Consumer Futures

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Dear Jonathon

Consumer Futures response to call for evidence on Automatic rollovers in the non-domestic market

Are the current rules for automatic rollovers effective at protecting micro-business customers?

Rollover contracts can offer some protection to customers in that, by definition, they prevent a consumer, particularly the disengaged consumer, from unwittingly ending up on more expensive out-of-contract rates. This could be a particular problem for very disengaged businesses who may not even realise they are out of contract until they get their first bill which is significantly higher than expected.

Rollovers can also be seen as convenient to some businesses that are happy to remain with their current supplier and do not wish to spend the time renegotiating a new contract; this probably comprises a very small number however given the much better rates on offer even when staying with a supplier.

We do not think that these protections are sufficient to merit the automatic retention of rollover contracts. However, we are concerned that simply banning rollover contracts without looking at out of contract rates would be a mistake. We are very concerned about the lack of clarity surrounding out-of-contract rates – how do they relate to the risk of non-payment and suchlike when the business has only recently been under contract? It is suspected by many stakeholders that suppliers will only offer competitive tariffs when micro-businesses are on deemed rates, as the supplier looks to secure new business. Far from protecting them, current arrangements have the potential to exploit micro-businesses with highly punitive energy prices at the end of a contract, knowing that the business cannot escape the contract for 12 months. These rollover rates may not be justifiable in terms of the cost of provision and risk.

Are micro-business customers sufficiently aware of automatic rollovers, and the consequences of opting-out (i.e. moving onto out-of-contract rates or deemed rates)?

One supplier we have discussed this with suggests that 4.3 per cent of consumers are rolled-over and are unhappy with it; a relatively high number given other complaint category totals that suggests a serious problem with awareness and engagement.

It is hard for us to tell more clearly because there is not a specific code for this issue. Anecdotally, our Extra Help Unit (EHU) has reported very few rollover-connected cases recently; analysis of the past 12 months of Citizens Advice consumer service (CAcs) cases suggests that 55 clients have been rolled-over and this has led to ability to pay issues. They are spread across both big and small suppliers and there are many instances of consumers being rolled for technical reasons when they have tried to opt-out as Standard Licence Condition (SLC) 7A directs. This suggests a lack of goodwill on suppliers' parts. There are many more cases where consumers have been rolled over because they were not aware of the rules and timings regarding giving notice.

Are there any specific barriers that prevent micro-businesses from engaging with their supplier when their contract is due for renewal?

Inertia and confusion combine to stop consumers from engaging at this point of the contract cycle. Allowing consumers to opt-out at any point, as Ofgem has now done, should mitigate some of the date confusion seen previously.

Also poor information can cause consumer confusion about contract end dates. Ofgem's proposals for suppliers to publish contract end dates on bills should help to address this.

One reason for inertia and confusion is the lack of published tariffs or domestic-style evergreen tariffs. Many very small micro businesses engage with the market in a similar way to domestic consumers and may find the need to contract regularly onerous and confusing. We propose one solution to this would be for suppliers to develop evergreen tariffs at this small end of the market – evergreen tariffs being like most domestic tariffs whereby there is no timeout and in most cases the price can go up and down. We are aware that one supplier is developing an evergreen offer for its micro-business customers and look forward to pushing published tariffs generally. More transparency would empower all businesses as they search for the best deals, without the need for brokers and removing the issue of lack of engagement leading to rollover issues in the first place.

We are beginning the process of engaging with all suppliers so that they can begin publishing their tariff rates for their smallest non-domestic consumers.

Do stakeholders have any evidence punitive rollover and/or out-of-contract/deemed rates?

In the past makeitcheaper.com told us the typical rates for micro-businesses were as follows:

- 'switching' rates of 7.5p/unit
- 'renewal' rates of 11.5p/unit
- 'out-of-contract' rates of 16.5p/unit

While the nominal amounts are likely to be higher now the differentials will not have altered. The 4p/unit difference between the first two rates is telling and suggests consumers who do not switch pay more purely because of staying with their supplier who takes the opportunity to enjoy a wider margin. The third rate is certainly punitive and it would be hard to argue how this accurately reflects risk and hedging given the consumer's demand pattern is known to the supplier. This is especially true given that a majority of micro-businesses fall way below the SLC7A consumption threshold, that is they use very little energy, less than the average domestic in some cases. Thus they are in the main very small consumers who on out-of-contract rates do not represent a large risk to suppliers.

We would support rollovers being banned as long as Ofgem properly deals with out-of-contract rates – businesses should not be 'punished' for not understanding the market in this way. Instead business could 'opt-in' to being rolled over knowing that the rollover rate will not be any higher than their current rate but better deals may still be available elsewhere.

As mentioned above we also believe that the wider provision of an evergreen rolling contract for micro businesses would also give businesses who find re-contracting difficult and onerous more choice. This may be a little more expensive than fixed contract offerings but small users may find the flexibility of such a contract attractive. As we mentioned above one supplier has already started to offer such a tariff and found it to be very popular.

A number of responses to the RMR consultations suggest we explore banning automatic rollovers. Are there any other risks or unintended consequences of banning automatic rollovers not highlighted above?

A positive unintended consequence would be an increase in competitive pressures across the market. There will be fewer consumers stuck on roll-over contracts and (because of high rates) very willing to be supplied by a different supplier; this presents opportunities for, especially, smaller suppliers. It will also force suppliers to offer competitive deals in order to encourage their customer to make a positive choice to stay with that supplier.

We consider that the rollover/out-of-contract debate would be better served for consumers by being less binary, that is less fixated on maintaining the current arrangement versus a total ban. Ofgem should consider forensically the costs-to-serve behind all of these rates after the information request results come in so as to consider the merits of, say, a opt-in rollover procedure which might only last for one month rather than 12. Businesses might then be allowed to leave the rollover regardless as soon as they re-contract with their current supplier or a new one – in this way the rollover becomes a useful 'trigger' to action.

Yours,

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