

Non-domestic automatic rollovers

Industry workshop

Monday 2 December 2013

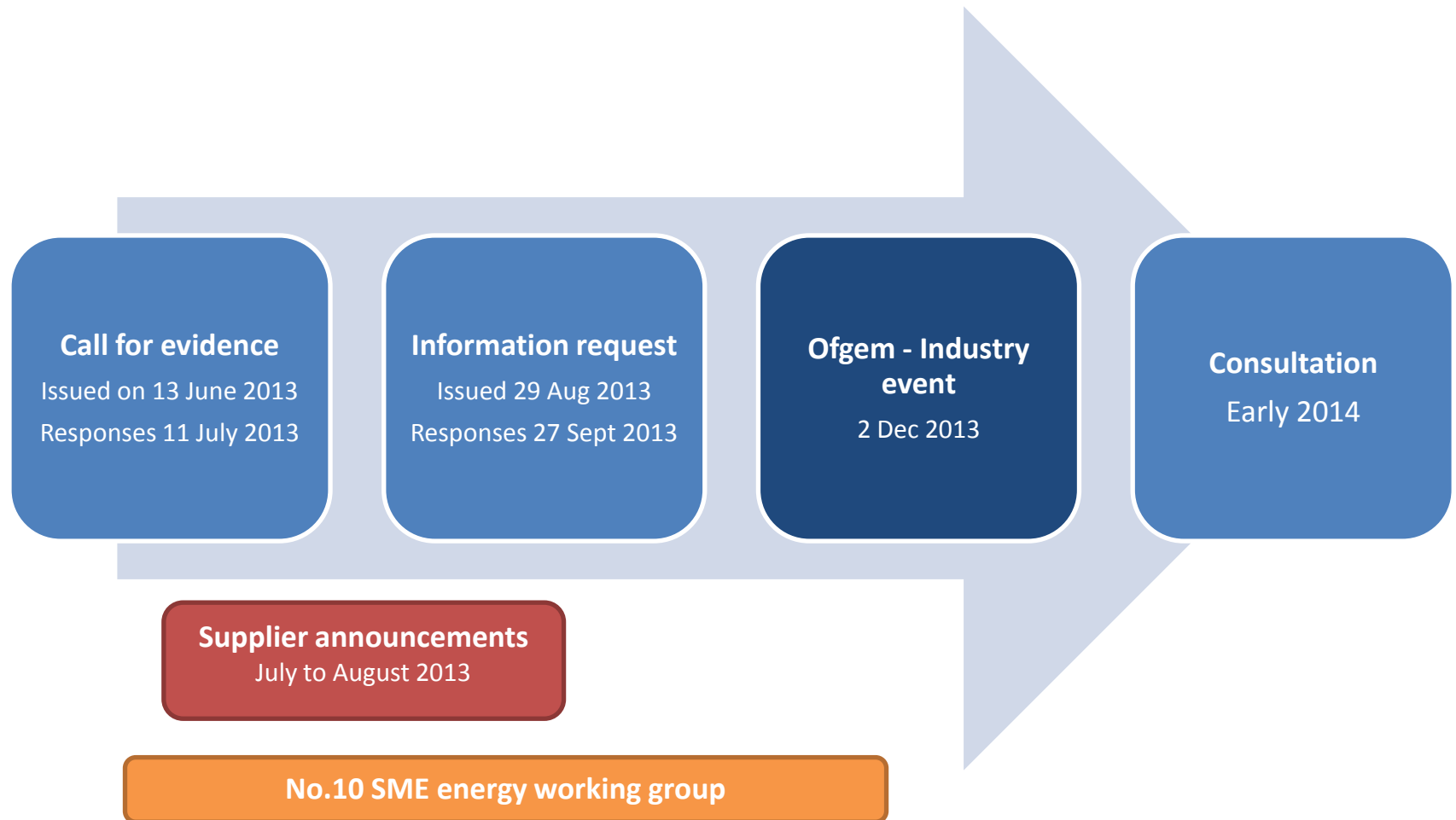
ofgem

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|--------------------------------|--------------|
| Introduction | 12.30 |
| Summary of information request | 12.35 |
| Proposal options | 13.15 |
| Group discussions | 13.30 |
| Break | 14.00 |
| Group presentations | 14.15 |
| Deemed/Out of contract | 15.00 |
| Conclusion/AOB | 15.45 |

OBJECTIVES FOR TODAY

Update industry with the progress of our review

Opportunity for you to share your views and any concerns



Consumers/TPIs

Current protections not sufficient

Believe suppliers are treating them unfairly

Renewal letters often sent to the wrong person

Rollover prices are unrealistic

Would prefer 1-2 months on deemed to a 12 month contract

Concern that banning rollover without looking at out contract rates would be a mistake

