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10th July 2013

Ofgem Call for Evidence relating to Automatic rollovers in the non domestic market dated 13 June 2013

Dear Jonathon,

Please find below the response to the above call for evidence from the Opus Energy group.

Q1 Are the current rules for automatic rollovers effective at protecting micro business consumers?

Yes. We consider that the licence conditions introduced in 2010 (SLC 7A), plus the further protections announced this week, ensure micro business consumers have full and effective protection throughout the term of a contract containing rollover terms.

The conditions ensure that the customer is informed of the automatic renewal process before entering into the contract and that the customer is given reminders each month of the approaching renewal date. The conditions also ensure the customer receives a written reminder as the renewal date approaches containing prices for the coming year and detailing what the customer should do if they don't want to move onto the next year's prices.

These obligations on suppliers ensure the customer has choice, and that the process is transparent and fair. We consider the new SLC 7A conditions have been effective and that the new planned provisions will add to this effectiveness. Since SLC 7A was implemented, we have seen a 12% reduction in the number of microbusiness customers who automatically rollover at the end of their supply term.

In the year prior to the introduction of SLC 7A around 56% of customers chose to automatically renew, around 30% called to negotiate a new price, and around 14% chose to switch to another supplier. We now find that a fairly consistent 44% of customers choose to automatically renew, around 43% now call us to negotiate a new price, and around 13% choose to switch to another supplier.

A further enhancement we would recommend is that the renewal letter could be sent by recorded delivery. This would ensure receipt and signal that the letter is important and should be acted upon without delay.

Q2 Are micro business consumers sufficiently aware of automatic rollovers and the consequences of opting out?

Yes. As outlined above, once the new obligations are in place, the customer must be informed of how to terminate or opt out of automatic contract renewal at several points through the term of the supply, including prior to contract signature, at each monthly billing date and as renewal approaches.

For the last 11 years, we have supplied all of our small business customers on contracts that include automatic renewal terms. We find rollover contracts:

1. give our customers the protection and certainty of a fixed energy price,
2. allow customers to choose, each year, how engaged they wish to be in energy purchasing for the coming year
3. as a small supplier, provide us with a stable basis on which to grow and continue to offer products to business customers.

Figures relating to what percentage of customers automatically renew are outlined under Q1. We find that, on average, around 4.3% of our customers contact us to say that they missed the renewal date. We offer all customers a five day leeway after the 30 day window, and for 5 further months will offer the customer a better price if we are able to do so.

We expect that the inclusion of contract end dates on bills, along with a reminder of the Relevant Date, is likely to reduce the number of these complaints to below 4.3%. We have also conducted tests which suggest that the number of dissatisfied customers is reduced further where the renewal letter is sent by recorded delivery.

Our conclusion is that the number of customers who are sufficiently aware of and happy with the rollover process is currently around 96%, and that this number is likely to rise following the introduction of the new licence conditions.

Q3 Are there any specific barriers that prevent micro businesses from engaging with their supplier when their contract is due for renewal?

We allow customers to communicate with us and provide termination notices by phone, email, fax or letter. We send renewal letters by royal mail. As stated above the number of customers that currently contact us stating that they have not received the renewal letter, or perhaps not given it sufficient attention in the timeframe needed, averages 4.3% of all letters sent.

As described above, sending renewal letters by recorded delivery could reduce this barrier to action. It would ensure that the letter is never lost in the post, and that the customer is prompted that it is an important letter needing attention.

Q4 Do stakeholders have any evidence of punitive rollover and/or out of contract/deemed rates?

We have not seen any evidence of this.

It is important to ensure that comparisons of prices are carried out in a comprehensive manner if customer trust is to be maintained by the industry. There are currently a number of influencing factors that can create variances between end user prices over time: movements in wholesale curve, introduction of new renewable subsidies, increases and changes in the structure of distribution and transmission charges, increases in renewable obligation charges, etc.

Q5 A number of responses to the RMR consultations suggest that we explore banning auto rollovers – any other risks/consequences not highlighted above?

The banning of rollovers would have a significant negative impact on the majority of microbusiness customers and would damage competition by reducing independent suppliers' ability to operate.

There are a number of reasons for this, outlined below.

- **Reduced customer choice and increased customer dissatisfaction**
  As detailed in Q2, our experience shows that 96% of business customers understand and are accustomed to using automatic rollover contracts to manage their energy purchasing. Forcing customers onto expensive out-of-contract rates at the end of their contract every single year removes customer choice and penalises the engaged majority for the benefit of the disengaged minority. Business customers who are accustomed to the rollover process are likely to be surprised and confused by being forced onto variable rates.

  There is also an unintended discrimination against customers whose contract end date is in a winter month. Since energy is a commodity with seasonal price fluctuations, disengaged customers who move onto out-of-contract tariffs in the winter are likely to face higher prices than those whose contracts expire in the summer.

- **Increased cost to customers**
  The automatic rollover process is a relatively low cost price-setting mechanism for both suppliers and customers. Forcing customers to engage every year will increase costs for customers who will face the risk of higher out-of-contract rates if they are too busy to engage, as well as for suppliers. The cost to us as a small supplier of re-contracting with every customer through an engaged process is around £175 - £250 per annum. In addition to this, variable term contracts cost around 5% more than fixed term contracts to support because of the additional risk associated with uncertainty of duration.

  Margins available to suppliers that service the business sector are typically small, so additional costs will have to be passed through to business consumers as higher prices. Similarly, reduced prices for disengaged customers will have to lead to increased prices for customers that are now actively engaged. We are an independent supplier (ie without vertical integration to generation assets) and our profit last year was 4.6% and has run at an average rate of 4.4% over the last 10 years. Any material reduction in margin would significantly reduce our creditworthiness and our ability to hedge our customers' energy costs and provide fixed term contracts.

- **Reduced Competition**
  Independent suppliers bring competitive pressure to prices, and innovation in products. The market share of independent suppliers in the electricity business sector, where rollover contracts create stability and certainty, is 17%.

  The market share of independent suppliers in the domestic sector, which is dominated by variable tariffs, is around 1%. This is because it is very difficult for independent suppliers to grow in a stable and profitable way where the market is based around contracts of uncertain term and fluctuating tariffs.

  In the domestic sector, margins received by suppliers vary considerably from year to year. Domestic suppliers experience good years and years when margins are negative. Only companies of investment grade (eg the 'Big 6') can ride out this volatility – in prolonged negative period, independent suppliers invariably exit the market or fail.

  Hence we believe transferring sections of the market from fixed term contracts to evergreen contracts with variable rates is likely to damage competition.

In summary we consider that the licence conditions introduced under SLC 7A, along with the newly announced addition of information on the customer's bills afford business customers with the needed protection. A ban on contracts with automatic rollover terms is disproportionate – it would be damaging to competition and is likely to lead to increased, rather than decreased customer dissatisfaction. To ensure all customers receive and promptly engage with the renewal process, where they wish to do so, suppliers could be obligated to send renewal letters by recorded delivery.

If you have any questions on the above, please do not hesitate to contact me.

Yours sincerely

Gemma Trembecki
Regulations Manager