

To holders of gas and electricity supply licences, DECC, Citizens Advice, consumers and their representatives

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28 November 2014

Dear Colleagues,

Decision on automatic rollovers and contract renewals for micro-business consumers

On 30 July 2014 we published our statutory consultation¹ on standardising the contract renewal process for micro-business consumers and increasing the amount of information in renewal letters (the July consultation). We have now decided that, as proposed, we will modify the gas and electricity supply licences by amending standard licence condition (SLC) 1 and SLC 7A. This letter explains how our decision takes into account the responses to the consultation.

The overall effect of these modifications will require suppliers to:

- allow micro-business consumers to give notice to terminate a contract no more than 30 days before a contract ends,
- provide current prices and annual consumption details on renewal letters for micro-business fixed-term contracts, and
- acknowledge a termination notice from a micro-business consumer within five working days of receipt, or as soon as reasonably practical after that.

All of the changes will take effect on 30 April 2015.

Policy overview

The July consultation described our proposals to improve the energy market² for micro-business consumers. Further detail and rationale for these proposals can be found in 'Proposals for non-domestic automatic rollovers and contract renewals'.³

¹ <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-non-domestic-automatic-rollovers-and-contract-renewals>

² In this letter and associated documents we use the terms 'market' and 'markets' as shorthand for different segments of the energy sector. These terms are not intended to describe or suggest the approach we might take to defining a 'market' in competition law investigations.

³ <https://www.ofgem.gov.uk/publications-and-updates/non-domestic-automatic-rollovers-and-contract-renewals>

Maximum 30-day termination notice period

From 30 April 2015 the maximum amount of notice micro-business consumers will have to give to end a contract will be cut from 90 to 30 days. Suppliers will have to send a renewal letter around 60 days before a fixed-term contract ends. This would apply to all fixed-term contracts, irrespective of whether they retain automatic renewals. This will help to simplify the renewal process.

Current prices and annual consumption details on renewal letters

The modifications mean that renewal letters will have to provide the current contract prices and the terms that would apply if the contract is automatically renewed (to a new fixed-term or for an evergreen period) or if the consumer terminates the contract. If the prices may change during the contract, suppliers must inform customers before they enter contract. They must explain how the prices will vary or tell customers where they can find them. Renewal letters must also include the consumer's annual consumption or, if this is not available, a best estimate. This should help micro-business consumers compare their prices and assess the impact of any price changes.

Acknowledging termination notice

The modifications also require suppliers to acknowledge receipt of a termination notice in writing. This can include by electronic communication⁴ if the customer prefers. They must do this within five working days of receiving the notice, or as soon as reasonably practical after that.

Summary of responses and our views

We received 18 responses⁵ to the July consultation. Most respondents supported the intent and much of the detail of the proposals. However, some commented on the drafting of the proposed licence changes and the timetable for implementation.

The key points raised were:

- The additional information on renewal letters could confuse consumers.
- The proposed timetable underestimated the changes required to suppliers' IT systems.
- We should still ban auto-rollover contracts and provide more detail on our monitoring plans for the next six months.

Below we describe these in more detail and explain our views.

The timetable

Three suppliers raised concerns with our proposed implementation date of 31 March 2015 and one supplier said we should make the implementation date the same for all the proposals. They argued that the additional information on bills required significant changes to IT systems and customer communications.

⁴Electronic Communication is defined in SLC 1 as "... a message comprising text or an image of text that:

a) is sent over a Public Electronic Communications Network;
b) can be stored in that network or in the recipient's terminal equipment until it is collected by the recipient; and
c) is in a particular form and is used for a particular purpose and the recipient of it has expressed a willingness, to the sender, to receive it in that form and for that purpose"

⁵ Non-confidential responses are published at: <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-non-domestic-automatic-rollovers-and-contract-renewals>

We have considered these responses carefully and we have decided to implement all proposals on the same date and slightly extend the timetable to 30 April 2015.

Maximum 30-day termination notice period

Most respondents supported this change. Two suppliers warned that letting consumers give only 30 days' notice of changing supplier risks placing them on deemed or out-of-contract rates if there were any delays to the switching process.

Although we acknowledge this risk, we believe it will be mitigated by recent changes to reduce switching times. We have strengthened the licence requirements for three-week switching from 1 September 2014⁶ and we have approved industry changes to further reduce switching times by the end of this year.⁷

The licence drafting is unchanged from the July consultation.