Suppliers should allow engagement beyond the renewal window

Suppliers should develop evergreen tariffs for the smallest businesses

Suppliers

Current rules are clear and effective

Majority of customers are happy with rollovers








If rollovers banned, higher costs to serve and additional hedging cost

Additional RMR measures will enhance consumer protection

Contract renewals encourage customers to contact their supplier

Risk of disengaged customers placed on deemed rates

Any changes need to be accompanied by TPI Code of Practice

| Supplier | Announcement Date | Removed Auto-rollovers | New customers | Existing customers | Details |
|---|-------------------|------------------------|---------------|--------------------|--|
|  British Gas | 17 July 2013 | Yes | Sept 2013 | June 2014 | Default will be a variable 30-day notice product |
|  npower An RWE company | 6 August 2013 | Yes | April 2014 | Nov 2014 | Customers that do not actively choose a new contract will default onto a variable product which they can leave at short notice |
|  SSE | 16 August 2013 | Yes | April 2014 | April 2014 | SSE will be engaging in in-depth discussions with the FSB, Consumer Futures and others to discuss a new approach to contract renewals. |
|  EDF ENERGY | 20 August 2013 | No | - | - | Customers who do not contact EDF will be moved onto Easy Fix tariff, which will freeze their prices for a year but no exit fees |
|  e.on | 23 August 2013 | Yes | April 2014 | April 2014 | Customers who do not take another fixed-term contract will be transferred onto E.ON's cheapest evergreen tariff - with no exit fee |
|  SCOTTISHPOWER | 27 August 2013 | Yes | April 2014 | Later in 2014 | Renewal letters sent by recorded delivery |
|  OPUS energy | 30 August 2013 | No | April 2014 | - | New small business customers given choice between entering into a contract which at the end of the initial fixed period rolls onto: (i) A variable rate with a 30 day notice period, or (ii) Another 12 month fixed-rate term Renewal letters sent by recorded delivery |

INFORMATION REQUEST

We requested the following information from suppliers, as of April 2013:

Prices

Average prices for acquisition, retention, rollover, evergreen and out of contract/deemed contracts.

Renewal letters

Copies of renewal letters and key terms sent to micro business customers

Deemed/OOC duration

The number of days customers were supplied on deemed or out of contract rates

Number of meter points

The number of meter points supplied under each contract type.

