4. For these reasons it is not possible to accurately quantify the gain and detriment here. Instead, the Authority has considered this at Step 2 in assessing the seriousness of the breach.

Step 2 – Assess the seriousness of the breach

4.5. In assessing the seriousness of the breach, the Authority has given due regard to factors outlined in the Penalty Policy (part 5) and considers all those listed within Step 2 to be applicable in this case. These are outlined below:

Factors relating to the nature of a contravention or failure

4.6. The Authority considers the contravention to be serious. It represents a complete failure to engage with SLC 4A.1. It occurred over a substantial period (2021 to 2024), demonstrating a long-term systemic failure of Farringdon's operational capability and a long-term disregard for a condition of its electricity supply license.

Impact of the contravention or failure, including any detrimental effect on the ability of Ofgem or the Authority to fulfil its statutory duties and whether there was any consumer or market participant detriment or gain (financial or otherwise) made by the regulated person.

4.7. Farringdon, by itself, was unable to identify all "Prejudiced Customers", requiring it to engage a consultant to assist in doing so as part of complying with regulatory obligations after the PO has been issued. Without directions given under the PO, it is likely that the Prejudiced Customers would not have been identified, and Farringdon would have continued to take payments erroneously.

4.8. Customers affected were all small businesses which are likely to be at higher risk from financial harm than larger businesses due to lower turnover and profit. Customers should have confidence that energy suppliers have sufficient procedures and capabilities in place to ensure that direct debits are justified.

4.9. Farringdon took payments, in excess of £175,000, from 25 identified Prejudiced Customers with some of these payments commencing in 2021. It took significant overpayments from 21 customers who had been in debt as well as payments from four customers to whom it never, at any time, provided supply. The Authority is satisfied that the contravention likely caused significant impact to Prejudiced Customers.

Step 3 - Consider aggravating or mitigating factors

4.10. The Penalty Policy provides a non-exhaustive list of aggravating factors and mitigating factors that ought to be considered when determining a penalty. In this case, the Authority has considered the following aggravating factors (table 2) and mitigating factors (table 3) to be applicable.

4.11. Table 2 - Aggravating factors

No	Aggravating Factor (factors tending to increase penal element)	Applies Y/N/P (partial)	Detail
1	Compliance history	**N**	Farringdon has not previously been the subject of Ofgem's enforcement action.
2	Actions, or lack thereof, taken after becoming aware of the contravention or failure prior to Ofgem's investigation	**Y**	Farringdon's complaint data, provided to Ofgem following the PO, details four similar cases resolved by the Energy Ombudsman. These complaints dated as far back as 31 October 2021. They were all resolved with Farringdon agreeing to refund the customer and making an additional goodwill payment. Therefore, Farringdon should have been, or could reasonably have been expected to have been, aware of the contravention before Ofgem's investigation.
3	The involvement of senior management in any contravention or failure	**Y**	Farringdon is a small supplier, and its senior management was directly responsible for the contravention.

No	Aggravating Factor (factors tending to increase penal element)	Applies Y/N/P (partial)	Detail
4	The absence of any evidence of internal mechanisms or procedures intended to prevent contravention or failure	**Y**	Farringdon had no documented internal mechanisms or procedures intended to prevent the contravention.
5	The absence of any evidence that such internal mechanisms and procedures as exist within the regulated person have been properly applied and kept under appropriate review by senior management	**Y**	As above.

Table 3 – Mitigating factors

No	Mitigating Factor (factors tending to decrease penal element)	Applies Y/N/P (partial)	Detail
1	The extent to which the regulated person had taken steps to secure compliance either specifically or by maintaining an appropriate compliance policy, with effective management supervision	**N**	Farringdon had taken no steps to secure compliance either specifically or by maintaining an appropriate compliance policy, with effective management supervision.
2	Evidence that the contravention or failure was genuinely accidental or inadvertent	**N**	There is no evidence of any attempt to engage with SLC4A.1, despite at least four customers taking complaints to the Ombudsman. This leads to the conclusion that the contravention was not genuinely accidental or inadvertent.

