

Jonathon Lines
Retail Market Functioning
Ofgem
9 Millbank
London
SW1P 3GE

1 August 2013

Dear Jonathon,

Call for Evidence on Automatic Rollovers in the Non-Domestic Market

We are pleased to respond to Ofgem's call for evidence for its review of automatic rollovers in the non-domestic market, dated 13 June 2013.

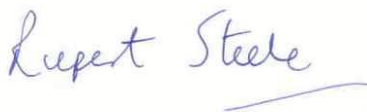
We believe that automatic rollovers, backed up by appropriate safeguards, have worked well to date for the majority of micro business customers. They can be a convenient option for busy business owners who want to know that renewal will be done for them, on competitive terms, if they do not have time to engage with the market – and can prevent customers from falling on to less attractive “out of contract” or deemed rates. For customers who do wish to shop around, we do not think that automatic rollovers are a significant impediment to switching, given the extensive communication and notification that suppliers are now required to provide ahead of contract renewal. This view is borne out by our complaint statistics which show a very low level of dissatisfaction with automatic rollovers.

We do however recognise that the market continues to evolve and it is right to take stock of the issues on a regular basis. We should study whether customer protections might benefit from being further strengthened or whether there may be alternative options to roll-overs that would provide customers with further confidence. We would be happy to work with Ofgem and customers to investigate and assess these options further as part of Ofgem's process for reviewing the automatic rollover process.

One area which we would encourage Ofgem to look at as part of this review is the role of third party intermediaries in the micro-business market. TPIs are not subject to the same transparency requirements as licensed suppliers, and we think that more could be done to encourage TPIs to disclose their commissions – and small businesses to be more savvy in their use of TPIs.

I attach an Annex answering your specific questions. Should you wish to discuss that or the points above, please contact me or our Retail Regulation Manager, Rhona Peat.

Yours sincerely,



Rupert Steele
Director of Regulation

CALL FOR EVIDENCE ON AUTOMATIC ROLLOVERS IN THE NON-DOMESTIC MARKET

SCOTTISHPOWER RESPONSE

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

Yes, we believe that the current automatic rollover rules provide sufficient safeguards to protect micro business customers at the end of contract. Specifically, the current rules ensure that clear information is provided to the customer at both the start of the contract period and at least 60 days before the end of their contract to set out their rights and any action needed regarding their contract options at the end of the current contract. The rules also ensure that a micro business customer can tell the supplier at any point during the contract that they do not wish to roll over at the end of the contract period, which will prevent a supplier from rolling them over, unless the customer subsequently expressly agrees a new contract.

Beyond this, the Licence ensures that a 3-stage test must be satisfied before the customer can be automatically rolled over on to new fixed term contract. The test requires that:

1. The supplier must have provided the customer with all of the relevant information at the appropriate stages over the lifetime of the contract;
2. The supplier must be satisfied that the customer has not indicated that they do not wish to rollover at any time during the contract period; and
3. The contract on to which the customer is rolled on to (on the basis that points 1 and 2 are satisfied) must be no longer than 12 months in duration.

The current RMR proposals will increase the number of customers protected by these rules (at ScottishPower this will cover the vast majority of our non-domestic customer base) and will also introduce an additional reminder of the contract end date and termination and rollover provisions for customers.

It is important to us that our customers feel informed and in control of their contract options with ScottishPower. In particular, we know that business customers have great pressure on their time and many are keen that energy suppliers take a proactive approach to managing their energy supply. To this end we offer customers a range of options at contract renewal. For customers on fixed price contracts (which account for the majority of our micro business customers), these options include choosing to pro-actively move onto a new fixed term contract and also the option to automatically roll over to a new 12 month fixed price contract.

We consider that the automatic rollover rules are sufficient to ensure that any micro business customer that does not wish to be rolled over automatically to a new contract has a full opportunity to opt out of the process. Beyond that, it is necessary to balance the interests of those who find the process helpful with the interests of any who feel that it does not work for them.

A key part of the protections within the current rules is to ensure that customers are made aware of the termination process and their options at all stages. At ScottishPower, we seek to do this through a range of routes including the sales process, the initial contract documentation, contact with the customer throughout the duration of the contract, and documentation issued as they approach the contract end date (for more detail see our response to Question 2). We would prefer to agree an

express contract with our customers and will proactively attempt to do this in the majority of cases by contacting the customer by telephone where possible.

In assessing whether these rules are effective in protecting customers, we have considered the complaints that we receive directly from customers on this issue. The number of complaints about end of contract is typically low and as a result of improvements to our communication with customers about their termination options our termination processes, combined with the regulatory changes introduced by Ofgem in 2010, we have experienced a continued reduction with complaints reducing from 1,009 in 2009 to only 274 in 2012, a 72% reduction. We are continuing to look at initiatives which could reduce these figures further.

We do however appreciate that there may be additional protections or alternatives to automatic rollover which could be explored in this context. We would be happy to work with Ofgem and customers to investigate and assess these options further as part of Ofgem's process for reviewing the automatic rollover process.

Q2. 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)?