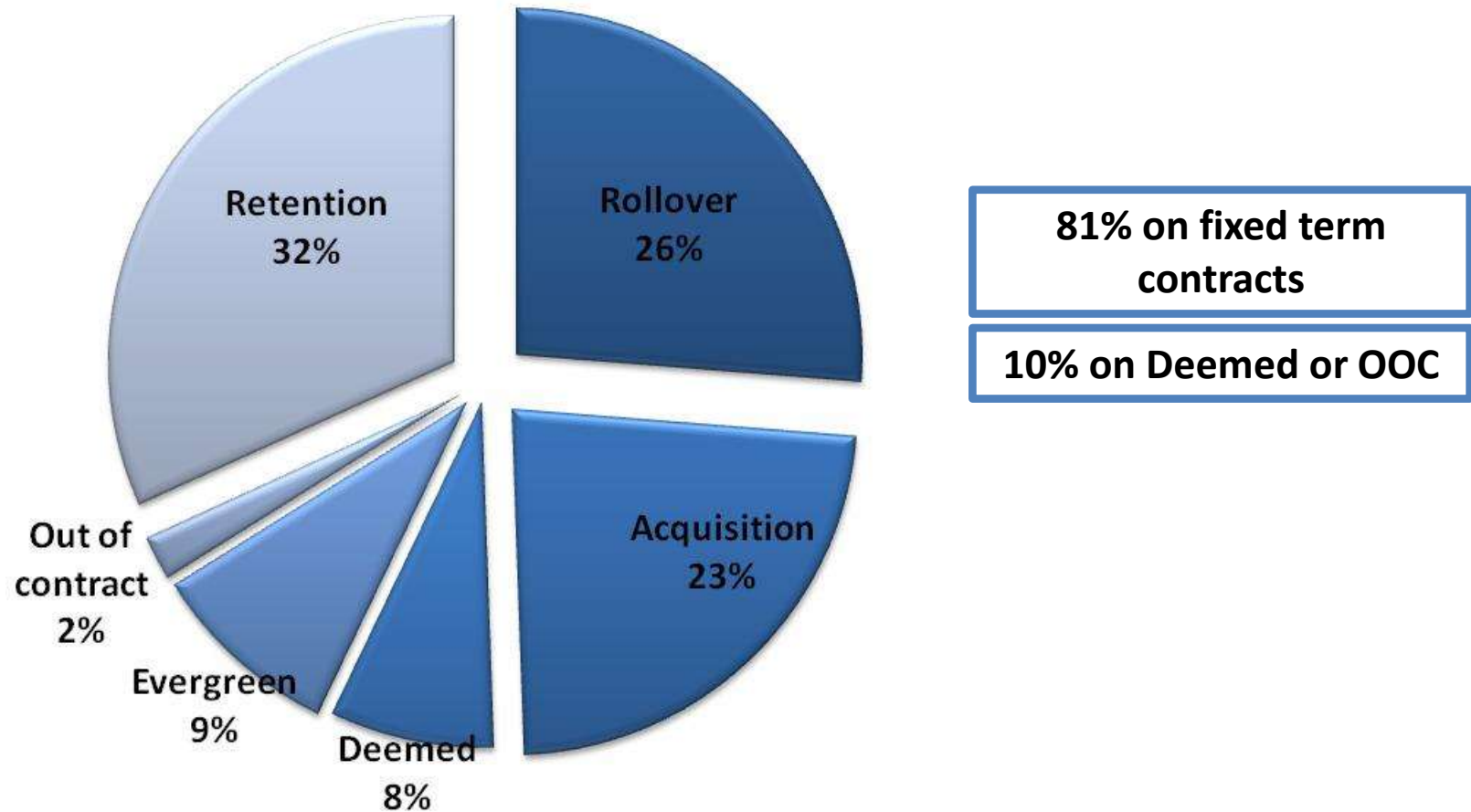
Complaints

The number of complaints regarding automatic rollovers and the total number of complaints received over a one year period

Deemed/OOC processes

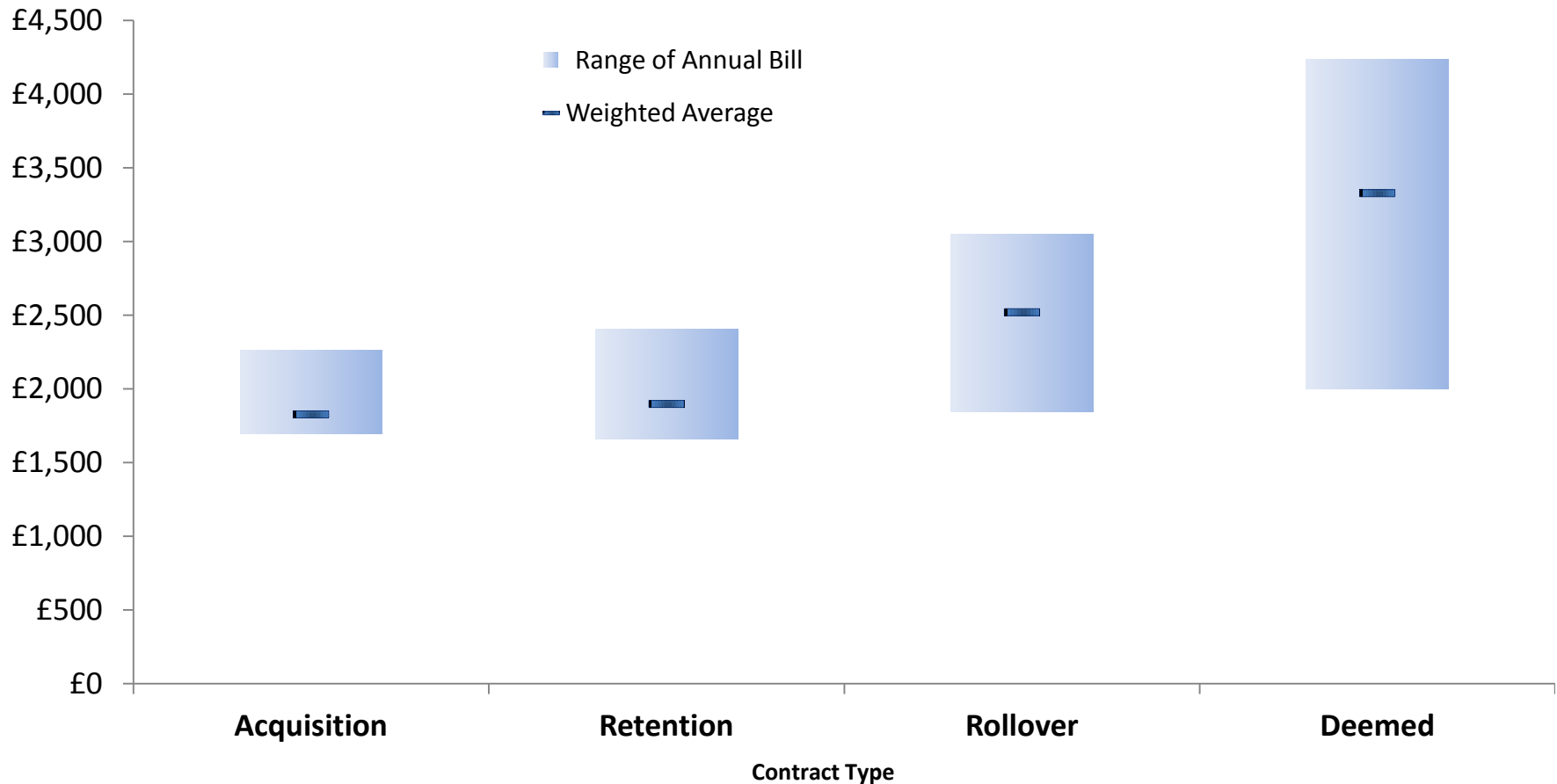
Explanations of how often suppliers review deemed/OOC rates and how they are calculated