No	Mitigating Factor (factors tending to decrease penal element)	Applies Y/N/P (partial)	Detail
3	Promptly, accurately and comprehensively reporting the contravention or failure to Ofgem (self-reporting breach)	**N**	Farringdon did not report this failure to the Authority
4	Appropriate action by the regulated person to remedy the contravention or failure	**Y**	Farringdon has complied with the terms of the Provisional Order (as would be expected) and employed the services of a consultant to assist with its regulatory obligations.
5	The terms of the Order are likely to have already led to some financial penalty for the supplier	**P**	Farringdon has refunded circa 80% of the funds wrongfully taken. It offered all contactable Prejudiced Customers an additional 5% voluntary goodwill payment. For the 6-month duration of the PO, Farringdon was ordered to refrain from all sales acquisition activity including the acquisition of new non-domestic customers. The financial impact of this cannot be assessed but it is likely this would have had some impact. Farringdon has also engaged the services of a consultant to assist with its compliance of licence conditions. The Authority acknowledges that this may have come at a considerable financial cost. However, Farringdon should have had the resources, policies and procedures already in place to ensure compliance. Therefore, the Authority has partially considered this factor.

Step 4 – Consider an adjustment for deterrence

4.12. Entirely ignoring SLC4A.1 is a serious breach. It is imperative that licensees engage and comply with all relevant license conditions. On that basis, the Authority considers that a strong deterrent message must be sent to Farringdon. It is equally important that the wider market understand that failure to engage with the duties imposed by a licence condition aimed at protecting Customers will not be tolerated and will be appropriately penalised.

4.13. For this reason, the Authority has imposed an appropriate uplift to the penal element for deterrence.

Step 5 – Apply a discount in settled cases

4.14. Not applicable

Step 6 – Establish the total financial liability

4.15. Having considered all the available evidence, and the factors outlined earlier in this section, the Authority considers it appropriate and reasonable in all the circumstances to impose a penalty of £223,676, subject to a deduction of £9096 in acknowledgment of that sum which Farringdon paid to customers by way of apology. The penalty imposed is therefore £214,580.

5. Representations received in response to the notice of proposal to impose a penalty

5.1. A notice of proposal to impose a penalty was served on Farringdon and published for public consultation on 6 November 2024.

5.2. The Authority received no representations from the public or other interested parties.

5.3. The Representations from Farringdon, which are appended to this notice, raised four main points:

i) Farringdon noted that the PO was in relation to the appearance that Farringdon was taking payments from in the region of 200 customers for energy that Farringdon had not supplied. This appearance has not been supported by the evidence. The proposed penalty notice was issued in relation to only 25 Prejudiced Customers.

ii) A penalty of £223,676 is the maximum allowed in legislation because it equates to 10% of Farringdon's turnover. This does not adequately take account of the voluntary payments made by Farringdon to the Prejudiced Customers. In terms of section 27O of the Electricity Act 1989, the imposition of a consumer redress order, to directly compensate the Prejudiced Customers, would deplete the percentage of turnover

available for a penalty. A consumer redress order for the full detriment of £177, 271 would amount to 8% of the company's turnover, leaving just 2% (about £50,000) for a penalty. Farringdon argued that proceeding to impose the maximum penalty in these circumstances risks sending a wrong message to other suppliers not to pay customer refunds until ordered to by Ofgem.

iii) A penalty of 10% of turnover for 25 Prejudiced Customers appears disproportionately excessive, particularly due to there being no evidence of a malicious act as suspected in the PO.

iv) The Authority has treated the following other suppliers differently in comparable action:

- *'In 2023 United Gas & Power received a penalty of £1 + voluntary redress for intentionally overcharging customers to manage cash-flow, whereas turnover was £114million, penalty + redress =£2.1million approximately 2% turnover.'*
- *'British Gas in 2017 had multiple issues on switching and billing frequency, information and CHSR incurring £9.1m on £10,635m turnover or <0.1%. "BG has admitted that it breached the relevant conditions and requirements set out above. It has acknowledged that its practices fell short of requirements in relation to practices involving billing, registrations, notification of contract terms, adhering to the SOC and complaints handling. It has made improvements in a number of areas since the investigation was opened, such that each of the breaches has now ended."'*
- *'BES Utilities in 2015 had turnover of £56Million but a penalty of £980,000 made up of £2 penalty plus voluntary redress for the remainder, in total for approximately 1.75% turnover. "BES admitted that it breached the relevant conditions and requirements set out above and co-operated with the Authority's investigation. It acknowledged that its practices fell short of requirements in relation to communicating principal terms, complying with the Standards of Conduct, dealing with requests from customers on deemed contracts to switch supplier, objecting to customer transfers of those on deemed contracts and complaints handling. BES made improvements in those areas which were the subject of this investigation."'*

