



**Federation of Small Businesses**  
*The UK's Leading Business Organisation*

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

**RE: Automatic rollovers in the non-domestic market**

**10 July 2013**

Dear Sir,

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the above named consultation.

The FSB is the UK's leading business organisation. It exists to protect and promote the interests of the self-employed and all those who run their own business. The FSB is non-party political, and with 200,000 members, it is also the largest organisation representing small and medium sized businesses in the UK.

Micro businesses make up 99.3 per cent of all businesses in the UK, and make a huge contribution to the UK economy. They contribute 51 per cent of the GDP and employ 58 per cent of the private sector workforce.

We trust that you will find our comments helpful and that they will be taken into consideration.

Yours sincerely,

Allen Creedy

Chairman of the Environment, Energy and Water Policy Unit

Federation of Small Businesses



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## **FSB response to Automatic rollovers in the non-domestic market – call for evidence**

**July 2013**



## **Small businesses and the energy market**

The FSB has for some time campaigned for recognition of the special position of micro businesses in the energy market.

Micro businesses behave in a similar way to domestic energy users, in terms of lack of expertise and levels of energy consumption; but do not enjoy the regulatory safeguards that domestic users receive. Many micro businesses lack the expertise to negotiate contracts and are penalised by energy suppliers because of their limited purchasing power, relatively low energy consumption and unpredictability of their demand.

Difficulty in switching suppliers, getting locked into uncompetitive rollover contracts, and finding it hard to compare tariffs limit all serve to further undermine the position of micro firms in the energy markets.

### **Are the current rules for automatic rollovers effective at protecting micro businesses consumers?**

Four years ago Ofgem consulted on the practice of automatic contract rollovers for micro businesses as part of its Energy Supply Probe. During the course of the Energy Supply Probe the FSB highlighted how the practice of automatic contract rollovers was damaging the economic prospects of the UK's five million small businesses during one of the worst recession of recent times.

Four years later automatic contract rollovers are still damaging the prospects of the UK's smallest firms. Survey research from the FSB's 'Voice of Small Business' survey panel (April 2013) clearly shows the problems that automatic contract rollovers cause small firms with a quarter of members having been rolled over.

*Have you been rolled over into another fixed term energy contract without knowing?*

*Base: 2,403*

Yes	23%
No	57%
Unsure	20%

The FSB is now urging Ofgem to correct this failure of regulation and give the small businesses the protection they deserve from the big six energy companies.

*Would you support the abolition of 'roll over' energy contracts for businesses?*

*Base: 2,408*

Yes	78%
No	5%
Unsure	17%



## **Rollovers**

One of the biggest problems small firms experience in the energy market is the unfair practice of being automatically rolled over. Many small businesses experience problems with being 'rolled over' from their current energy contract to a new one without their knowledge. Unlike domestic consumers, businesses are obliged to negotiate contracts with their energy supplier that typically last between one and three years.

When a contract expires, businesses need to contact their supplier or another supplier (if they would like to switch) and negotiate a new contract. Some businesses are often unaware of the notification window where they can negotiate a new contract or move to a new supplier. In such cases, they are 'rolled over' on to another contract for 12 months which is often subject to an un-negotiated price increase.

## **Out of contract rates**

The main argument that the energy companies use against abolishing rollovers is that this means putting a customer on to 'out of contract' rates which are typically far higher than rates under a negotiated contract. The rationale for the higher prices is that due to the uncertain status of their customer, the energy company is bearing a greater financial risk and therefore needs to bear this risk through a higher price (hedging).

While there is some truth to this – the way prices are often increased bear no resemblance to the risk being borne by the energy suppliers. The vast majority of small businesses consume the same amount of energy as a domestic households and have a similar level of understanding of the energy market. In no way are out of contract rates cost reflective of the risk energy suppliers are undertaking by having micro business customers out of contract.

Ofcom, the telecoms regulator, banned the practice of rollovers in December 2011. We want Ofgem to level the playing field for small businesses in the energy markets and do the same.

We accept that careful consideration needs to be given to what happens in the event of the practice of automatic contract rollovers abolished in the non-domestic market. We believe there is scope for creative solutions such as the 'evergreen' situation in the domestic market or, perhaps, a system that makes any increase in energy costs, due to being out of contract, made more reflective of the actual risk being borne by the energy supplier.

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

Small businesses are significantly resource constrained and they are not able to devote the time and expertise to securing the best deal in the energy markets.

FSB survey research shows that the vast majority of small firms consume energy in similar levels to domestic households and have a similar level of expertise of the energy market, yet they are not afforded the same level of regulatory protection which means they are at a significant disadvantage when interacting in the market.

FSB 'Voice of Small Business' research clearly highlights the problems small firms face when engaging with energy suppliers.

*Have you encountered any difficulties with your existing supplier when attempting to switch energy suppliers?*



Yes	19%
No, no difficulties encountered	27%
I have not attempted to switch energy supplier	46%
Unsure	8%

*Which of the following difficulties have you encountered?*

Notice periods for termination are not clearly stated/ divulged	65%
Contract terms and conditions are too complicated/ difficult to understand	60%
Lack of clarity over which paperwork should be submitted	39%
Other	13%
None of the above	1%

We welcome Ofgem's focus as part of its Retail Market Review on the issue of customer transfers and the problems small firms face when engaging with their supplier; the ability of customers to switch with ease is a vital foundation for a competitive market. We therefore support the investigation of uncompetitive practices and urge the strongest possible action against those suppliers who are deliberately making transfers difficult.

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