Estimated 1.6m meter points treated as 'micro business'*

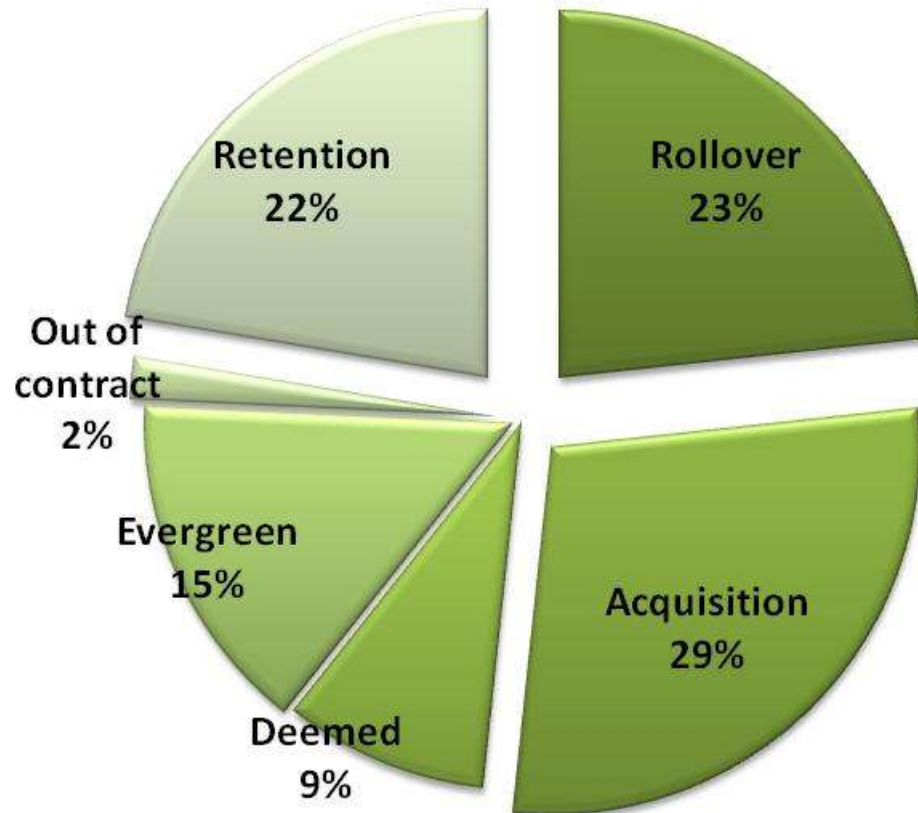


Average bill comparison

Estimated Annual Bill (exc.
VAT and CCL)



