

Jonathon Lines
Ofgem
9 Millbank
London
SW1P 3GE

Sent via e-mail: Jonathon.lines@ofgem.gov.uk

11 July 2013

Automatic rollovers in the non-domestic market – call for evidence

Dear Mr Lines,

I am pleased to attach Energy UK's response to Ofgem's Automatic rollovers in the non-domestic market – call for evidence. It is not confidential.

If you have any questions, please do not hesitate to contact me on 020 7747 2963 or daisy.cross@energy-uk.org.uk

Yours sincerely

Daisy Cross
Policy and External Relations Executive

Automatic rollovers in the non-domestic market – call for evidence

Energy UK response

11 July 2013

Introduction

Energy UK is the trade association for the energy industry. Energy UK has over 70 companies as members that together cover the broad range of energy providers and suppliers and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes and last year invested £10billion in the British economy.

Energy UK strongly believes in promoting competitive energy markets that produce good outcomes for consumers. We are committed to working with Government, regulators, consumer groups and our members to develop reforms which enhance consumer trust and effective engagement. At the same time, Energy UK believes in a stable and independent regulatory regime that fosters innovation, market entry and growth, bringing benefits to consumers and helping provide the certainty that is needed to encourage investment and enhance the competitiveness of the UK economy.

These high-level principles underpin Energy UK's response to Ofgem's call for evidence on automatic rollovers in the non-domestic market. This is a high-level industry view; Energy UK's members may hold different views on particular issues. We would be happy to discuss any of the points made in further detail with Ofgem or any other interested party if this is considered to be beneficial.

Executive Summary

Energy UK's members are committed to delivering improvements for Non-Domestic customers. Within this group of customers, Energy UK's role as a trade association relates to micro businesses¹. In this regard, we would highlight the progress that we have made in drawing up voluntary standards for back-billing micro business customers in conjunction with ICSS and stakeholders. The standards, which any supplier can adopt and many of whom have gone further, include a pledge not to back-bill these customers beyond three years for electricity and 4/5 years for gas, where the supplier is at fault.

Energy UK is supportive of Ofgem in its aim to promote consumer engagement, encouraging business customers to effectively manage their energy contracts and actively seek out the best deals in the market. Our Micro Business Group meets regularly to share best practice in the treatment of micro business customers, and to explore measures which will lead them to become more active in their

¹ A micro business is currently defined as a business which uses no more than 200,000 kWh of gas or 55,000 kWh of electricity a year, or has less than ten employees (or their full-time equivalent) and an annual turnover total not exceeding €2m.

approach to energy management. We are pleased that Ofgem regularly and constructively engages with this group.

However, some of our members are concerned that removing rollover contracts from the market will increase costs that will be passed on to consumers, potentially confuse customers who are familiar with the current system and remove a contract option – and customer choice - from the market.

1. Are the current rules for automatic rollovers effective at protecting micro business consumers?

- 1.1. Our members believe that current protections for micro business customers work well, but are committed to reviewing and improving their business processes, products and communication in order to best serve their customers.
- 1.2. Suppliers are required to provide written terms and conditions of a new contract – including renewal terms - within 10 days of a contract being agreed, and to provide renewal terms and information on how a customer can terminate their contract 30 days before the last date a customer can prevent automatic renewal. Opportunities to prevent automatic renewal or renegotiate are unlimited up until this date, which is between 30 and 90 days before the contract end date.
- 1.3. Suppliers compete for customers and seek to retain existing customers. They often make contact with their customers more frequently than prescribed in an effort to encourage these customers to extend or renew their existing energy contracts.
- 1.4. Our members support Ofgem's position that non-domestic customers do not require the same protections as domestic customers, and that in most instances vulnerability and fuel poverty do not apply to the non-domestic sector. However, our members agree that micro businesses may require extra help in understanding how their energy contracts work, and offer help and advice through their websites. Energy UK has been working with ICoSS to produce a micro business rollover factsheet to help micro business customers understand how the contract renewal process works². This has been shared with stakeholders, and their feedback has been incorporated where possible. We would be keen to discuss our communications plans with you.

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

- 2.1. Rollover contracts have been in the market since 1998, and many micro business customers are familiar with and aware of the automatic rollover process. Evidence from one of our members suggests that fewer than 5% of its rolled customers make contact to complain after missing the deadline to prevent rollover. However, we recognise Ofgem and Consumer Futures' research

² <http://www.energy-uk.org.uk/policy/microbusiness-.html>

suggests some micro business customers do not understand their contractual terms, and we are exploring ways of promoting awareness here.

