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15 April 2014

Dear Meghna,

CONSULTATION ON PROPOSALS FOR NON-DOMESTIC AUTOMATIC ROLLOVERS AND CONTRACT RENEWALS

Thank you for the opportunity to respond to the above consultation, dated 14 February 2014.

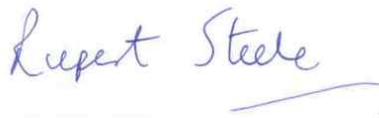
We are generally supportive of the proposals to provide additional protections for consumers within the contract renewal process. We would however highlight the following key points:

- While we believe that automatic rollovers are convenient for some non-domestic customers, we consider that there is a risk of consumer harm where a small non-domestic customer is rolled onto a new fixed term contract and does not have the ability to leave on 30 days' notice during the contract, either at all or without paying a termination fee;
- Accordingly, in August 2013, we took the decision to phase out this kind of contract. As noted in the consultation, a number of other suppliers have also voluntarily taken similar decisions. We believe Ofgem's proposal not to take further action on automatic rollovers could cause confusion for consumers as it provides for different levels of protection for consumers depending on which supplier they contract with. To the extent that suppliers who continue to lock customers in with automatic rollovers gain a competitive advantage from doing so, there is a risk that the improvements announced in 2013 could begin to be eroded;
- We would therefore ask that Ofgem considers the matter further. One option we think promising, that does not appear to have been analysed in the consultation, would be to ban automatic rollovers for micro business only where the customer is tied into a new fixed term period with no ability to terminate early without penalty. This option would remove the main source of possible consumer harm but still allow customers to roll onto a new fixed term period if they wish. We also think this option would not significantly impact on smaller suppliers' ability to hedge risk.

- The timescales for implementation of similar domestic requirements were seven months from Ofgem's final decision on the changes to the Licence. While we believe that the experience from our domestic implementation will act to reduce the timescales, we believe that a 31 August 2014 date for implementation would be very challenging, and believe a more realistic date would be circa six months from the expected date of Ofgem's final decision to proceed. We would propose an implementation of the end of December 2014 would be reasonable.

Our answers to the consultation questions are set out in Annex 1 attached. Should you wish to discuss any of the above points, please contact me via the details provided or contact Rhona Peat (rhona.peat@scottishpower.com) on 0141 568 3231.

Yours sincerely,

A handwritten signature in blue ink that reads "Rupert Steele". The signature is written in a cursive style and is positioned above a thin horizontal line.

Rupert Steele
Director of Regulation

**CONSULTATION ON PROPOSALS FOR NON-DOMESTIC AUTOMATIC ROLLOVERS
AND CONTRACT RENEWALS**

SCOTTISHPOWER RESPONSE

Chapter 2 – Automatic Rollovers and Contract Renewals

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

Yes, we agree with reducing the maximum termination notice period for micro-business customers to 30 days. This will make it easier for such customers to exercise choice. We do not consider that suppliers will have difficulty hedging with this limitation.

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

Yes, we agree with Ofgem's proposal to require suppliers to include current prices and annual consumption on renewal letters to micro-business customers (the Statement of Renewal Terms). We believe this will support customers in making decisions at contract renewal by providing clear information on price and consumption and will also support supplier's obligations in respect of Standards of Conduct.

While strongly supporting this proposal, we would however highlight that it will require complex changes to existing processes and systems, which may make the timescales of implementation challenging (see our response to Question 4).

We would also highlight two points where we believe that consumers would benefit if there was consistency in how suppliers and other industry participants implement these proposals.

- The proposed Licence Condition requires that where suppliers do not have a full 12 months of consumption information for the customer, that a "best estimate" is used. There is a risk of confusing customers where different methodologies are being used to create a "best estimate", for example where different weightings are applied to take account of seasonality. This is particularly true where customers are using the consumption information to make decisions between suppliers either independently or through a third party intermediary. We believe that there could be a benefit to discussing this point at an industry level to ensure that the information that customers receive is consistent; and
- Customers may have multiple sites managed under one contract ("group customers"). While few of these customers are likely to be micro businesses, it may be useful to consider whether there is scope to standardise whether consumption is shown totalled across all sites, or at individual site level or both. Subject to any implementation issues, we think that a consistent approach, which includes at least individual site consumption, would be best for consumers. This would allow them to better understand the use of their consumption and therefore make better decisions in relation to their energy use and contracts. We have proposed suggested amendments to the draft Licence Conditions in our response to Question 5.