Estimated 550,000 meter points treated as 'micro business'*

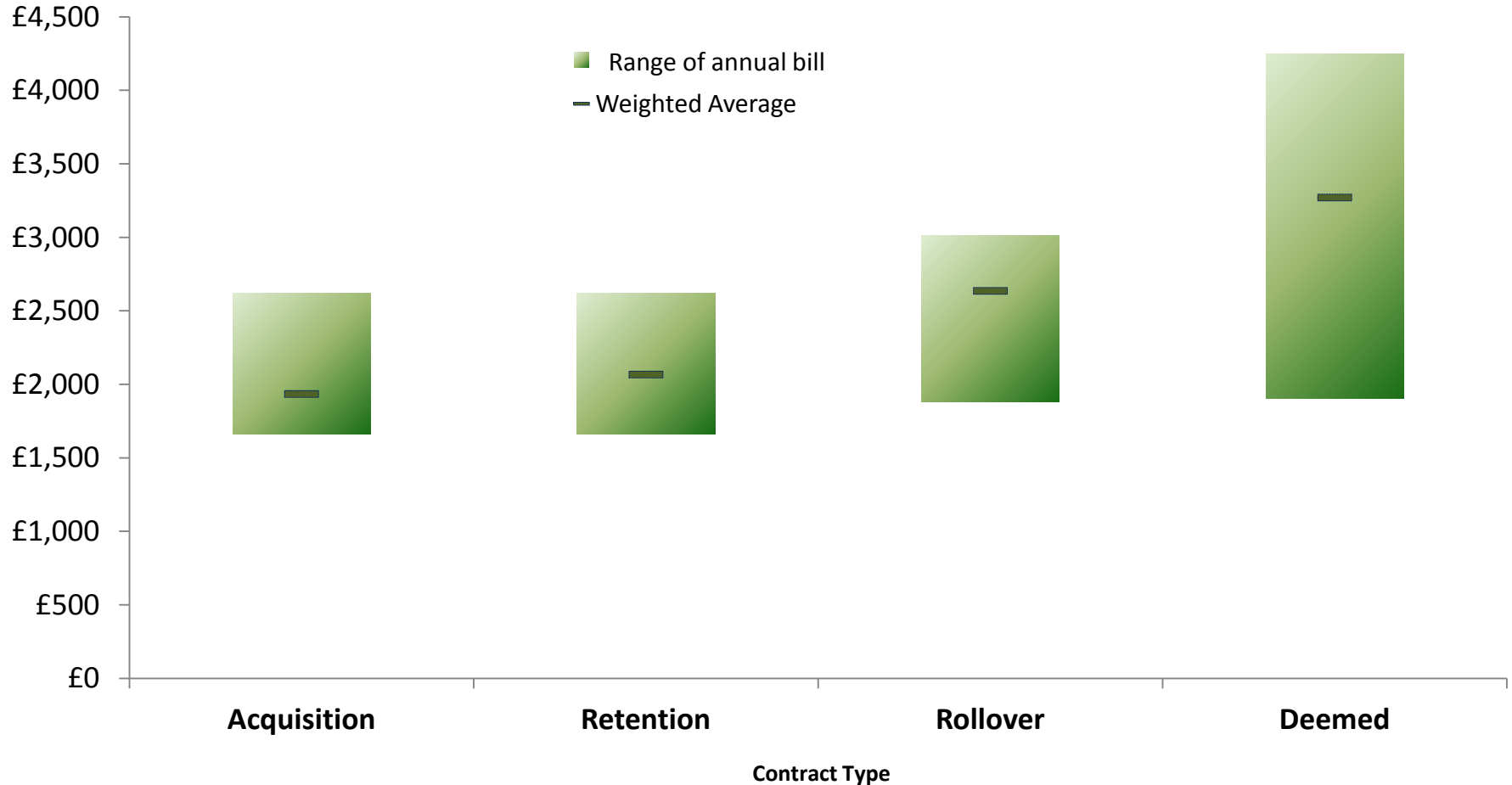


**74% on fixed term
contracts**

11% on Deemed or OOC

Average bill comparison

Estimated Annual Bill (Exc.
VAT and CCL)



GAS

Bill values based on average prices for fixed term contracts of 1 year duration (exc. deemed) and annual consumption of 50,000 kWh

PROPOSAL OPTIONS

Consumers reported they have not received a renewal letter, or their termination notices have not been accepted

Prices for rolled over contracts can be significantly higher than negotiated contracts (on average 35-40% higher than acquisition)

Different approaches on rollover contracts by suppliers may cause customer confusion

Early termination of a rolled over contract is often not allowed, or requires a termination fee

No termination fees for rolled over contract

Letters sent by recorded delivery

Allowing renegotiation of contracts after the termination notice period has passed

Key terms of contracts set out in a clear Q&A format

Important dates highlighted in renewal letter

Price comparison between OOC and fixed term contracts

Our proposals can be grouped into three areas. We do not intend to include all of the proposals in our consultation.

Renewals

Additional requirements for information on renewal letters

Termination

Standardising termination processes to make it easier if customers want to end a contract

Contracts

Changes to how roll-over contracts would operate

Proposal

- 1** Renewal letters to include a comparison of new prices offered and prices paid under current contract
- 2** In addition to the above, a comparison of the annual bill of the current contract and estimated bill for the next year
- 3** Renewal letters sent by recorded delivery
- 4** An additional reminder notice sent to customers before the notice period ends. This could be 5 to 10 days before the notice period ends

Proposal

1

Standardise notice period to 30 days before the contract end date across all suppliers

2

Termination notice from customers must be acknowledged by the supplier in writing (letter or email)

3

Customer does not have to provide termination notice

Proposal

1

Allow customer to opt-in to an automatic rollover when they agree a new contract

2

Allow customers to exit a rolled over contract with no termination fees

3

Automatic rollover contracts not allowed in any circumstances. Customers would move onto relevant out of contract terms when fixed term contract ends

For each proposal, consider the following...

1. Would it be beneficial to consumers? (Score 0-5)
2. How difficult/costly would it be to implement? (Score 0-5)
3. Could there be any unintended consequences?
4. Are there any alternative options not already considered?