Current prices and annual consumption details on renewal letters

Most respondents agreed with our proposals. One supplier believed these changes were unnecessary and another two suppliers thought the additional information on letters could be confusing. Another supplier sought guidance on our additional rules in 7A.9(b) to give micro-business consumers clarity on variable-price contracts.

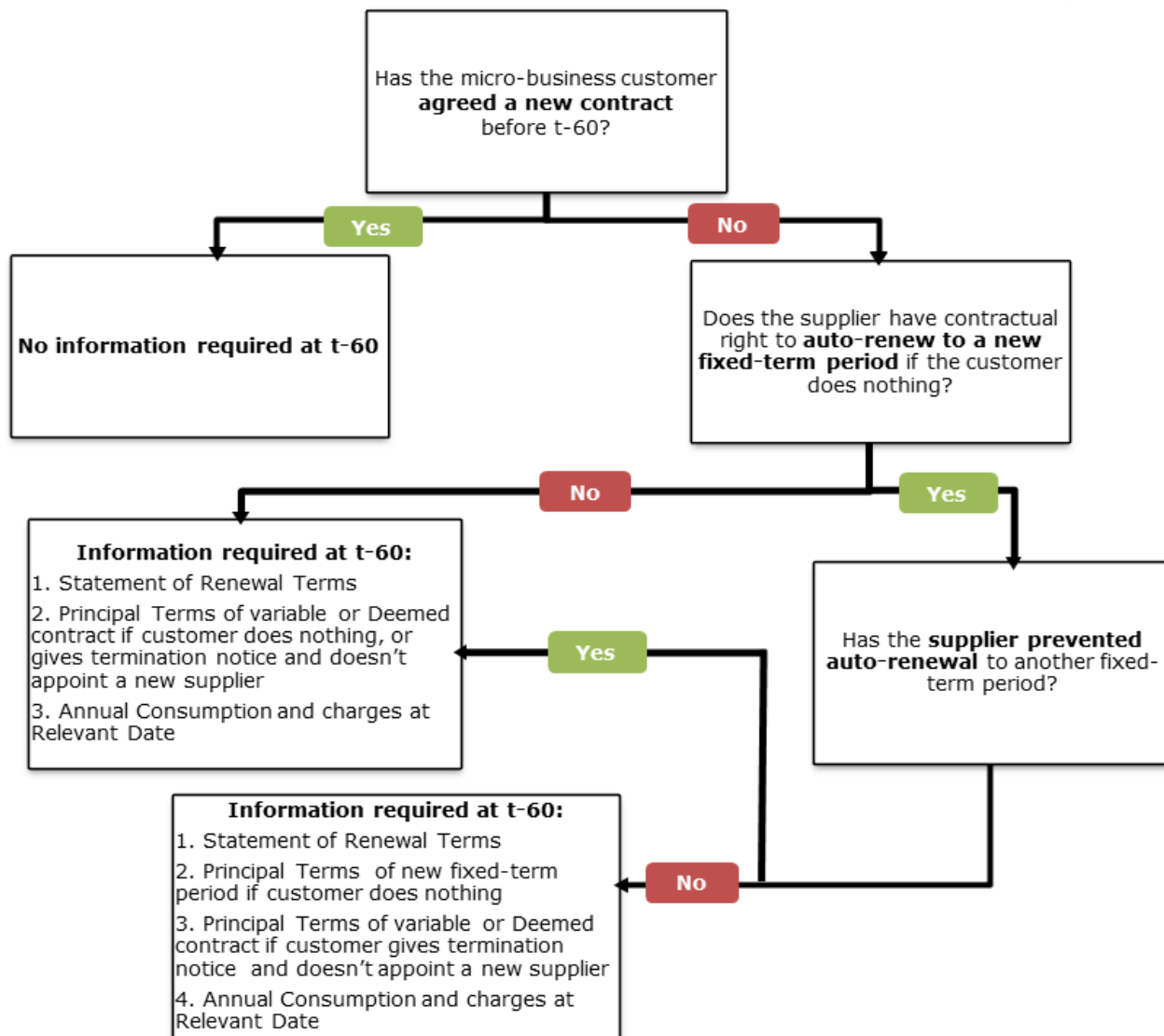
We believe it is important for consumers to be aware of their current prices and consumption when they renew their contract. This will help them to compare their current supplier's prices before looking at what other suppliers can offer. The Standards of Conduct apply to all themes and matters covered by 7A, so this information needs to be presented and communicated fairly.