Our perception is that, for the most part, micro business consumers are generally familiar with and understand the automatic rollover process and this is supported by the previously noted low level of complaints from customers about the process at the end of their contract.

As noted in our response to Question 1, our key aim is to provide clear, understandable communications that inform our customers on their rights under the contract, including the termination process and their options at all points during the contract life. In particular, on entering into a contract, each micro business consumer is issued with a Welcome Pack within 10 days of signing the contract. For smaller customers, this Welcome Pack follows the format of our award-winning domestic customer Welcome Cycle, and contains clear information on next steps, including giving the customer direct access to a personalised online portal to track their switch. It also provides a clear summary of their contract terms and the Statement of Renewal Terms (including details of what happens at the end of the contract). We also send customers another copy of the Statement of Renewal Terms within 10 days of them coming on supply. The Statement of Renewal Terms advises customers what they have to do if they want to terminate their contract and what happens at the end of the contract if they take no action.

Around 60 days prior to the end of their fixed term period, all micro business customers are contacted again in writing with their Statement of Renewal Terms which details the timescales for contacting their supplier to agree a new contract or to terminate their contract and what happens if they take no action.

In order to ensure that all micro business customers have a full understanding and awareness of the renewal and termination processes we take a number of additional steps.

- All of our renewal letters are sent by recorded delivery and this ensures that the letters are received and signed for by the customer and highlights the importance of the contents of the letter;
- Each letter clearly states on the front page what happens at the end of the fixed term period and what actions they need to take if they do not want to automatically rollover to a new fixed term contract;

- To suit customer preference we offer a number of ways for customers to contact us on receipt of their renewal communication. Customers can call into our dedicated micro business contact centre, they can complete and return a mandate in a pre-paid envelope or they can enter their requirements into a bespoke online landing page;
- In addition to contacting all customers due for renewal by recorded delivery letter, we also pro-actively attempt to contact some customers by telephone prior to their renewal. This allows us to explain what options are available to customers and again to reiterate what action they need to take and what will happen if they take no action; and
- Customers who contact us by telephone can find out their individual contract information and termination / renewal options through our Interactive Voice Response (IVR) service.

We would also note that Ofgem's amendments to SLC 7A introduced under the Retail Market Review will further increase visibility of this issue by ensuring that key information on the end of contract is provided routinely on bills and statements.

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

We are not aware of specific barriers from a supply side that prevent micro business customers from engaging with their supplier when their contract is due for renewal. We would highlight our previously noted low level of complaints from customers about the process at the end of their contract and the positive feedback on the format of our communications issued to customers. In the absence of such evidence, key issues that we consider could arise are:

- Clarity of communications;
- Customer apathy (no reason to engage in the market); or
- Customer priorities (energy low priority or no drive to engage in market).

ScottishPower is pro-active in making it easy for customers to contact us, including when the customer's contract is due for renewal. For example:

- We utilise as many channels for the customer to contact us as possible; this includes written mandates, an online landing page, telephone and email. We will continue to investigate whether there are other options for customers to contact us;
- We always try to communicate in language that our customers will understand. This includes written communications, which have been designed to be as clear and accessible as possible, and in our service dealings with customers, where our service advisors are dedicated and specially trained to dealing with micro business customer issues.
- In all our communication with customers, our contact details are in a prominent position on the front page, including opening hours for our call centres and a dedicated email address for customers who choose to manage their account online; and
- As noted above, we also send renewal letters by recorded delivery to highlight the importance of the letter to the customer and ensure that we know that the letter has been received by the customer.

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

We do not consider that our rates for 'out of contract' or deemed tariffs are 'punitive'. We actively manage the risk and volatility of energy prices where possible and having customers on fixed term contracts allows us to purchase energy in advance at known prices. 'Out of contract' customers expose suppliers to a higher risk as they can leave giving only 28 days notice (and many do) and for deemed customers we cannot object to them leaving us if even if they are in debt.

Inevitably, competition tends to concentrate on the contract rates as these are the prices compared by customers engaging in the market. We therefore periodically review the pricing of 'out of contract' and deemed products including the relationship of those prices with our contract rates.

Q5. 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?

We continue to believe that automatic rollovers have worked well for most non-domestic customers, however we recognise that there may be further protections or alternative options that would further benefit customers.

Ultimately, we agree that it would be sensible to consider whether there may be changes to the current end of contract process that would benefit customers and we would be pleased to be involved in in-depth discussions with Ofgem and stakeholders to take these considerations forward.

It will be important if a ban on automatic rollovers is considered, that the risks outlined in Ofgem's letter are fully assessed. We would also encourage Ofgem to consider the timing of any new restrictions in order to minimise the cost and system implications of altering processes. It may be sensible to wait until related RMR changes have been fully implemented and embedded in the market before requiring any new requirements relating to automatic rollover come into effect.

One area which we would also encourage Ofgem to look at as part of its review is the role of third party intermediaries in the micro-business market. TPIs are not subject to the same transparency requirements as licensed suppliers, and we think that more could be done to encourage TPIs to disclose their commissions – and small businesses to be more savvy in their use of TPIs.

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