Proposals for Non Domestic Automatic Rollovers and Contract Renewals

Submission from the Association of Convenience Stores

ACS (the Association of Convenience Stores) welcomes the opportunity to provide evidence in response to this consultation. ACS represents 33,500 local shops across the UK (Annex A). The nature of convenience retail, with long operating hours, necessary use of refrigeration and other equipment, means that energy costs are a critical factor in the viability of a convenience store business. It is therefore crucial that the non-domestic market operates competitively and that unfair practices are regulated against. ACS supports Ofgem's focus on the issue of rollover contracts and the specific focus on non-domestic customers within the consultation.

ACS believes that the current rules surrounding automatic rollovers do not work. There remains too much risk that retailers will not be aware of when their contracts are to be renewed or their options in seeking to end their contracts.

Measures introduced as part of the Retail Market Review are a welcome step forward in the improvement of communication between energy companies and their customers when it comes to the prevention of an unwanted rollover contract. However, there are still businesses that will be taken advantage of because they do not understand the implications of their renewal.

Question 1: Do you agree with our proposal to reduce the maximum termination notice period to 30 days?

We believe that the maximum termination notice period for suppliers should be consistent across the board. By reducing the required period that microbusinesses have to give to terminate a contract to 30 days, regardless of which supplier they are with, there will be less confusion in the market and businesses will be able to go through the same process every time they want to switch. As such, we support this proposal.

Question 2: Do you agree with our proposal to include current prices and annual consumption on contract renewal letters?

We believe that transparency is an important part of the renewal process between suppliers and business customers. While many small businesses are aware of their energy consumption and monitor their consumption on a regular basis, there are also many that will be unaware of the amount of energy that they are using. The benefits of including the annual consumption and price comparisons on renewal letters are two-fold. Firstly, the business owner is incentivised to contact either their supplier or a new supplier to negotiate a contract with all of the information that they would need to do so. Secondly, by including prices and annual consumption rates, convenience retailers (who have above average energy consumption rates due to the large amount of refrigeration, lighting and other electrical equipment which are integral to the running of the store) may be encouraged to make investments and change behaviour in-store to save energy and money in the long term.

In the consultation document, it is outlined that the information that is provided to businesses on their current and proposed prices be ‘set out in plain and intelligible language’. As mentioned in our previous submission to Ofgem, we believe that any increase in renewal costs should be expressed in clear percentage and cash terms.

Question 3: Do you agree with our proposal to require suppliers to acknowledge termination notice received from a customer? Do suppliers already do this?

We fully support Ofgem’s proposal to require suppliers to acknowledge termination notices received from small business customers. As the consultation document states, this is a simple procedure for suppliers to put in place which provides assurance to microbusinesses that their contract will not be automatically extended. We believe that suppliers should be required to acknowledge, in writing, any relevant communication from a business customer about their contract.

Question 4: Do you agree with our proposed implementation dates?

The Retail Market Review has been ongoing for over five years and the issues raised within have still not been resolved. For example, there is still no industry wide 12 month limit on backbilling. The proposed implementation timeframe of autumn 2014 must be the absolute cut off point for this issue. We believe that action should be taken across the spectrum of suppliers by 31 August 2014. Any suppliers in breach of the proposed conditions beyond that date should be subject to immediate penalties.

Question 5: Do you have any views on the proposed amendments to standard licence condition 7A in Appendix 2?

We have no issues with the amendments to SLC 7A, although we are aware that the condition will require further redrafting in the event that rollover contracts were banned altogether.

We also welcome the modification to standard licence condition 1, removing the distinction between domestic and non-domestic customers. This is a change that we would like to see taken further, providing a level regulatory framework for both domestic customers and small business customers on all issues raised in the Retail Market Review.

Question 6: Do you agree that the current licence conditions provide sufficient protection to consumers on deemed contracts?

The current licence condition on deemed contracts states that suppliers must ensure that their deemed contract rates are not “unduly onerous”. The results of Ofgem’s RFI show unequivocally that deemed and out of contract rates that are up to 82 per cent higher than an equivalent acquisition contract are unduly onerous. As such, we do not believe that the licence conditions in their current form provide adequate protection to these consumers.

We believe that the licence condition should prescribe a methodology for calculating deemed and out of contract rates with a maximum percentage differential between the rates and equivalent acquisition contract rates.

Question 7: Do you agree that more consistent use of terms across suppliers would benefit consumers?

There is a clear difference in terms of risk to a supplier between a deemed customer and an out of contract customer. Deemed customers who have no previous relationship with a supplier provide a potentially greater risk than existing customers who have not changed their supplier or agreed a new contract. Clear separation of the two terms and consistent use of those terms across all suppliers would be beneficial.