Group 1 (Boardroom) Renewals

Meghna Tewari

Graham Hunt (SSE)
Tiphaine L'Henoret (EDF)
Tim Hammond (Corona)
Peter Bennell (Haven Power)
Jane Cooper (DONG energy)
Daisy Cross (Energy UK)
Hannah Mummery
(Consumer Futures)

Group 2 (3M9) Termination

Jon Lines

Steve Russell (E.ON)
Gerald Jago (npower)
Andrew Green (Total GP)
Emma Piercy (First Utility)
Louise Boland (Opus)
Gareth Evans (Waters Wye)
Chris Noice (ACS)

Group 3 (Boardroom) Contracts

Phil Sumner

Matt Young (British Gas)
Ngaio Wallis (DECC)
Steve Mulinganie (Gazprom)
Laura Coleman (CNG)
Jo Heraghty (Scottish Power)
Francis Wood (FSB)

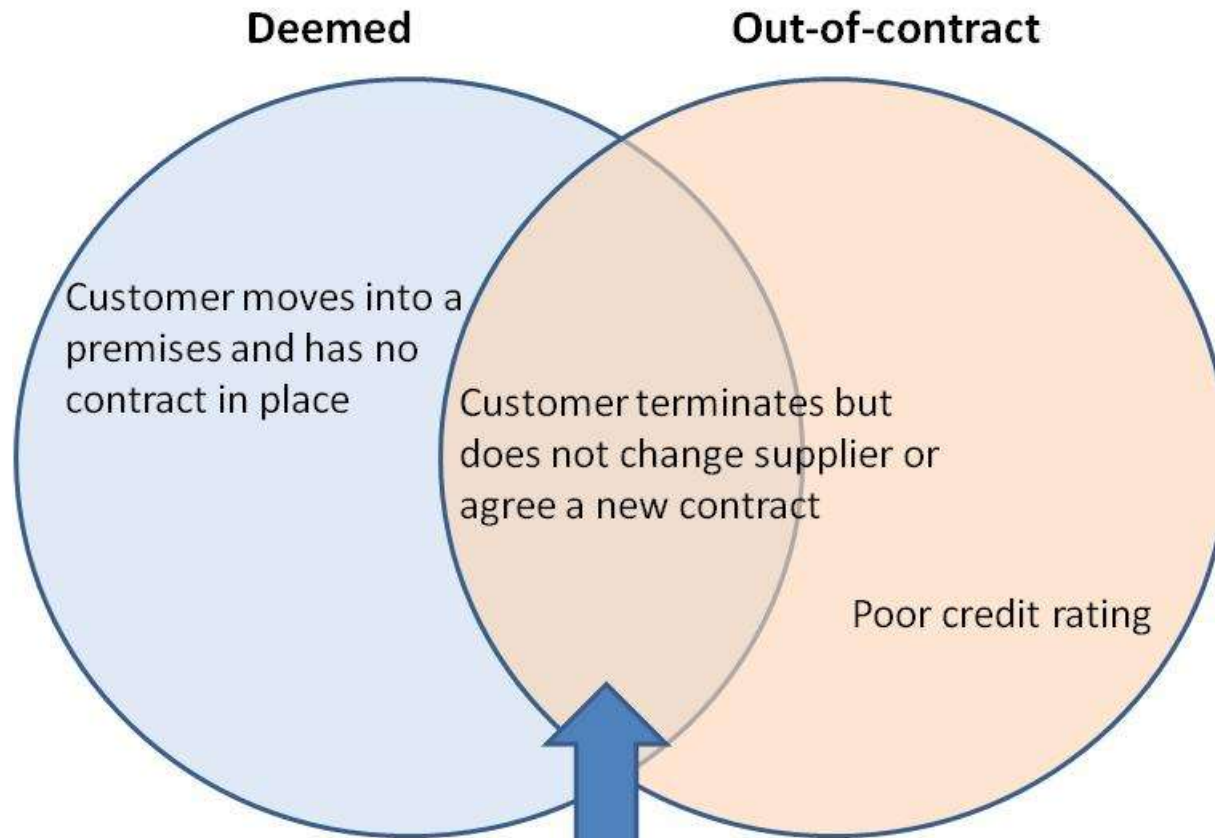
DEEMED AND OUT OF CONTRACT

If automatic rollover contracts end there could be more consumers on deemed or out of contract rates

Received contacts from consumers, MPs and consumer groups that deemed rates are too high