- 2.2. Suppliers want to retain customers who reliably pay their bills, competing with each other for best customer service. Many suppliers will make contact with their customers on a more regular basis than prescribed in the licence condition SLC 7.A in order to secure the customer for another fixed-term period. This process has the added benefit of ensuring micro business customers are being made aware of their contract status.

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

- 3.1. In accordance with SLC 7.A suppliers must provide a postal and email address in their Statements of Renewal Terms to which the customer may send notification that they wish to terminate their contract. Suppliers also provide a phone number, and provide contact details on their websites - often via dedicated business customer web pages - so that business customers can contact their supplier easily. As mentioned in section 1, suppliers are required to provide contractual information promptly, including renewal terms. Suppliers will make contact 30 days before the final date a micro business customer's deadline to prevent automatic rollover, and may take various other steps to help micro businesses engage when their contract is due for renewal.
- 3.2. Some of our members have introduced recorded delivery into their customer communication processes to be sure that customers have received their renewal terms. Customers may be more aware of the importance of these communications, and be more likely to engage with them as a result. However, we recognise that, in some cases, the use of recorded delivery may increase the effort required by customers to receive and review their contractual documentation, for instance where a customer may have to visit the Post Office to collect undelivered post.
- 3.3. Energy UK supports the provision of clearer and simpler information via supplier communications. We believe that this is important to help customers to effectively engage with their energy usage, their product choices, their supplier and the market as a whole. As stated in previous responses, Energy UK agrees with Ofgem's proposal to mandate contract end dates and the last termination date on bills for consumers covered by SLC 7.A, and would welcome the opportunity to discuss these proposals in more detail.

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

- 4.1. Energy UK is unsure what Ofgem means by the term 'punitive'. We would welcome future discussion with Ofgem on this topic to better understand the concerns.
- 4.2. Suppliers endeavour to treat all customers fairly. It is in suppliers' interests to develop and maintain contented customers, of which acting fairly plays an important part. The incoming Standards of Conduct will supplement this principle of fairness.

5. 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?

- 5.1. Energy UK would like to highlight two potentially negative impacts of banning automatic rollovers, which Ofgem may want to consider as part of their review of auto-renewals: impacts on costs to consumers and market choice.
- 5.2. In order to keep energy costs for consumers as low as possible, suppliers protect themselves from exposure to volatility and upward fluctuations in wholesale prices by planning ahead and buying energy in advance. The more stable rate provides price stability for the customer. Fixed-term contracts put suppliers in a stronger position to do this. If this process changes, costs for suppliers may go up and they may be less able to manage risk, which may impact consumer bills.
- 5.3. Banning rollover contracts would mean that re-negotiation of contracts would have to happen more frequently. This would, in turn, increase the cost-to-serve, possibly leading to higher prices for consumers.
- 5.4. Ofgem should give thought to the interaction between their auto-renewal review and their work on non-domestic TPIs. Regulatory intervention in either area could impact the competitive market and intervention in both may have unintended consequences. For instance, auto-renewal products, facilitated by TPIs, may encourage customer switching, one of the primary signs of a healthy and competitive market. Ofgem should try to understand the combined effects of their regulatory interventions.
- 5.5. Suppliers compete particularly vigorously for customers who reliably pay their bills. Micro business customers who present a high credit risk may not have access to the same variety of contract options as the average customer. Rolling over on to another fixed-term contract automatically may be preferential to seeking a better deal for this type of customer.
- 5.6. All businesses, including micro businesses, should view energy management as a priority and consider their usage as a necessary cost, in comparison with business rates and materials. The auto-renewal model encourages customers to engage with their supplier at regular intervals, and our members have committed to continuously improving their communication around contracts to alleviate any remaining concern on rollover. This includes our factsheet.
- 5.7. Removing a contract option from the market limits options available to customers. In the domestic market, tariff structures mean that different options exist beyond rolling over a contract where a customer takes no action to renew or renegotiate a contract. In the non-domestic sector energy contracts and prices are often negotiated. As suppliers cannot force business customers to renegotiate their contracts, they will roll the customer on to another fixed-term contract, or apply out-of-contract or deemed rates which may be more flexible but can often be more expensive for the customer as a higher risk factor has to be incorporated. It should be noted that one of our members provides a variable-price product designed for the micro business consumer.