Minutes

Non-domestic automatic rollovers - stakeholder event

Minutes from the non-domestic stakeholder event to discuss the automatic rollover practices	From	Ofgem
	Attendees	Supplier representatives and consumer organisations
	Date and time of Meeting	Monday 2 December 2013 12:00-16:00
	Location	9 Millbank, London SW1P 3GE

1. Welcome and Introduction

1.1. The event was introduced and chaired by Meghna Tewari (MT - Senior Economist, Ofgem). Each attendee introduced themselves to the group. A full list of attendees is included in Appendix 1.

1.2. One attendee asked for confirmation the discussion was restricted to micro businesses only. Ofgem confirmed that only micro businesses were currently in scope.

2. Responses to our call for evidence

2.1. Jonathon Lines (JL) began a presentation by explaining the background to the review of automatic rollovers and the timeline for the project.

2.2. A supplier representative stated that suppliers are spending money on the Retail Market Review (RMR) obligations to provide the contract end date and termination notice end date on bills from March 2014. They questioned why Ofgem were pursuing additional proposals before understanding the impact of the RMR policies. MT responded that there were a number of concerns with respect to auto rollovers, and the RMR policies might not be sufficient in addressing these. Ofgem would also consider where RMR policies will help to reduce issues specific to automatic rollovers.

3. Supplier announcements

3.1. JL gave an overview of recent supplier announcements to end automatic rollovers during 2014.

3.2. An attendee said there is a strong desire to define the default arrangement if automatic rollovers were prohibited. Suppliers have taken a variety of approaches and they need to be able to be compared.

3.3. Another attendee noted that suppliers operate rollovers in slightly different ways and that it is important to recognise that the automatic rollover announcements to date are commercial responses, which are not triggered by regulation.

4. Summary of information request

4.1. JL gave an overview of the information requested from suppliers in August 2013 and presented charts summarising data in an aggregate format.

4.2. One attendee asked why the annual consumption levels used to estimate bill values (16,000 kWh for electricity, 50,000 kWh for gas) were chosen. They also noted that results may be different for larger consumption values. JL explained that these values were based on non-domestic consumption data from Elexon and Xoserve and were close to consumption levels used during the RMR impact assessment in March 2013. However, they should not be considered as Ofgem 'official' typical consumption figures.

5. Proposal options

5.1. Key concerns

5.1.1. JL gave an overview of the key concerns surrounding automatic rollovers. There were a number of questions from attendees.

5.1.2. One asked how significant the issues raised by consumers, consumer groups and TPIs were, and if there were any statistics to indicate the extent of these issues. JL responded that these concerns had been raised with Ofgem over a number of years through consultation responses and external contacts.

5.1.3. Another questioned if the average price differential between negotiated and rolled over contracts was isolated to a few suppliers or was consistent across the majority of suppliers. Ofgem responded that this was an average difference across suppliers, but there was also significant variation. Due to the sensitivity of the data no further detail could be provided.

5.1.4. Another asked if the key concerns still apply after the recent supplier announcements on auto rollovers. Ofgem responded that the majority of this analysis was undertaken before the recent announcements. The full effects of these announcements are yet to be assessed.

5.1.5. A supplier representative asked if concerns about confusion meant there should be a standard approach across the industry. Their view was that competition is about choice. A consumer representative noted that this may be true, but competition works better if consumers understand the market.

5.2. Examples of current practice

5.2.1. JL listed a number of current practices in the market related to contract renewals. There were questions on whether all of the practices listed should be classified as good practice and if there were any examples of bad practice. Ofgem agreed to amend the title of this slide.

5.2.2. In reaction to one supplier's decision to end termination fees, one attendee suggested no termination fees could mean higher rates for all consumers. A supplier noted that customers will still have a choice of competitive rates even with contracts that have no termination fees.

5.3. Proposal options

5.3.1. JL described the three areas of our initial proposals (renewals, terminations and contracts) and emphasised that not all of these would be formally consulted on. Ofgem welcomed open feedback at this stage, both positive and negative.

