E.ON | UK

Mr Jonathan Lines
Retail Market Function
Ofgem
9 Millbank
London

Friday 12 July 2013

By e-mail

Dear Jonathan

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

Please find attached our response to the call for evidence.

We believe that the detailed rules for micro businesses provide a good level of protection for micro business customers. However, to augment the regulatory requirements we have introduced a number of company initiatives.

In Q4 2012 we implemented contract end dates on bills and a "missed window" negotiation policy which allows customers who have missed their renewal window to negotiate a better price with us. In Q1 2013 we implemented a renewal reminder letter which is sent shortly before the end of the renewal window.

These initiatives appear to have been well received by customers as complaints with the renewal process have decreased and we have experienced a higher level of negotiation by customers.

As promised in our response to the November 2011 Retail Market Review consultation in April 2013 we conducted research into customer's views on our renewal process. One of the findings from that research[1] is that most customers recognise the need to negotiate to get best price (70% of the sample negotiated their renewal price). However, satisfaction with the process was very low at only 29% and only 23% in a segment we termed Owner Operators. The main source of dissatisfaction was that the process is seen as far too complicated (in fact the most complex renegotiation that SMEs have to face). Whilst it is true that customers are not fully aware of the consequences of not engaging

[1] Research by E.ON conducted in April 2013 with E.ON's YourSay for Business Panel

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with their supplier e.g. higher variable price products it is clear that this level of dissatisfaction needs to be addressed.

We are therefore of the view that auto rollovers should be banned in the micro business energy market.

There are two pre-requisites however before a ban on auto rollovers is introduced. The first is that the Ofgem TPI Code of Practice becomes effective. Banning auto rollovers is likely to lead to more customers on higher priced Out of Contract rates. There is a real risk that an unintended consequence of a ban could be more customers entering into bad deals (which could be of longer duration than a 12 months rollover contract).

The second pre-requisite is that there is an established best practice for presenting pass through items additional to a fixed price. Banning auto rollovers is likely to lead to longer term contracts being on offer. We believe there is considerable confusion amongst customers about the products they are buying. Some suppliers are selling products which pass through the risk of increases in third party charges (notably the cost of Renewables Obligations) onto their customers without clear explanation. This leads to customers incorrectly comparing products.

We are working through what the alternatives to auto-rollover should look like and the applicable processes that should apply. We acknowledge that, if this is not handled properly, there is scope for increased customer complexity and potential confusion. In light of this and other factors, plus our desire first to see satisfaction of the two pre-requisites to be in place, we are not intending unilaterally to stop auto-rollover but wanted to ensure that our views were clear to Ofgem and other stakeholders.

These three actions, banning auto rollover, launching the Ofgem TPI Code of Practice and tackling misrepresentation of products introduced as a package will achieve the better outcomes for micro business customers we and Ofgem are seeking.

If you need further information please do not hesitate to contact me or Steve Russell (on 02476 181 356).

Yours sincerely

Graham Kirby
Retail Regulation Manager

Call for Evidence - Contract Automatic Rollover in the non-domestic market

Response by E.ON

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

The current rules provide a good level of protection for micro business consumers as they require;

- When a sale is concluded the customer to be made fully aware that they are entering into a legally binding contract and the principal terms of the contract.
- Each customer to receive a written copy of all the terms of their contract within 10 days of their acceptance. In addition customers entering into a fixed term, plan receive full details of the renewal process and timetable.
- Contracts to be in plain and intelligible language
- At renewal customers to receive their renewal options in good time and where a fixed term offer is made that offer is held open for 30 days.

The application of the current renewal rules however does generate a small volume of complaints from customers (see confidential attachment for a graph of renewal complaint trends). The graph also shows a downward trend in complaints and the positive impact of three company initiatives;

- During Q4 2012 we added Contract End Dates to bills;
- and allowed customers who were unhappy with being auto renewed to re-negotiate to a lower price.
- In Q1 2013 we introduced a renewal reminder letter shortly before the end of a customer's renewal window.

