

Automatic Rollovers in the Non-Domestic Market

Evidence from Association of Convenience Stores

ACS (the Association of Convenience Stores) welcomes the opportunity to provide evidence in response to the open letter. ACS represents 33,500 local shops across the UK (Annex A). The nature of convenience retail, with long operating hours, necessary use of refrigeration and other equipment, means that energy costs are a critical factor in the viability of a convenience store business. It is therefore crucial that the non-domestic market operates competitively and that unfair practices are regulated against. ACS welcomes Ofgem's focus on the issue of rollover contracts and the specific focus on non-domestic customers within the letter.

ACS believes that the current rules surrounding automatic rollovers do not work. There remains too much risk that retailers will not be aware of when their contracts are to be renewed or their options in seeking to end their contracts.

Measures introduced as part of the Retail Market Review are a welcome step forward in the improvement of communication between energy companies and their customers when it comes to the prevention of an unwanted rollover contract – specifically the requirement to include contract end dates on every bill is a step that should reduce the significance of this issue. However, there are still businesses who will be taken advantage of because they do not understand the implications of their renewal.

Renewal Rates

Many small businesses have received letters from their suppliers offering them an uncompetitive rate, and a date by which they have to respond before this new offer becomes the contract rate applicable for the following 12 months. The following are a number of examples of uncompetitive renewals offered by energy companies:

Case Study A

Retailer acquired a service station in summer 2012. They agreed a 12 month contract over the phone with Supplier A with an end date of 1st Aug 2013. The retailer was aware of the end date but didn't know about the termination clauses and was expecting correspondence from his supplier. Supplier A says they sent out a letter on 8th May and that the retailer had until 8th June to advise them they were not happy with the renewal. However, the retailer insists that no letter was ever received.

The renewal rates offered for a 12 month contract were as follows:

| | |
|------------------|------------|
| Std charge | 115p/day |
| Weekday rate | 20.77p/kWh |
| Night rate | 10.91p/kWh |
| Other times rate | 19.41p/kWh |

In accordance with evidence provided by an independent energy advisor, general market rates were as follows:

| | |
|------------------|-----------|
| Std charge | 75p/day |
| Weekday rate | 11.5p/kWh |
| Night rate | 6.5p/kWh |
| Other times rate | 11.5p/kWh |

Upon complaining to Supplier A about this they have re-offered the following rates:

| | |
|------------------|------------|
| Std charge | 89p/day |
| Weekday rate | 15.93p/kWh |
| Night rate | 8.43p/kWh |
| Other times rate | 14.99p/kWh |

Case Study B

Retailer runs a small convenience store in London supplied by Supplier B, who sent a 12 month renewal letter to the retailer dated 25th December 2013. Contract end date is 1st May 2013. The customer had until 31/1/13 to advise they were not happy with the renewal offer. The customer did not contact Supplier B.

The rates offered were:

| | |
|------------|------------|
| Std charge | 34.62p/day |
| All units | 12.15p/kWh |

If the retailer had consulted with an advisor, they could have obtained a contract at the following rates:

| | |
|------------|----------|
| Std charge | 14.p/day |
| All units | 9.8p/kWh |

This customer has been auto-renewed.

Case Study C

Retailer runs a small convenience store near Exeter, supplied by Supplier B who wrote to the retailer on 21/4/12 with renewal offering for a contract to start 2/9/13 for 12 months contract. The customer had until 3/6/12 to advise they didn't accept renewal offering.

The rates being offered were:

| | |
|-------------|------------|
| Std charge | 37.9p/day |
| Day units | 19.5p/kWh |
| Night units | 12.18p/kWh |

The retailer contacted an independent advisor, who was able to submit termination on his behalf and obtain much better rates. The contract arranged had the following rates

| | |
|-------------|------------|
| Std charge | 50p/day |
| Day units | 10.66p/kWh |
| Night units | 5.88p/kWh |

Whilst the standing charge is higher the unit rates are much lower and the overall saving for this retailer was 46%.

Recommendations

In our submission to the Retail Market Review consultation, we recommended that microbusinesses receive the same 30 day cooling off period that is in place for domestic customers. However, in further consultation with members we believe that this should be extended to 30 days beyond the receipt of the first bill. It is often only at this point that a customer realizes the extent of the increase in costs that they are paying for their energy. If there was an extended cooling off period, businesses would be able to either negotiate onto a more competitive rate or have adequate time to switch supplier without being subject to lengthy and costly objections from their current supplier.

There is currently no obligation on the supplier to clearly explain the increase in rates being offered as part of a rollover contract. We believe that suppliers should be required to express in clear percentage terms the increase in cost that an automatic renewal will implement.

We do not advocate a blanket ban on rollover contracts for business customers, as we acknowledge that for many retailers – not having to engage with their supplier to negotiate a new contract is a positive thing and allows them to focus on other aspects of their business. We also acknowledge that suppliers, especially those outside the 'big six' need to be able to buy their energy in advance and an outright ban on rollovers would increase the risk of doing so, driving up costs for all customers. However, we do not agree that suppliers should be able to take advantage of their disengaged customers by offering extortionate renewal rates which are subsequently dropped significantly upon complaint. For rollover contracts to be a useful tool in the non domestic energy market, renewal offers must be more closely linked to the general market rates at the time.

Annex A – Association of Convenience Stores

ACS is the trade body representing the interests of over 33,500 convenience stores operating in city centres as well as rural and suburban areas. Members include familiar names such as Martin McColl, Spar, Nisa Retail and The Co-operative Group, as well as independent stores operating under their own fascia. Our members operate small grocers, off-licence or petrol forecourt shops with between 500 and 3,000 square feet of selling space.