



Federation of Small Businesses
The UK's Leading Business Organisation

Ofgem
9 Millbank
London SW1P 3GE

February 2014

Dear Sir/Madam,

RE: proposals for non-domestic automatic contract rollovers and contract renewals

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 215,000 members, it is also the largest organisation representing small and medium sized businesses in the UK.

Small 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 percent 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 & Water Policy Unit
Federation of Small Businesses



FSB response to Proposals for non- domestic automatic rollovers and contract renewals

February 2014



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

Yes.

The ability to terminate a contract easily and switch to another provider is a key foundation of a competitive market place. Differences in termination procedures between suppliers are catching small firms out, and allowing energy suppliers to object to a request to transfer and limit SMEs ability enjoy a competitive market place.

We therefore welcome this first step towards reducing the maximum termination notice and creating a common termination procedure across suppliers.

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

Yes.

The way information is presented to a small firm can be critical to allowing them to make informed decision about what deal, contract or provider might be best for them. However, the way bills are presented to small business consumers in the energy market mean that small firms find it hard to understand and compare like for like.

Increasing the provision of information is a key to helping small firms understand their energy use and bills. We therefore welcome this proposal.

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

We welcome this proposal.

However, we do not believe it goes far enough. We want to see Ofgem make it far easier for a micro business to end a contract and switch with ease. For instance, if a small business consumers are able to enter into a contract on the phone they should be able to end it on the phone.

In addition, we believe if there is a legitimate reason for a supplier to object to a request to terminate or transfer, the supplier should

- a) contact the customer within 24 hours to explain why they are objecting and what they need to do get the transfer back on track.
- b) hold the request on record and enact it once the termination conditions are met (such as the payment of debt) unless they hear to the contrary from the non-domestic consumer.

We also firmly believe there is a need to end the need in some cases for a small business customer to supply a notice to request not to be automatically rolled over and a separate termination notice to terminate the contract.



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

We believe Ofgem is right to highlight the problems many small businesses face with the issue of deemed rates.

We there would welcome moves to introduce consistent use of terminology for deemed and OOC rates by all suppliers.

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

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.

For over five years the FSB has been campaigning against the practice of automatic contract rollovers in the energy markets and we welcome the voluntary move by the big six to put an end to this practice.

We very disappointed that Ofgem is proposing to take no regulatory action on the issue of contract rollovers.

During stakeholder meetings we supported the option of allowing small firms to be rolled over but being able to exit a rolled over contract without any penalty and this our preferred option.

We also believe Ofgem is missing an opportunity to look at wider reform of the micro business energy market.

- **Wider market reform**

The way micro businesses currently procure energy needs to be reformed. Micro businesses are paying over the odds for their energy use and are being exploited by energy suppliers due to their disengagement from the retail energy market.

In the energy markets, expertise closely follows consumption. If you are a high user of energy you will have a high level of understanding of the energy market. For the vast majority of micro businesses, who consume energy like a domestic household (around an average energy spend of £1500 per year), the opposite is true.

Currently there are no standard tariffs for micro businesses. Each business, at least in theory, is made a bespoke offer based on previous consumption, size etc. The lack of fixed tariffs means that it is time consuming for a micro business to contact multiple energy suppliers to receive individual offers and be able to compare the various offers. This has led to reticence to switch or a dependence on a third party (i.e. a broker) to procure their energy for them.

This has caused many micro businesses to become disengaged from the energy market and being subject to exploitative practices by suppliers. If a micro business fails to negotiate a new contract within the set time parameters they can be locked into a new negotiated contract that often sees a significant price increase (around 50%). When a micro business notifies a supplier of its intention to not to renew a contract it gets put on put of contract rates which are typically 120% higher.



We believe consideration needs to be given to whether it is better for small businesses to retain this flexibility to negotiate bespoke offers, or would the emergence of more publicly accessible fixed rate tariffs for small businesses, as is seen in the domestic market, be better for them.

In the energy markets expertise closely follows consumption; if you use a large amount of energy you will have a high level of expertise and you will be more willing to devote time and resources to securing a competitive deal. For the vast majority of small businesses, who consume energy like a domestic household, the opposite is true. **We believe there is scope for more competitive fixed offers for at least micro sized business that are publicly available and easily comparable.**

For further information

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