If all essential information provided to the business owner was consistent in frequency and nature (eg letters, calls etc), there would be far greater understanding of contract terms and consumption from business customers. Consistency between suppliers, both in their use of terms and their other communication to businesses would be of great benefit to consumers.

Question 8: Should suppliers be able to object to the transfer of a deemed consumer with outstanding debt?

If suppliers were able to object to transfer, they could put a business in a debt spiral where they are unable to pay the deemed rates and the additional debt. We do not believe that suppliers should be able to object to the transfer of a deemed customer with outstanding debt. A supplier still has the ability to chase outstanding debt, regardless of whether a transfer of supply takes place. In most cases, a transfer of supply would lead to the consumer receiving a better deal on their energy, thus freeing up more capital to settle any debt with the previous supplier.

Question 9: Do you consider that there are any options that we have not considered?

N/A

Question 10: Do you agree that we should not ban automatic rollover contracts?

In our previous submission to Ofgem on this issue, we stated that “we do not agree that suppliers should be able to take advantage of their disengaged customers by offering extortionate renewal rates which are subsequently dropped significantly upon complaint. For rollover contracts to be a useful tool in the non-domestic energy market, renewal offers must be more closely linked to the general market rates at the time.”

We do not believe that the suppliers who still use rollover contracts are willing to take this step, and as such we do not agree that Ofgem should avoid a ban on rollover contracts. Automatic rollover contracts should be banned.

Question 11: Can you estimate the potential costs and benefits of our preferred options? Please consider the initial implementation and ongoing costs where possible.

We are unable to provide information about the costs of implementation for suppliers, but the benefits of competitive energy rates for retailers can run into the thousands. As evidenced in Annex B, retailers who have been offered rollover contract terms have been significantly overcharged and an end to this process would offer significant savings. Additionally, there are potential long term savings for retailers who are more aware of their consumption as a result of the proposal to include annual consumption on renewal letters.

If you have any further questions or comments regarding this submission, please contact Chris Noice on 01252 533013 or email chris.noice@acs.org.uk

Annex A – Association of Convenience Stores

ACS is the trade body representing the interests of over 33,500 convenience stores operating in city centres as well as rural and suburban areas. Members include familiar names such as Martin McColl, Spar, Nisa Retail and The Co-operative Group, as well as independent stores operating under their own fascia. Our members operate small grocers, off-licence or petrol forecourt shops with between 500 and 3,000 square feet of selling space.

Annex B - Renewal Rates

Many small businesses have received letters from their suppliers offering them an uncompetitive rate, and a date by which they have to respond before this new offer becomes the contract rate applicable for the following 12 months. The following is a summary of a number of examples of uncompetitive renewals offered by energy companies:

Case Study A

Retailer acquired a service station in summer 2012. They agreed a 12 month contract over the phone with Supplier A with an end date of 1st Aug 2013. The retailer was aware of the end date but didn't know about the termination clauses and was expecting correspondence from his supplier. Supplier A says they sent out a letter on 8th May and that the retailer had until 8th June to advise them they were not happy with the renewal. However, the retailer insists that no letter was ever received.

The renewal rates offered for a 12 month contract were as follows:

Std charge	115p/day
Weekday rate	20.77p/kWh
Night rate	10.91p/kWh
Other times rate	19.41p/kWh

In accordance with evidence provided by an independent energy advisor, general market rates were as follows:

Std charge	75p/day
Weekday rate	11.5p/kWh
Night rate	6.5p/kWh
Other times rate	11.5p/kWh

Upon complaining to Supplier A about this they have re-offered the following rates:

Std charge	89p/day
Weekday rate	15.93p/kWh
Night rate	8.43p/kWh
Other times rate	14.99p/kWh

Case Study B

Retailer runs a small convenience store in London supplied by Supplier B, who sent a 12 month renewal letter to the retailer dated 25th December 2013. Contract end date is 1st May 2013. The customer had until 31/1/13 to advise they were not happy with the renewal offer. The customer did not contact Supplier B.

The rates offered were:

Std charge	34.62p/day
All units	12.15p/kWh

If the retailer had consulted with an advisor, they could have obtained a contract at the following rates:

Std charge	14.p/day
All units	9.8p/kWh

This customer has been auto-renewed.

Case Study C

Retailer runs a small convenience store near Exeter, supplied by Supplier B who wrote to the retailer on 21/4/12 with renewal offering for a contract to start 2/9/13 for 12 months contract. The customer had until 3/6/12 to advise they didn’t accept renewal offering.

The rates being offered were:

Std charge	37.9p/day
Day units	19.5p/kWh
Night units	12.18p/kWh

The retailer contacted an independent advisor, who was able to submit termination on his behalf and obtain much better rates. The contract arranged had the following rates

Std charge	50p/day
Day units	10.66p/kWh
Night units	5.88p/kWh

Whilst the standing charge is higher the unit rates are much lower and the overall saving for this retailer was 46%.