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

Yes we agree. We currently acknowledge termination notices from customers either by email or letter depending on the customer's preference.

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

As stated in our response to Question 2, the implementation of current prices and annual consumption on contract renewal letters requires significant changes to both business processes and systems, and therefore we believe that an implementation date of 31 August 2014 for this requirement is very challenging.

In particular, the Licence Condition requires that where suppliers do not have a full 12 months of consumption for the customer, that a "best estimate" is used. This will require a methodology to be agreed, the necessary IT build to be completed and a full testing process prior to implementation. We do have recent experience and expertise of implementing a similar requirement for our domestic customers, and will be able to use this knowledge to reduce the timescales for implementation for our micro business customers. However the recent change in the definition of a micro business means that our micro business customers are now managed across multiple billing systems adding complexity to our implementation.

The timescales for implementation of similar domestic requirements were seven months from Ofgem's final decision on the changes to the Licence. While we believe that the experience from our domestic implementation will act to reduce the timescales, we still believe that a 31 August 2014 date for implementation would be very challenging, and believe a more realistic date would be circa six months from the expected date of Ofgem's final decision to proceed. We would suggest that an implementation of the end of December 2014 would be reasonable.

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

As noted in our response to Question 2, we would propose an amendment to SLC 7A.8 (d) to ensure a degree of consistency where micro business customers have multiple sites or Meter Point Administration Numbers (MPANs) supplied under the same contract with their supplier. We believe that, so far as is reasonably practicable, the information should be broken down by site/MPAN so that micro-business customers receive consistent detail of information regardless of which supplier they are with, and will allow them to make more informed decisions about their energy use.

7A.8 On or about 30 days before the Relevant Date, the licensee must provide the Micro Business Consumer with:

*(d) **Subject to 7A.8A**, the Customer's Annual Consumption Details.*

7A.8A Where the Micro Business Consumer has more than one site and / or Meter Point Administration Number under the same Non-Domestic Supply Contract, Annual Consumption Details should [so far as is reasonably practicable] be provided for each site or Meter Point Administration Number, as the case may be.

We would also propose a minor amendment to SLC 7A 12C. This amendment would mean that the means of communication to customers of acknowledgements of termination notices to suppliers will reference the definition of “in Writing” in SLC 1 and will ensure that suppliers can provide these by both paper and electronic means. We believe this will be to the benefit of customers who may have a preference for a particular type of communication.

“7A.12C If the licensee receives notice of termination in accordance with 7A12.A or 7A.12B it must take all reasonable steps to notify the Micro Business Consumer in ~~w~~Writing within 5 Working Days of receipt of such notice of termination, or as soon as reasonably practical thereafter, that such notice of termination has been received.”

Chapter 3 – Deemed and out-of-contract terms

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

We agree that the current licence conditions provide sufficient protection to consumers on deemed contracts. Our response to Question 8 details our existing actions to contact customers on deemed contracts to discuss their options, and also our view that suppliers should be able to object to the transfer of a deemed customer with outstanding debt to limit the impact on contracted non-domestic customers from the build-up of bad debt from deemed customers.

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

Yes, we agree that more consistent use of terms across suppliers would benefit customers, and we are supportive of the work Energy UK will undertake in this area. As stated in our response to Question 2, we believe that there are specific areas within the proposals in this consultation where agreement between suppliers would be beneficial, and given the tight timescales for implementation, the earlier agreement is reached on both this, and a general review of terms, the easier it will make implementation of the required changes as many system changes would be more effective with agreement of terms and definitions.

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

Yes, we believe that suppliers should be able to object to the transfer of deemed consumers with outstanding debt.

We believe that suppliers take a number of actions to make customers on deemed contracts aware that they may be paying higher prices. When we gain a new customer on change of tenancy, we will attempt to contact them by telephone three times to discuss their options, and if unsuccessful will then send a letter to the premise asking them to contact us. For existing customers on deemed contracts, we have also undertaken campaigns to contact customers to make them aware they are paying higher prices and asking them to contact us to discuss their options. We would expect that other suppliers will undertake similar actions.

Allowing suppliers to object (in the case of debt) to non-domestic deemed customers leaving would also mean that deemed contract prices may fall as the level of risk of debt build up reduces. Currently deemed contract prices are likely to be higher than other contract prices to reflect the higher level of risk to suppliers.

