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

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

Yes

Micro Business contracts

Micro Business customers are varied; they range from very small businesses to, in some cases, businesses with a range of sites and premises. They should all be familiar with contracts for their supplies, including buying energy, many of which have fixed terms and pricing which can vary from time to time. An auto rollover facility is, in many aspects, similar to contracts for other non-energy products.

Customer contact

Customers can contact us easily to discuss their options, including giving notice to terminate at any time during the contract term. Existing protections for Micro Business customers are comprehensive; we explain the terms and conditions to Micro Business customers when they join us and in good time before the end of the contract fixed term. These processes give customers opportunities to review their options. The addition of contract end dates, printed on bills from April 2014, will make customers even more aware of their options and the actions they need to take to meet their business needs.

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)?

Yes, we write to customers three months before the end of the contract term offering new prices, which they can accept, negotiate with us or move to another supplier. We also tell them if they terminate and do not switch they will go onto higher out of contract rates, what those prices would be and their principal terms. Letters are in plain and intelligible language. From Q2 2014 at the latest we will also put contract end dates on all SME bills and statements.

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

No.

Opportunity costs

Customers can contact us in a variety of ways: phone, e-mail or by letter. The non-domestic energy market is competitive; Ofgem notes that one fifth of Micro Businesses switch energy suppliers and there are 40 suppliers in the non domestic market. For many Micro Businesses renewing by auto rollover is an option that meets their needs. Sometimes the opportunity cost of searching for a new supply contract will be larger than any savings from switching.

Customer choice

Banning or restricting the use of Auto rollovers would mean customers defaulting onto higher out of contract rates if they did not actively engage with the market at renewal. Those that want to switch or shop around can do so easily and many negotiate new contracts with npower or other suppliers. Some customers want other products that better meet their requirements; suppliers will and do innovate in response. With the advent of smart metering we can expect to see more innovation in electricity and gas supply as Micro Businesses become better acquainted with the energy market and their businesses' energy needs.

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

No, we do not levy punitive rates. npower's contract rates and deemed prices are based on a methodology that reflects the costs and risks associated with supplying customers over time.

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?

Yes

Search cost

Understanding the needs of Micro Businesses is a critical factor here. They have to negotiate with a range of suppliers for all their services and products; for many the additional costs of procuring energy takes up time and effort that could be spent on more important tasks in their business.

As set out above, Micro Businesses can shop around for products with better pricing or service options to get products that better meet their needs. Banning Auto rollovers would force customers who do not want to shop around to incur additional costs, including lost time spent on negotiating a new or renewed contract.

Default charges

More customers would move onto out of contract rates. The risks associated with the uncertainty of supplying such customers will increase suppliers' costs and lead to higher prices for customers; one advantage of fixed term contracts is that suppliers can manage their commodity costs better and avoid potentially higher costs of purchasing in the spot and short term markets. Such higher costs are passed onto customers. Already, almost half of a typical customer's bill comprises costs of government policies and regulatory measures, which are outside of a supplier's control; this proportion is set to rise during the next few years.

Indirect costs

There are indirect costs, too: customers who shop around may get discounted prices. This applies to all markets and is an incentive to attract customers. However, if all customers were forced by Ofgem to shop around to get better deals, not only would customers' costs increase but the need to have incentives would diminish and we could see fewer discounted products. This would also increase suppliers' costs and therefore lead to increased prices.

Third Party Intermediary (TPI) costs

The final category of costs is driven by Third Party Intermediaries who welcome a market environment where more customers switch between suppliers. Ofgem and npower recognise that most Third Party Intermediaries offer a valuable and reliable service to customers. We also know that many smaller supply companies rely on this sales channel; it is an important route for entry into the market.

However, we also know that some Third Party Intermediaries could exploit their influence in the market and therefore use misleading sales practices. If Ofgem were to ban Auto rollovers, or to take other regulatory action that restricted the use of such a facility, we would see more customers using Third Party Intermediaries. For some time npower has argued for greater regulation of Third Party Intermediaries. We welcome Ofgem's moves to obtain powers under the Business Protection from Misleading Marketing Regulations but acknowledge that they are only one part of a regulatory framework.

npower advocates a single Code of Practice managed by Ofgem that will require much greater transparency of Third Party Intermediaries and their commissions. Changes to Auto rollovers must be accompanied by a single and mandatory Code of Practice.

Without this the risk remains that cases of mis-selling by Third Party Intermediaries could increase. In our view it would be unwise and detrimental to the interests of customers if changes to the nature of Auto rollovers were not accompanied by a single Code of Practice for Third Party Intermediaries.

Summary

We consider that the combination of the present Micro Business provisions and the new requirement to put contract end dates and termination dates on bills should ensure that customers have the information they need to make timely and informed decisions. Changes will introduce a variety of costs for customers and suppliers, some of which may serve to increase bills further. If there are to be changes then they should not be introduced until the new TPI provisions are in place.