

Non Confidential

Jonathon Lines
Retail Market Functioning
Ofgem
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11th July 2013

Dear Jonathon

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

Due: 11th July 2013

Gazprom Marketing & Trading Retail Limited ("***Gazprom Energy***") would like to thank you for the opportunity to respond to your call for evidence. We do not consider our response to be confidential and we are happy for our comments to be shared with other interested parties.

Gazprom Energy operates in the UK non-domestic sector as a gas supplier and a gas shipper. In addition, we also operate in the UK non-domestic power market as an electricity supplier.

In considering further intervention in the market we believe it is important to take in to account ongoing initiatives such as the proposals under the Retail Market Review (RMR) for adding information to micro business consumer's bills. In the Retail Market Review Final Non-domestic proposals Ofgem has proposed the introduction of new licence conditions that will require suppliers to print two dates on bills for fixed term contracts:

- a) the date the supply contract is due to end
- b) the relevant date by which a customer must submit a notice to terminate.

There must also be a statement explaining the dates and how a customer may end their contract. This additional information should be a further benefit to micro business consumers as they will be notified on each bill that they receive, the relevant contractual dates and the process required for preventing an automatic rollover of their contract.

The removal of automatic rollovers would make redundant the inclusion of *b) the relevant date by which a customer must submit a notice to terminate* on bills and the explanatory text. The information would serve no purpose if automatic rollover could not occur.

We note Ofgem's RMR Non-domestic Final Proposals impact assessment which suggests the costs of information regarding termination to total around £1.6million in one off costs and around £500,000 in ongoing costs.

"The proposals for SLC 7A are estimated to cost £3.7million. This is split evenly across three proposals – the extension of protections, contract end dates on bills and termination notice dates on bills. The clarification of the termination notice condition contributes around £600,000 to the total." (Ofgem RMR Non-domestic Final Proposals Impact Assessment p.36).

Therefore, suppliers are spending substantial amounts of money and using considerable resource to develop these proposals. Much of this expenditure will be wasted if the proposals for banning rollovers were to be implemented.

We believe as a result of the extra information to be made available to consumers on bills, through RMR, that consumers will be in a better position to take the appropriate action which best suits their individual needs.

In light of the ongoing work as part of the RMR we feel it would be sensible not to prejudge the impact of these initiatives and instead review their effectiveness post-implementation and evaluate the benefit to consumers, before any further intervention is considered.

In addition, automatic rollovers are also prevalent in a range of competitive markets such as in financial services e.g. car insurance, home insurance, where they are seen as protecting consumers by ensuring continuity. It is therefore highly likely that micro business consumers will have an understanding of automatic rollovers from the range of businesses they contract with and indeed, may have in place with their own consumers.

We have set out our responses to the individual questions in the call for evidence in the attached appendix.

We hope you find our comments useful. Should you have any questions on or would like to meet to discuss our response, please don't hesitate to contact us.

Yours faithfully,

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Appendix 1

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

Yes, we believe the rules for automatic rollovers are effective at protecting micro business consumers and the RMR proposals for including dates on invoices will further enhance consumer protection.

As stated in the call for evidence letter, under the Suppliers Standard Licence Condition 7A, there are a number of obligations on suppliers that provide additional protection to micro business consumers.

This includes communicating the '**Principal Terms of the Contract**' for micro business customers and a '**Statement of Renewal Terms**' both before and shortly after entering into a contract.

Our Principal terms and conditions for micro business customers answer questions such as:

- *How long is my agreement for?*
- *How do I change supplier?*
- *How do I end my agreement with you and prevent automatic roll over?*
- *What will happen at the end of my agreement with you?*
- *What happens if I terminate my agreement and fail to change to another supplier?*

In addition, micro business consumers receive a 'Statement of Renewal Terms' at least 30 days prior to the final date upon which a written notice of termination can be submitted. This includes the contract length, contract start date and contract end dates. It also includes an explanation of the termination process and various scenarios, as well as supplier contact details.

These communications mean that micro business consumers are provided with clear information on the key terms of their contract and the different options available to them and the resulting consequences.

We believe as a result of the extra information to be made available to consumers on bills, through RMR, that consumers will be in a better position to take the appropriate action which best suits their individual needs.

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)?

Yes we believe consumers are sufficiently aware of automatic rollovers given the communication obligations on suppliers in Standard Licence Condition 7A and the references to rollover in each communication.

However we are concerned that the potential removal of rollovers could have an unintended and adverse impact on consumers as it would leave them subject to out of contract or deemed rates which are perhaps less well understood.

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

No we are not aware of any barriers. All our communications with our consumers include relevant contact information. Contact information is also published on our website.

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

We do not currently have any specific examples of punitive rollover and/or out of contract/deemed rates

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?

There are a number of risks which need to be considered, some of which have already been highlighted in the Call for Evidence letter:

- The removal of automatic rollovers would make redundant the inclusion of *b) the relevant date by which a customer must submit a notice to terminate* on bills and the explanatory text. The information would serve no purpose if a consumer had no automatic rollover. As discussed in the covering letter, the inclusion of this information is being implemented at a not insignificant cost to suppliers and ultimately consumers. We believe there is a risk of a wasting time and resource in implementing this proposal and would reiterate that Ofgem should instead wait until RMR has been fully implemented, and the benefit to consumers evaluated, before any further intervention is considered.



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- Without rollovers, consumers may be placed on deemed or out of contract rates which have higher risk premiums due to the levels of uncertainty associated with that type of contract.
- The implications of preventing automatic rollovers in the energy market would be detrimental to consumers. It would create additional burdens for micro business consumers who may be happy with the price and service of their supplier, for the sake of the unengaged minority, who in turn, would likely be worse off as they move onto out of contract rates.
- Creating more volatility in the energy markets will lead to an increase in hedging costs which may be detrimental to consumers if these costs are passed on through supply costs (which is likely).
- Finally banning automatic rollovers would be a significant market intervention which is not desirable or necessary in a liquid and competitive market.