5.4. Addressing each of these points in turn:

i) Number of customers affected was 25 rather than 200

The breach was a failure to have in place *robust internal capability, systems and processes to enable the licensee to efficiently and effectively serve each of its Customers; and efficiently and effectively identify likely risks of consumer harm and to mitigate any such risks.* Farringdon had no such robust systems, policies and processes in place. Any information held in that regard was undocumented, in the mind of one employee. While the circumstances differed from the appearances set out in the PO, the investigation revealed a complete failure to engage with SLC 4A.1. The impact evidenced may have been less than the circumstances as appeared in the PO but, nonetheless, the Prejudiced Customers suffered significant financial detriment. More importantly, the nature of the contravention meant the potential for harm was very significant. Not only were Customers at risk during the day-to-day running of Farringdon's business, there was no contingency plan or resilience in place to manage customer accounts and payments in the event of the employee being unable to work. While Farringdon was only able to identify 25 Prejudiced Customers, due to the nature of the contravention, it was unable to reliably assure the Authority there were not more.

ii) **A full 10% penalty doesn't appropriately take account of the voluntary reimbursement, sending the wrong message to the market.**

The amount of the penalty must be reasonable in all the circumstances of the case[3]. It is correct that the maximum penalty allowed in law for a single contravention is 10% of a licensee's turnover[4]. Farringdon ignored the requirements of SLC4A.1 for three years. Its contravention would likely have continued if not for the PO. The contravention was serious. Had the Authority imposed a consumer redress order for the full amount of the detriment, it would have only been able to impose a penalty of circa £50,000 (2.2% of Faringdon's turnover). A penalty of such low amount would have been inadequate to address the seriousness of the contravention and send a strong deterrent message to Farringdon and the wider market. Non-compliance should normally cost significantly more than compliance and financial penalties should act as a significant deterrent to future non-compliance. When determining the amount of a financial penalty and/or consumer redress payment, the Authority will consider any remedial measures that have been taken by a regulated person. However, the Authority may impose a financial penalty significantly in excess of the gain or detriment

[3] S27A(1) Electricty Act 1989

[4] S27O(1) Electricty Act 1989

even where the gain or detriment has been mitigated in full. The Authority considers that this may be necessary in order to deter non-compliance and provide appropriate encouragement for all regulated persons to comply with their obligations[5] A penalty as low as £50,000 would create significant risk that Farringdon and other licence holders would feel at liberty to ignore licence conditions, seeing such small penalties as a relatively low contingent cost, to the significant detriment of consumers. A penalty of £223,676 equals 1.27 times the value of the detriment to the Prejudiced Customers. In the cases which Farringdon has cited as comparable (addressed below), the penal elements were a lower percentage of the companies' turnovers, but the penalty payments were significantly greater in proportion to the detriment than the penalty imposed on Farringdon. The Authority's principal objective is to protect the interests of consumers[6] Given the seriousness of this single contravention and a requirement for the strongest deterrence message at Ofgem's disposal, it is reasonable in all the circumstances of the case to impose a penalty of 10% of Farringdon's turnover.

iii) A penalty of 10% of turnover for 25 Prejudiced Customers appears disproportionately excessive, particularly due to there being no evidence of a malicious act as suspected in the PO

Regardless of there being no evidence of a malicious act, Farringdon's contravention was serious and caused significant detriment to at least 25 customers. A penalty of less than £223,676 for a serious breach causing detriment of at least £175,000 would be disproportionately low.

iv) The Authority has treated other suppliers differently in comparable action

- In 2023, United Gas & Power (UGP) received a penalty of £1 plus a payment into Ofgem's Voluntary Redress Fund (VRF) for intentionally overcharging customers to manage cash-flow. Whereas turnover was £114million, penalty and redress amounted to £2.1million (approximately 2% turnover)[7]. UGP's conduct was different in that the primary breach involved intentionally overcharging customers £382,188, most of which refunded. Another secondary breach involved retention of credit balances on customers closing accounts. The detriment in this regard was

[5] Paragraphs 2.2-3.3, Statement of Policy With Respect to Financial Penalties And Consumer Redress 2022 | OFGEM

[6] Section 3A(1) Electricity Act 1989

[7] UGP Penalty Notice

calculated at £248,262 (approximately half of which was repaid to the affected customers). Taking the total detriment of £630,450 (most of which had already been repaid), the penalty payment into the VRF was approximately 3.3 times the detriment.