5.3.2. One attendee asked whether renewal requirements would apply to all fixed term contracts or just those that rolled over onto a new fixed term, and whether these practices should be treated differently. Ofgem acknowledged this and suggested it could be addressed by group discussions.

6. Group discussions around proposal options

6.1. Attendees were split into three groups to consider the relative pros and cons of the initial proposals. Each group was asked to score a proposal for the benefit to the consumer (0 being no effect, 5 very effective) and to indicate the potential cost to implement for suppliers (0 being no/minimal cost and 5 for extremely complex/expensive). Groups were also asked to consider any unintended consequences and alternative options.

6.2. **Group 1 – Renewal options**

Participants
Graham Hunt (SSE)
Tiphaine L'Henoret (EDF)
Hannah Mummery (Consumer Futures)
Tim Hammond (Corona Energy)
Peter Bennell (Haven Power)
Jane Cooper (DONG Energy)
Daisy Cross (Energy UK)

Facilitator
Meghna Tewari

Option 1 – Renewal letters to include a comparison of new prices offered and current prices.

- Ofgem explained that the current prices would refer to prices the customer is paying on the existing contract and new prices refer to the offer – either the price offered for the next fixed term period or an indication of the variable rates the customer would be defaulted onto.
- Consumer groups felt this would have added value for consumers and will help micro businesses understand the impact of a price change and engage effectively.
- Some suppliers pointed out that such a comparison could create confusion if key information such as the period that the rates relate to were unclear. Smaller suppliers pointed out that providing such information would require coordinating multiple systems and would have cost implications.
- The impact would depend on whether the customer has already been rolled over or not. Some group members pointed out that in a scenario where the customer had already been rolled over, they would be comparing rollover prices with rollover prices. Therefore the customer may not fully appreciate the impact as the price change would be less significant than previously.
- It was mentioned that the grouping of proposals would enable industry to plan more effectively for implementation and help to minimise costs.

Option 2 – Comparison of the estimated bills for next year and current annual bill.

- Annual consumption would be an estimate. It would not constitute factual information.
- Most consumers do not know their annual consumption. On this basis the benefits of this option would be limited and may even confuse customers.
- The general perception was that this information may be expensive to place on a single notice, as it would have to be drawn from two or three databases.

Option 3 – Renewal letters sent by recorded delivery

- This option would be very costly.
- In terms of customer engagement it may not help customers understand their situation any better and may not be appreciated by their customers.
- One benefit of recorded delivery is that it highlights the importance of the letter, but there could be other ways to do this.

- Few customers complain that they never receive the renewal letter. Most admit receiving the letter but do not pay attention to it.
- If the customer is not at the premises when the letter arrives then they must take time out of their day to go to the post office to collect the letter, which could cause frustration.
- Ofgem mandating the type of delivery for this letter was considered to be a significant and unnecessary intervention.

Option 4 – Additional reminder notice sent to customer before the end of the notice period

- There is a cost involved in differentiating who had already replied to the original letter. Therefore some customers may receive the additional reminder even though they had already responded.
- One stakeholder pointed out that generally customers who ignore their first letter would ignore any additional letters.
- It was mentioned that some onus should be placed on customers to respond to their communications.

Alternative suggestions

- The Standards of Conduct may address some of the concerns raised by customers.
- There needs to be a balance between including as much useful information as possible on the renewal letter and not making it too long as this may reduce consumer engagement. One supplier representative said a simple reminder letter was effective as it was less complicated than the regulated renewal notice.
- A potential first step is to look at the current licence conditions and re-assess the content requirements for the renewal letter. The current level of detail could potentially confuse customers.

Summary discussion

- There was more support for option 1 in general, but the issue of who it applies to (those that have already been rolled or not) needs to be discussed further.
- There needs to be a balance between providing additional useful information and avoiding confusion through too much information.