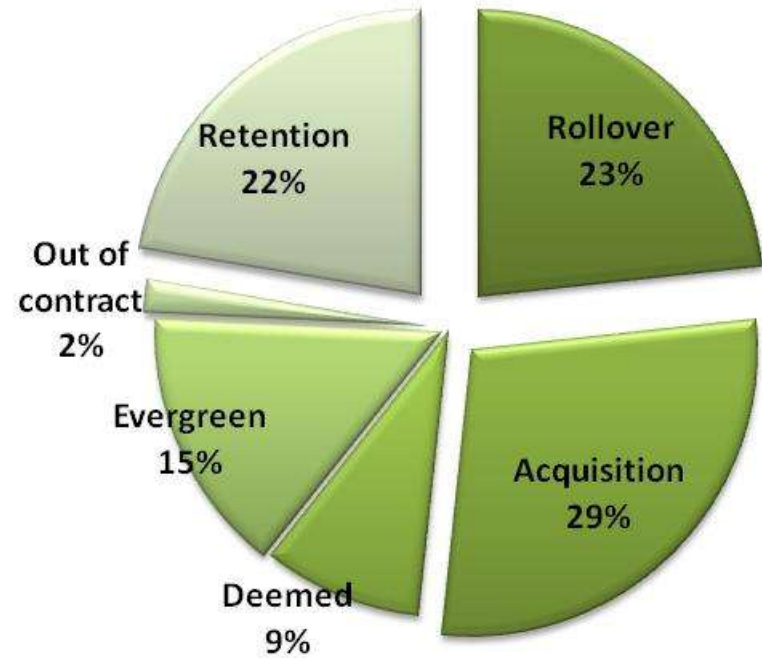
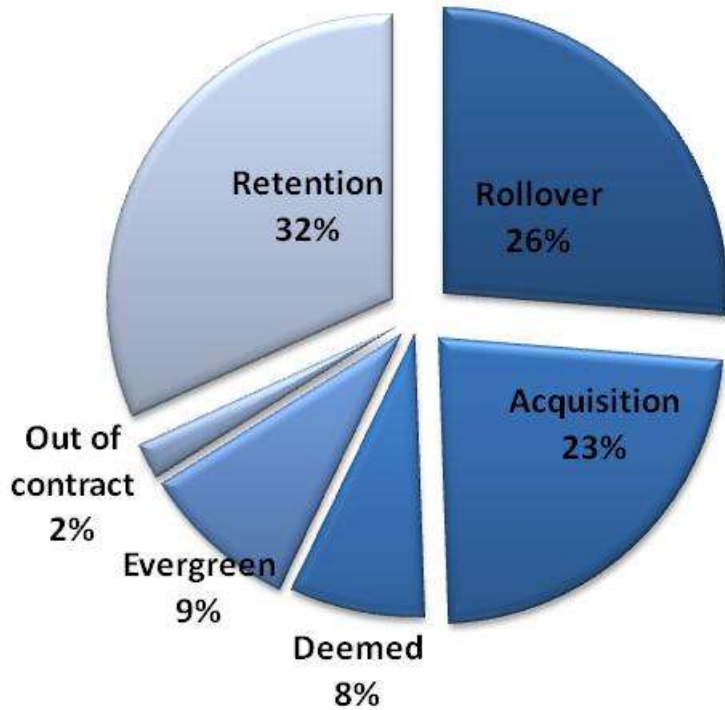
Our information request has indicated that **10%** of meter points are on deemed or out of contract terms

On average, these are around **80% higher** than negotiated rates and half of customers spend more than one year on these contracts



Does there need to be consistent use of terminology across suppliers?

