

Press release

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SMALL BUSINESSES TO GET A FAIRER DEAL FROM THE ENERGY MARKET

- **Over 150,000 more small businesses to benefit from greater protection**
- **New code of practice to improve conduct of energy brokers**
- **Tough standards of conduct backed by fines to ensure fair treatment for small businesses**

Energy regulator Ofgem is consulting on major reforms to make the energy market fairer for small business customers. Although a review found that in general business consumers found it easier to engage in the energy market than households, Ofgem concluded that more protection was needed for smaller businesses.

Ofgem is proposing to widen the number of small businesses that benefit from its existing safeguards to ensure contract terms are clear. The rules currently apply to Britain's smallest businesses - which typically employ 10 people or less*. Extending the rules will mean an extra 150,000 businesses will be covered, protecting customers that typically spend up to £10,000 a year on each fuel.

Ofgem is further proposing that all bills and statements that small businesses are sent also show clearly when the contract ends, so that fewer businesses get caught out and pay more for their energy than they need to.

Andrew Wright, Senior Partner, Markets, said: "Our retail market review showed that small businesses want fairer treatment from suppliers, clearer information about contracts, and more protection from misselling. Our proposed reforms seek to address these issues. We urge suppliers to show they are committed to restoring the confidence of business consumers by getting behind our proposals."

Businesses have reported that switching suppliers can sometimes be time consuming, especially if they have been barred from switching by suppliers without a clear reason. An Ofgem licence condition prevents suppliers from blocking a switch unless there are legitimate reasons. Ofgem is closely monitoring the actions of all suppliers in this area and the regulator is already investigating British Gas Business over allegations that it incorrectly objected to some businesses switching.

Energy brokers play an important role in the business market and although they often ensure business consumers get a good deal, there are concerns that some use high pressure sales tactics or give misleading information. So Ofgem is also planning to clean up the practices of some energy brokers by developing an industry-wide code of practice for them.

To further increase protection, Ofgem is progressing its case for acquiring powers from Government to take enforcement action against brokers who mislead business customers. Ofgem currently does not have direct powers to take such action**

New standards of conduct have also been set out for how energy suppliers treat small business customers - with fines if suppliers break the rules. The standards will mean

suppliers will have to scrutinise their processes to make sure they are fair when they contract with, bill and switch small business customers.

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Notes to editors

1. The business energy market is more competitive than the household sector. In gas, the Big Six suppliers between them have a share of around 20% of the market by volume. In electricity, their share of the market totals 78%. However, between April 2011 and March 2012, there has been significant growth in the proportion of electricity customers served by non Big Six suppliers.

[The Retail Market Review – Updated proposals for businesses](#)

[Draft Impact Assessment for the updated proposals for businesses](#)

2. Ofgem's investigation showed that businesses may miss out on chance to shop around for better deals because:
 - They aren't clear about the terms and conditions of their contract, when it ends, or when they can let their supplier know that they want to switch when their fixed term deal ends. This is especially true for smaller business that do not have specialists managing their energy contract
 - They face problems and/or delays when transferring to a new supplier as a result of the above, or from poor supplier behaviour. This could also mean the business customer has to pay higher deemed or out of contract prices while the issues get resolved
 - Poor behaviour from some brokers, which could result in, for example, a business finding themselves contracted to a new supplier with higher rates than expected.

3. *What do the rules around clearer contracts say?

These rules currently apply to contracts for Britain's smallest businesses (micro-businesses) which typically employ 10 employees or less. Companies up to this size typically spend around £5,000 per fuel on energy.

More information on exactly which businesses are covered is found here:

<http://www.ofgem.gov.uk/Media/FactSheets/Documents1/energycontractsforbusinesscustomersfs.pdf>

The rules say that:

- Before entering a contract a supplier must explain key terms and conditions to the business, making it clear the contract is binding.
- Within 10 days of a contract being agreed, the business should receive written copies in plain and intelligible language.
- The supplier will contact the business with details of its new fixed-term offer at least 60 days before the end of the contract. Once the business receives this letter it has at least 30 days to contact the supplier to let it know if it wants to

sign up to the supplier's new offer, or if it prefers to switch to a new supplier once the deal ends. If the business does not contact the supplier to sign up to their offer, negotiate a new deal, or say it wants to switch, the maximum length of time the contract can be automatically rolled over for is one year.

4. Ofgem's proposal is that these rules are extended so that more than 150,000 businesses that typically spend up to £10,000 on each fuel will be covered. Ofgem is asking for views on the size of businesses that should be covered by this reform. Once this has been decided in the New Year, it will be able to calculate the impact automatic rollover of contracts have and look at whether or not it is in small business customers' interest to allow them.

5. **When will the reforms be in place?**

Ofgem is legally required to go through an extensive consultation process but we are aiming to start introducing our reforms from summer 2013.

6. **** Business Protections from Misleading Marketing Regulations:** This legislation prohibits the advertising of products in a way that misleads businesses. Ofgem is seeking the powers to enforce this legislation from Government - to address misselling to businesses.

7. **Research into how businesses see the energy market:**

Ofgem will be publishing three pieces of supporting research alongside its reforms for businesses resulting from the Retail Market Review. Our quantitative research, conducted with 1,210 businesses of all sizes, shows that overall businesses were reasonably satisfied with their suppliers. Our qualitative research tells us that where issues do occur, these are often more problematic for smaller business consumers. They often reported that where they encountered bad experiences in the market, they rarely had the time, resource or expertise to deal with situations that were affecting them and smaller businesses generally welcome some form of formal requirements in the way that energy suppliers interact with them. They also want suppliers to offer more tailored support to businesses, recognising their individual circumstances and reducing the amount of time and resource they had to allocate to managing their energy supply. There was also recognition that suppliers' communication needed to be clearer, more accurate and more transparent, particularly around contracts and bills.

8. **Backbilling:**

Back-billing happens when suppliers do not bill a customer for some time but then issue a bill for energy that has been consumed but not previously billed. Ofgem told suppliers to work on this issue in discussion with consumer groups. As a result a number of the big six suppliers have reduced the amount of time they back-bill some business customers to one year (where the suppliers is at fault). More information on this is available here:

<http://www.consumerfocus.org.uk/files/2011/10/Suppliers%E2%80%99-back-billing-commitments-to-micro-businesses-consumers.pdf> Ofgem has made it clear that it wants to see all suppliers cutting backbilling to just one year, where the supplier is at fault. Ofgem wants this approach to cover micro businesses and other small businesses. We will continue our work in this area.

9. **Investigation into British Gas:**

Ofgem is investigating whether British Gas Business is complying with licence condition requirements relating to their use of the objections process in the

switching process. Suppliers can object to a switch - but only under specific circumstances. This can be for a contractual reason, e.g. if the customer owes money. Another example is if an attempt has been made to switch a customer by mistake. For the avoidance of doubt, the fact that Ofgem has launched an investigation should not in any way be taken as implying that there has been a breach of a licence condition.

10. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's functions are set out mainly in the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 and the Utilities Act 2000. In this note, the functions of the Authority under all the relevant Acts are, for simplicity, described as the functions of Ofgem.

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