Other than the addition on current prices and annual consumption in 7A.8(e) and (f) we do not see the redrafted conditions 7A.8 (a) to (d) as additional requirements. They now explicitly describe what principal terms should be provided to consumers in different renewal scenarios. We believe this clarification will help to ensure consistency across suppliers. We have summarised these scenarios in Figure 1 below.

⁶ <https://www.ofgem.gov.uk/publications-and-updates/decision-letter-enforcing-three-week-switching-and-preventing-erroneous-transfers>

⁷ More information on our change of supplier project can be found at: <https://www.ofgem.gov.uk/gas/retail-market/market-review-and-reform/smarter-markets-programme/change-supplier>

Figure 1: Contract renewal scenarios and information⁸ required at t-60⁹



The new condition 7A.9(b) is drafted to ensure consumers know if their prices can change during a contract. These rules also apply to any fixed-term contract with variable terms. If prices can vary throughout the contract then we believe this should be absolutely clear to consumers in the principal terms before they enter a contract. If these variations are not explicitly agreed at the start of the contract, suppliers should tell the customer where they can find the current prices.

The licence drafting is unchanged from the July consultation.

Acknowledging termination notice

Most respondents supported this change; for many suppliers it was already consistent with their current practice. One supplier agreed with the principle of notifying consumers on auto-renewal contracts but believed there were more effective ways to inform them of their contract status. A consumer group thought the proposal should go further and require suppliers to contact customers within 24 hours of any objection to switch.

⁸ The term 'variable' in Figure 1 refers to any contract without a fixed term period, other than a Deemed Contract.
⁹ t-60 is 60 days before the date any fixed-term period of a contract is due to end.

As we stated in the July consultation, we agree that acknowledging customer termination notices is particularly important for auto-renewal contracts. However, suppliers can still require a notice period to terminate other contracts. We believe in all cases when termination notice is required the customer should be informed that their notice has been received and accepted by the supplier. This way they can enter a new contract without facing an objection¹⁰ or being billed on deemed or out-of-contract prices.

The licence drafting is unchanged from the July consultation.

Banning auto-rollover contracts

Six respondents still believed we should ban auto-renewal contracts or stop suppliers from including termination fees for any automatically renewed contracts.

While these responses haven't persuaded us to ban auto-rollovers outright, we do appreciate the risks they pose. We do believe they can be problematic for some consumers if prices are significantly higher than an equivalent negotiated contract. In the next six months we expect to:

- Update our micro-business factsheet before the new rules take effect to explain these changes to consumers.
- Issue another information request in early 2015 to give us an up-to-date view of micro-business prices and the number of meter points on different contracts. This is likely to have a similar format to our information request in August 2013.
- We will publish our findings and say whether we intend to make any further changes.

We will also monitor the changes seven suppliers have already taken to end auto-renewal contracts with termination fees.

Other comments

Several responses pointed out a typographical error in the proposed changes to Annual Consumption Details in SLC 1 of the electricity supply licence. This has been corrected and highlighted in the modification notice. In addition, we have amended the drafting in both the electricity and gas modification notices so that the term "fixed-term" is hyphenated throughout for consistency.

The Authority's decision

Having considered the responses to the July consultation, the Authority has decided to proceed with the modifications to the gas and electricity supply licences by amending SLC 1 and SLC 7A.

The amendments to SLC 1 and 7A will take effect on 30 April 2015.

For contracts entered into before 30 April 2015, the maximum 30-day notice period (SLC 7A.6, 7A.11 and 7A.14) will apply when a micro-business consumer enters a new contract, or if a contract is extended in any way.

Notices to modify the standard conditions of all electricity and gas supply licences have been sent to all relevant licensees. They are also published on our website alongside this letter.

¹⁰ Provided there is no other valid reason for an objection, such as outstanding debt.

If you have any queries about this letter please contact Meghna Tewari, Head of Non-domestic Retail Markets (020 7901 7000), or email nondomestic.rollovers@ofgem.gov.uk.

Yours faithfully,

Rob Church
Partner, Retail Markets