Around 10% of meter points on Deemed or OOC



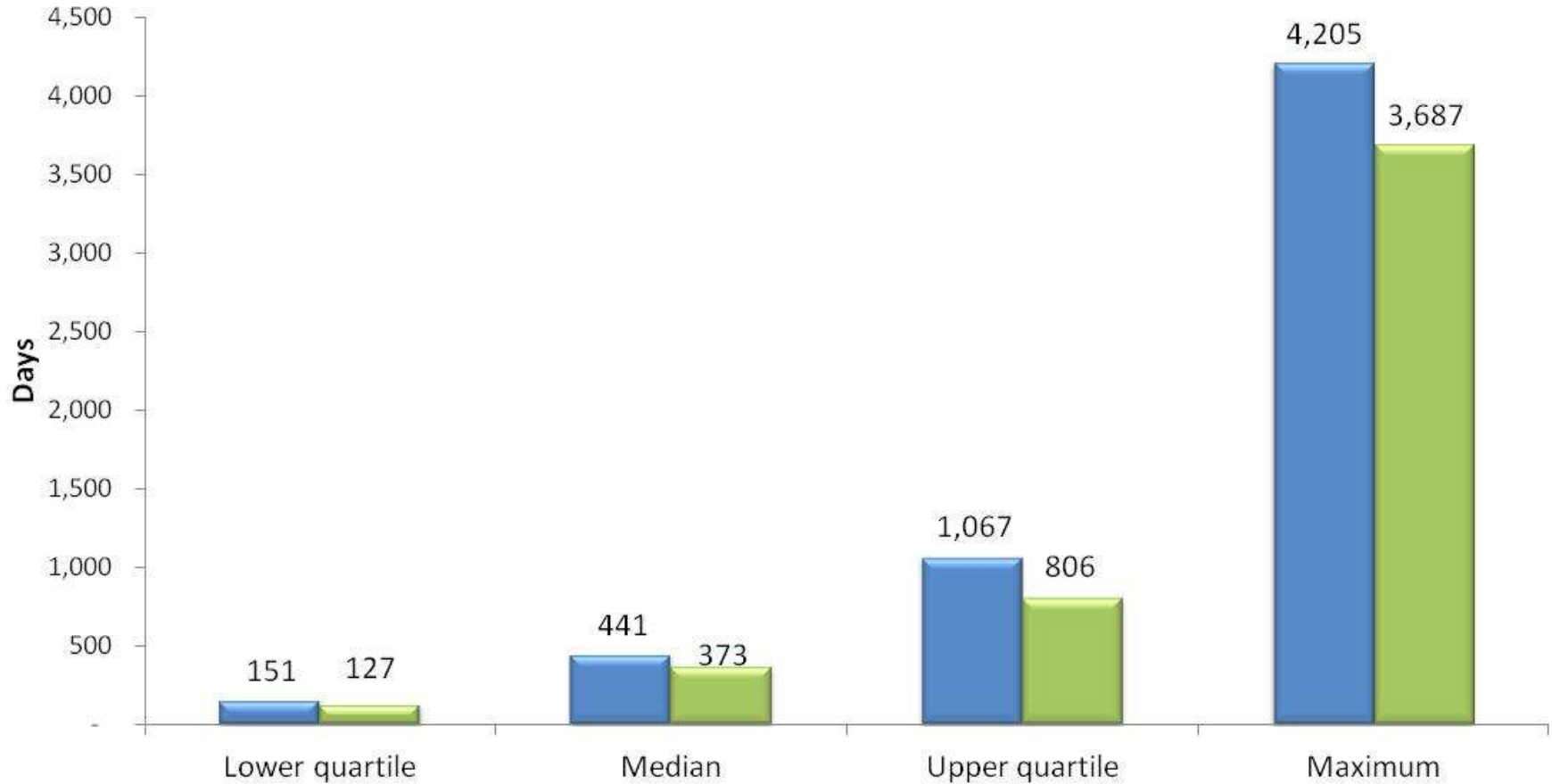
10% (158,000) on Deemed/ OOC

11% (59,000) on Deemed/OOC

ELECTRICITY

GAS

Half of Deemed customers on these rates for over a year*

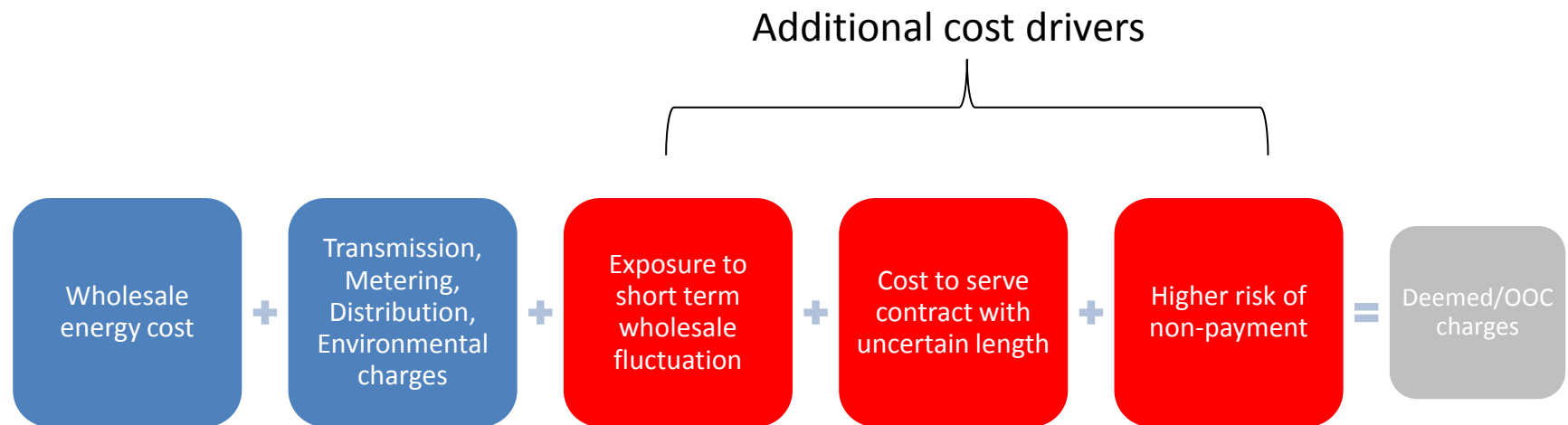


ELECTRICITY

GAS

*weighted average across suppliers

Our information request indicated similar methodologies across suppliers



Questions for discussion

1. How do suppliers know when a customer is on a deemed contract and what steps to suppliers take to move customers onto a fixed term contracts? (10 mins)
2. Why are some customers on deemed rates for such a long period? Our IR indicated a maximum of over 10 years, but longer than a year is still common (10 mins)
3. Do suppliers back date contracted rates when a customer moves from deemed/OOC to a fixed term contract? (5 mins)

Minutes from today will be published on our website

Consultation will follow in early 2014

Any further queries can be sent to
nondomestic.rollovers@ofgem.gov.uk

Thank you

Any other questions?

Ofgem is the Office of Gas and Electricity Markets.

Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.

We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.