6.3. **Group 2 – Termination options**

Participants
Steve Russell (E.ON)
Gerald Jago (npower)
Andrew Green (Total Gas and Power)
Emma Piercy (First Utility)
Louise Boland (Opus Energy)
Gareth Evans (Waters Wye Associates)
Chris Noice (Association of Convenience Stores)

Facilitator
Jonathon Lines

Option 1 – Standardise termination notice period to 30 days before the contract end date.

- Scored 2-4 in terms of consumer benefits.
- Scored 1-3 in terms of difficulty/costs.
- Noted that some Energy UK members are already committing to this.

- There could be impacts on energy purchasing for suppliers that currently have notice periods longer than 30 days.

Option 2 – Termination notice from customers must be acknowledged by the supplier in writing.

- This was universally seen as standard practice and all suppliers in the group noted that this was already current practice.
- Straightforward to implement.
- No unintended consequences were mentioned.

Option 3 – Customer does not have to provide termination notice.

- There was a discussion as to whether this option meant that notice still had to be provided but with no minimum period, or whether no termination notice was required at all from the customer. Ofgem acknowledged that this option needed to be clarified.
- The option was not seen as very beneficial to the customer (scored 1).
- Scored 3 on implementation difficulty/costs. It was seen as quite risky for suppliers.
- This option may create a lot of confusion if a customer can terminate at any day up to the final day of their contract, as a new supplier may not be chosen and the customer would consequently be moved onto higher rates until a new supplier is chosen.
- Some noted that this was effectively the same as a ban on automatic rollovers.
- There would be more uncertainty for suppliers, which would translate into higher prices.
- If customers do not have to tell their old supplier that they are leaving it may result in suppliers ringing each other to see why their customer has left.

Alternative options

- Supplier led switching was seen to have simplification benefits to customers, but involved significant risks.
- Verbal termination was also suggested as an option and some suppliers noted that they already accepted this. Views were divided on whether this was a good option. A number of potential problems were highlighted, such as security risks identifying the correct person and potential abuse by brokers.

Summary discussion

- 30 days notice seems to squash everything into the last month of a contract.
- 30 days gives a balance of benefits to consumers and suppliers to make changes.
- There were further comments on how the ‘no termination notice’ proposal needed to be clarified.

6.4. **Group 3 – Contract options**

Participants
Matt Young (British Gas)
Ngaio Wallis (DECC)
Steve Mulinganie (Gazprom)
Laura Coleman (Contract Natural Gas)
Jo Heraghty (Scottish Power)
Francis Wood (FSB)

Facilitator
Phil Sumner

Option 1 – Allow customer to opt-in to an automatic rollover provision when they agree a new contract

- The general consensus was that it is difficult for consumers to opt into a future arrangement without knowing the terms and conditions at the time.
- There are high management costs associated with this approach.
- There was a discussion on what the impact would be on engaged consumers vs. disengaged consumers.
- An opt-in approach would require suppliers to record this consent, with additional costs attached.
- In term of difficulty/cost to implement this scored 3 but it was noted that this would depend on supplier's individual systems.
- One unintended consequence was that TPIs may be perversely incentivised to not opt in customers. This would result in more customers being out of contract and generate more business for TPIs.
- If this option is offered as an 'opt in' then there is a potential for misleading sales messages.

Option 2 – Allow customers to exit a rolled over contract with no termination fee

- There was some debate around what it meant and whether termination fees were actually used, and if so whether they were punitive.
- The group though that this option is similar to the domestic model and was effectively the same as a prohibition of automatic rollovers.
- Option was ranked 2 for consumer benefit and 2 for supplier costs.
- In terms of consumer benefits this would add something positive to the status quo though the impact would be small.
- The group signalled the risk of hedging costs being spread across all customers as an unintended consequence.

Option 3 – Automatic rollover contracts not allowed in any circumstances. Customers would move onto relevant out of contract terms when fixed term ends.