The new RMR licence conditions will enhance the rules further by increasing awareness, through the bill, of the contract end dates and the final date when a termination notice can be sent. In addition, in our case, it will simplify the options available to customers at renewal. The effectiveness of these latest requirements is obviously untested at this stage but one could speculate that they will have a positive impact on complaints.

Whilst the level of complaints is low, research[1] conducted by E.ON suggests that customers are not particularly satisfied (only 29% of the sample was satisfied with the current renewal process).

Other findings from the research were that customers;

1. start to think about renewal 60–90 days before their contract end date and this is when they want to be contacted by their supplier.
2. would prefer a longer negotiation window, 60 days and
3. would like a reminder that the end of the renewal window is approaching.

Our reaction to these findings is;

[1] Research by E.ON conducted in April 2013 with E.ON's YourSay for Business Panel

1. Whilst the licence condition allows suppliers some flexibility of renewal windows, we operate near the maximum of 120 days because this is when a lot of customers start to receive offers from competing suppliers. In our view it would benefit customers if the industry adopted a standard renewal window. This would improve customers' familiarity with the renewal process and the likely level of engagement.

2. Whilst a longer negotiation window looks attractive to customers it is likely to come at a cost as holding prices for an extended period in a commodity market can be expensive.

3. We recently introduced a renewal reminder letter to customers which has generated a significant response rate of around 11%.

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)?

We have no specific information about the awareness amongst our customers of automatic rollovers and the consequences of opting out. Our research however showed that only 75% of customers remembered receiving their renewal letter and that the satisfaction with the letter they received was very low at 17%. Our research also showed that auto rollover was only the preferred method of renewal of 14% of our customers.

As a consequence of these findings we have introduced a simple reminder email/letter as mentioned above and are re-designing our renewal letters so that the choices available to customers at renewal are clearer.

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

It is possible that our current renewal process, of allowing customers to opt out in advance of terminating their contract, whilst compliant with the current regulations, has made the renewal process appear more complicated than it actually is. We anticipate that our new streamlined process with clearer explanation of the renewal options will be well received by our customers and will prompt engagement where customers desire it.

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

No.

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

In the event that automatic rollovers are banned the principal risk faced by customers is that they revert to more expensive out of contract prices for an extended period of time (probably until the customer receives their first bill on the new rates). This risk could be mitigated by appropriately timed reminders, e.g. immediately following end of their fixed term contract. However, there is a cost to extra communications which will have a marginal impact on costs to serve micro business customers.

Other risks are;

- More customers moving to non-fixed term contracts for an indeterminate period of time result in energy cost volatility which a supplier will have difficult to hedge, resulting in additional risk premiums leading to higher prices.

- At present the majority of customers engage with the renewal process and seek to renegotiate, but it is possible that some of these customers receiving offers four months prior to their contract end dates with no renewal window would put the renewal offer to one side and become less engaged because there was no pressing need to act. However, the full benefit of allowing more time may not be realised as the existing supplier would have the option of using the high risk premium in the out of contract price to subsidise a new renewal offer. In addition, as more customers seek to negotiate there is a risk that suppliers would not price as aggressively to allow headroom for negotiation.

- Alternatively, if there is a major market event in the period between the first renewal offer and when the customer starts to engage, the customer would pay both high out of contract rates and a significantly higher renewal price.

- Out of contract rates are inevitably simpler (reflecting the generality of business customers' consumption) than bespoke prices and could therefore be particularly high for customers who benefit from lower cost quotes based on information from AMR and Smart Metering.

- More customers on Out of Contract prices will result in a larger market for TPIs and until such times as TPIs fall within a regulatory framework there is a risk that more customers become prey to less scrupulous TPIs. We urge Ofgem to press on with TPI reforms in the Micro Business market as a matter of urgency.