- In 2017, British Gas (BG) had multiple issues on switching and billing frequency, information and CHSR incurring £9.5m redress payment on £10,635m turnover (less than 0.1% of turnover). This case involved unintended breaches of licence conditions due to the implementation of a system to improve customer billing. BG identified the breaches and self-reported to Ofgem. While the impact of this contravention was greater in scale, the Authority considers Farringdon's conduct in the present case to be significantly more serious. The detriment in the BG case was calculated at £3.9m. The penal element of the redress payment was £5.6m, which was 1.43 times the detriment.
- In 2015, BES Utilities had turnover of £56 million but a penalty of £980,000 made up of £2 penalty plus payment into the VRF for the remainder (approximately 1.75% turnover). This was a contravention of SLCs 7A, 7B, 7 and 14 by failing to explain customer charges to more than 7,000 customers. Important information about price, potential changes in price and termination fees in lengthy contracts were not communicated clearly or at all. The breach period lasted up to five years. The contravention was not genuinely accidental or inadvertent, there had been significant levels of complaints from customers. BES' conduct was arguably more broadly comparable with Farringdon's than in the other cases cited. Consumer detriment was assessed at £311,000. Of £980,000 payments into the VRF, £669,000 was penal; the remaining £311,000 of which was compensation. The penal element was therefore 2.15 times the detriment. If BES had not agreed to settle ahead of a penalty proposal being issued, by offering to make the redress and compensation payments, the Authority would have considered it appropriate to impose a much larger penalty in view of the seriousness of the contraventions.

5.5. Due to the total disregard for SLC4A.1 in the present case and the seriousness of this case as a whole, the Authority wishes to send a powerful deterrent message and does not consider a discounted settlement to be appropriate.

5.6. In all of the cases cited by Farringdon, the penal elements of enforcement payments were higher in proportion to the detriment suffered by consumers than in the penalty imposed on Farringdon. While a penalty of £223,676 is 10% of Farringdon's threshold, it is an

amount that is reasonable in all the circumstances of the case. It is proportionate to the contraventions and consistent with previous decisions.

6. The Authority's decision

6.1. The Authority is satisfied that Farringdon breached SLC 4A.1 (a) and (b). Having considered all the available evidence, the factors outlined in section four of this notice and the Representations, the Authority considers it reasonable in all the circumstances to impose a penalty of £223,676, subject to a deduction of £9,096 in acknowledgment of that sum which Farringdon paid to customers by way of apology. The penalty imposed is therefore £214,580.

6.2. In reaching its decision, the Authority took the relevant factors under the Penalty Policy into account, including but not limited to:

(i) The very serious nature of the breach.

(ii) The likely, but unquantifiable, detriment that the breach would have caused to consumers and other market participants; and the resultant gain to Farringdon.

(iii) The aggravating and mitigating factors outlined in Tables 1 and 2, that are either applicable or partially applicable in this case.

(iv) Sending a strong deterrence message to Farringdon and the market.

6.3. The Authority under section 27A (3) of the EA 89 is imposing a penalty of **£214,580** on Farringdon, in respect of the contraventions set out above.

6.4. The penalty must be paid to the Authority by 31 July 2025.

Signature:

Cathryn Scott
Director of Enforcement
Duly authorised on behalf of the Gas and Electricity Markets Authority

Appendix: Representations received from Farringdon on 12 November 2024 in response to the Authority's penalty proposal notice dated 6 November 2024

Farringdon's representations were provided "without prejudice". The Authority understands this to mean that anything in the representations that could be used as evidence against Farringdon in court proceedings should remain confidential. The Authority has therefore redacted some of the text.

Representations:

"Farringdon notes that the proposed penalty is the maximum permitted under the https://www.legislation.gov.uk/uksi/2002/1111/contents/made and you indicated that this was the intention of the Enforcement Oversight Board in their initial proposal.

However, Ofgem notes that the original Order was due to suspicions that 200 customers were being debited without the knowledge that they were being supplied by Farringdon and that this was an intentional act. This has not been supported by the evidence submitted.

C. The Provisional Order was made as it appeared to the Authority that Farringdon was contravening, or likely to continue to contravene, relevant conditions and requirements by virtue of the following conduct:

i. Farringdon has been receiving payments from approximately 200 Customers and consumers for supply of electricity. It appears that Farringdon has not supplied this energy and has not informed the Customers and consumers of this.
Evidence was presented that customers knew that advanced payments were being made prior to their switch date to meet credit requirements and this has been accepted by Ofgem as recognised in the proposed penalty proposal.
"Farringdon informed the Authority there were two legitimate circumstances in which customers were paying by Direct Debit (DD) to, but not receiving supply from, Farringdon. These were:
a. Customers deemed a credit risk whereby, Farringdon requested advance payments to build credit to mitigate risks. Farringdon identified 270 customers within this category.
b. Customers permitted to switch, from Farringdon, despite being in debt with Farringdon. In this instance, the customer continued to pay Farringdon, following the switch, to cover the outstanding debt..."

ii. The Customers and consumers are, unknowingly, being supplied by other energy companies. There is evidence that these companies are not being paid for their supply.
Customers, confirmed that they had been aware and evidence of such was presented.
[redacted]

iii. There is evidence that the Customers and consumers are unknowingly accruing debt to the true suppliers of their electricity.