Suppliers are subject to different requirements in relation to objecting to a customer leaving depending on whether the customer is domestic or non-domestic.

- For non-domestic customers within SLC 14, suppliers can object to a non-domestic customer leaving in specific circumstances, including where the supplier has a term in that customer's Contract giving the supplier the right to object. However the definition of Contract in SLC 1 specifically excludes deemed contracts meaning that suppliers currently cannot object to such customers;
- For domestic customers in debt, SLC 14 allows for suppliers to object to a domestic customer leaving where there are Outstanding Charges due to the supplier from the domestic customer. The definition of Outstanding Charges in SLC 1 does not exclude Charges related to deemed contracts therefore suppliers can object to domestic customer leaving where there are Outstanding Charges due to the supplier.

Given the breadth of objection terms that could be placed in a non-domestic contract, it is reasonable that there are limits on the objection terms that can be imposed by virtue of such a contract. However, we would argue that there is no reason why non-domestic deemed contracts cannot impose the objection terms that SLC 14 allows for domestic customers. The right to object to domestic customers with outstanding charges owed recognises that bad debt costs will ultimately be spread across other customer groups. Allowing suppliers the ability to object for debt reasons to domestic deemed customers leaving limits the impact on other domestic customers. Having the same abilities for non-domestic deemed customers would similarly limit the impact of bad debt on other non-domestic customers.

Chapter 4 – Options we considered

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

We believe that the risk of potential consumer harm from automatic rollovers arises where a customer is rolled onto a new fixed term period with no ability to leave without incurring a termination fee. Therefore an alternative option that Ofgem does not appear to have considered would be to ban automatic rollovers for micro business only where the customer is tied into a new fixed term period with no ability to terminate early without penalty. This option would remove the main source of possible consumer harm but still allow customers to roll onto a new fixed term period if they wish.

We believe that this approach provides additional and consistent protections for consumers. In particular:

- Automatically rolling onto a new fixed term period can be convenient for busy small business owners who may currently be rolled over through inertia. We believe it is unfair in those circumstances to lock them in with an early termination penalty;
- This option would not diminish consumer choice as customers would still have the choice to roll onto a new fixed term period albeit with the ability to terminate early with no charge;
- We do not believe that this option would unduly disadvantage small suppliers in terms of hedging risk. Under this option, suppliers could move customers onto a fixed price period as well as a variable price period, and this may act to mitigate some level of hedging risk compared to a full ban on automatic rollovers. The removal of early termination fees may lead to some customers changing supplier, but

we believe the rate of switching is unlikely to be material to suppliers' ability to hedge; and

- We also believe that this option provides for a level playing field within the micro business market so that customers get the same protections at contract renewal from all suppliers. Although ScottishPower is one of the larger domestic suppliers, within the non-domestic market we are much smaller with only c.●% of electricity customers and c.●% of gas customers in 2013, making us more comparable with a smaller supplier in this market. We believe that the current proposal could put those suppliers who have voluntarily committed not to use auto rollovers at a competitive disadvantage to smaller suppliers who have not made such commitments and in many cases are of a similar size. If such a disadvantage is material and persists, the voluntary improvements announced in 2013 could begin to be eroded.

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

As we noted in our response to Ofgem's Call for Evidence on Automatic Rollovers in the Non-Domestic Market, we believe that automatic rollovers 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. Therefore we are in agreement that Ofgem should not completely ban automatic rollover contracts. However, as we noted in our response to Question 9, we believe that the risk of consumer harm from automatic rollovers arises where a customer is rolled onto a new fixed term period and does not have the ability to leave at any time without paying a termination fee. As such, in August 2013, recognising this concern, we took the decision not to phase out such contracts. As noted in the consultation, a number of other suppliers have also voluntarily taken similar decisions.

Therefore, although automatic rollovers have a place in the market, we believe that Ofgem should consider the alternative option that we detail in our response to Question 9

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

We expect the costs of implementation of the proposal to put current prices and consumption on the renewal letter to be significant based on our experience from the implementation of similar domestic requirements. We are unable to provide specific costs and benefits however at this time but may be able to share this with Ofgem at a later date once we have undertaken an assessment of the impact of the changes.

Question 12: Are there any other impacts we have not identified?

We have not identified any additional impacts that have not been considered.