- Question on what the level of out of contract rates would be and whether these should be determined by regulation or left to the market.
- Monitoring was a key consideration. The success of this option depends on what happens next.
- This was seen as the most beneficial of the three.
- The costs of implementing this option would differ between suppliers based on their systems and existing commitments.
- Customers would need to be engaged for this option to work. On this basis, should disengaged micro businesses be treated differently?

Alternative options

- A two year contract with a twelve month break period was suggested.

Summary discussion

- One representative questioned where it was fair to remove a choice for customers by banning automatic rollovers.
- Banning automatic rollovers is akin to requiring customers to be engaged. Some customers may prefer to not engage.
- There would need to be a fundamental change to consumer behaviour if automatic rollovers were banned.
- These options will result in higher prices for all consumers (costs will be spread across all prices).
- Need to consider if the issue is systemic or whether it applies only to a few suppliers.
- Termination fees need to be fair and proportionate.
- In a supplier's survey only 14% of customers wanted to be rolled over. In response to this another supplier quoted their own survey figures that suggested customers preferred being rolled onto a fixed term contract. They argued that survey results depend on how the options were presented to customers.
- It was mentioned that what comes out of this process should not be a one size fits all solution.

7. Deemed and Out of Contract

7.1. Phil Sumner (PS) chaired this session. JL explained the key points of concern and presented results from the information request.

7.2. An attendee asked why out of contract rates couldn't be lower than deemed, since suppliers have no historic information on deemed customers and therefore the risks should be different. Suppliers noted that generally out of contract customers can still leave at any time and have unpredictable consumption.

7.3. The problem with deemed rates is that customers often do not find out that they are on higher rates until they are billed. An attendee asked if particular sectors were more likely to be on deemed rates. An example given was pubs and companies in administration. There are also customers who have never switched since privatisation and customers that consume very little energy. They are not concerned about the bill as it is still relatively small.

7.4. Suppliers routinely contact customers on deemed rates and ask if they would like to be on a fixed term contract. Many customers simply refuse to engage with the supplier even when prompted. Suppliers mentioned that deemed customers are likely to be using minimal amounts of gas.

7.5. A supplier representative asked Ofgem if they would reconsider their position that suppliers cannot object to the transfer of deemed customers in debt. They argued that suppliers are currently able to object to any other customer (other than deemed) if there is outstanding debt and this may contribute to the higher price of deemed rates. One supplier writes off half the debt for deemed customers.

7.6. A consumer representative asked if Ofgem had ever enforced the current licence condition on deemed contracts. JL and PS confirmed that to their knowledge, Ofgem had not.

7.7. Another attendee noted that we need to understand why customers stay on deemed rates. Ofgem should not force them to engage if they do not value this.

8. Conclusion

8.1. JL and PS thanked attendees for their contributions and noted that any further contributions should be sent to nondomestic.rollovers@ofgem.gov.uk. A consultation is due to be published in early 2014.

Appendix 1 – Attendees

Organisation	Representative
British Gas	Matt Young
EDF Energy	Tiphaine L'Henoret
E.ON Energy	Steve Russell
RWE npower	Gerald Jago
SP	Jo Heragthy
SSE	Graham Hunt
First Utility	Emma Piercy
Gazprom	Steve Mulinganie
Haven Power	Peter Bennell
Opus Energy	Louise Boland
Total Gas & Power	Andrew Green
Contract Natural Gas	Laura Coleman
Corona Energy	Tim Hammond
Dong Energy	Jane Cooper
Consumer Futures	Hannah Mummery
DECC	Ngaio Wallis
Federation of Small Businesses	Francis Wood
Association of Convenience Stores	Chris Noice
Energy UK	Daisy Cross
Waters Wye Associates	Gareth Evans
Ofgem	Meghna Tewari (MT)
Ofgem	Jonathon Lines (JL)
Ofgem	William Reay
Ofgem	Phil Sumner (PS)
Ofgem	Raluca Soare
Ofgem	Stephanie Lomax