Customers, confirmed that they had been aware and evidence of such was presented. [redacted]

E. Standard Licence Condition ("SLC") 4A provides the following:
i. SLC 4A. Operational capability
4A.1 The licensee must ensure it has and maintains robust internal capability, systems and processes to enable the licensee to:
(a) efficiently and effectively serve each of its Customers;
(b) efficiently and effectively identify likely risks of consumer harm and to mitigate any such risks

F. It appears to the Authority from information currently available to it that Farringdon does not have the internal capability, systems and processes to efficiently and effectively serve its Customers or to efficiently and effectively identify likely risks of consumer harm and to mitigate any such risks. This is the result of Farringdon contracting to supply non-domestic Customers and consumers with electricity, the Customers and consumers are then unknowingly signed up to be supplied by other licensed energy suppliers. Subsequently, Farringdon collects payment for the energy supplied but said payment is not passed on to suppliers, in turn leading to the consumer inadvertently accruing debt with the actual supplier of their electricity.

[redacted] *Farringdon were not signing customers up to be supplied by other licensed energy suppliers and that has not been found by Ofgem following the investigation.*

Therefore, the original premise of the Order was not founded in reality. However, as a result of their investigations, Farringdon/Ofgem identified 25 customers who were making payments without due reason [redacted].

Ofgem acknowledge that Farringdon took appropriate steps to remedy the contravention and that some financial penalty has already been incurred from loss of sale, cost of regulatory consultancy and goodwill payments but no reduction in the maximum 10% has been evidenced. Total to be refunded is £177271 with £9096 (just over 5% additional goodwill), of that £95802 has been paid to customers but the remainder has not, £52562.28 is because the customers have returned to Farringdon and specifically requested the sums be kept on account. Therefore, the unpaid amount due to being unable to locate or cheques not cashed is £37962.39 (just under £38000). Had Ofgem issued a consumer redress order for these sums to be repaid to customers the maximum amount permitted under the legislation would have been £50,000; therefore the current approach risks sending the wrong message to the market to not engage with Ofgem or pay customer refunds until ordered by Ofgem; Farringdon wish to co-operate with Ofgem to ensure that customers are appropriately redressed and the market messaging is beneficial.

Farringdon have co-operated fully to address these matters and would have been willing to settle early had Ofgem indicated that they would consider this. Farringdon [redacted] *had already begun an exercise in documenting policies and processes for all activities but they acknowledge that these areas had not yet been addressed. Farringdon commit to recruit a General Manager to take over operational responsibility and ensure policies and processes are enhanced and documented to be fit for purpose.*

With regard to comparable action for supplier failings it is noted that:
In 2023 United Gas & Power received a penalty of £1 + voluntary redress for intentionally overcharging customers to manage cash-flow, whereas turnover was £114million, penalty+redress =£2.1million approximately 2% turnover.

BES Utilities in 2015 had turnover of £56Million but a penalty of £980000 made up of £2 penalty plus voluntary redress for the remainder, in total for approximately 1.75% turnover.
"BES admitted that it breached the relevant conditions and requirements set out above and co-operated with the Authority's investigation. It acknowledged that its practices fell short of requirements in relation to communicating principal terms, complying with the Standards of Conduct, dealing with requests from customers on deemed contracts to switch supplier, objecting to customer transfers of those on deemed contracts and complaints handling. BES made improvements in those areas which were the subject of this investigation."

British Gas in 2017 had multiple issues on switching and billing frequency, information and CHSR incurring £9.1m on £10635m turnover or <0.1%.
"BG has admitted that it breached the relevant conditions and requirements set out above. It has acknowledged that its practices fell short of requirements in relation to practices involving billing, registrations, notification of contract terms, adhering to the SOC and complaints handling. It has made improvements in a number of areas since the investigation was opened, such that each of the breaches has now ended."

So there is a stepchange in the authority approach – [redacted] *10% of turnover for 25 customers, appears disproportionately excessive, particularly due to the finding that the failure was not an intentional malicious act as originally suspected in the PO, notwithstanding that it is Farringdon's responsibility to ensure processes and policies are fit for purpose."*