

Appendix 17.3: Prompts to microbusiness customers on default contracts (evidence received before the provisional decision on remedies)

1. This appendix, which relates to prompts for microbusiness customers on default contracts, first sets out the submissions on what prompts suppliers are currently required to provide microbusiness customers as per the standard licence conditions. Thereafter, it sets out the parties' views on prompts to customers on default contracts, which we received in relation to consultations after the Remedies Notice and before the publication of the provisional decision on remedies.
2. Microbusiness customers on default contracts constituted 45% (electricity) and 49% (gas) of the total microbusiness customer base according to Ofgem's data from 2013. We split this on a per-contract basis as shown in Table 1.

Table 1: Proportion of microbusiness customers on default tariffs (2013)

	<i>Electricity</i>	<i>Gas</i>
Auto-rollover contracts	26	23
Evergreen contracts	9	15
Deemed contracts	8	9
OOO contracts	2	2
Total default contracts	45	49

Source: Ofgem.

3. Ofgem also said that the median combined duration of deemed and OOC contracts was over one year. Ofgem also clarified that the proportion of microbusiness customers on auto-rollover contracts had likely decreased following withdrawal of automatic rollover (with exit fees) contracts by the Six Large Energy Firms in 2013 in response to Ofgem's RMR.
4. However, we note that some of the decrease in the proportion of auto-rollover contracts may be due to a reclassification in the way some suppliers define an auto-rollover contract. For example, Centrica told us that it considered its default product (Variable Price Plan, VPP), which replaced its auto-rollover contracts (with fixed-term roll-over periods), to be akin to evergreen in nature (ie not fixed term, with variable price and without exit fees).
5. Suppliers' views on prompts for microbusiness customers on default tariffs were mixed. Most of the Six Large Energy Firms supported measures to increase engagement, but also suggested trials before roll-out across the markets. Non-Six Large Energy Firms' views were mixed as well, with most supporting the status quo, ie requirements currently mandated by Ofgem.

Prompts to microbusiness customers on auto-rollover contracts

What prompt(s) are currently mandated during the initial period of the auto-rollover contract?

6. Ofgem told us that SLC 7A.7 required suppliers to provide microbusiness customers with the following information within ten days of entering into or extending a microbusiness contract:
 - a copy of the express terms and conditions of the contract; and
 - if the contract is for a fixed term, the supplier must send a statement of renewal terms (SORT), which must display (in plain and intelligible language) information such as the date the initial period is due to end, a statement to the effect that the microbusiness customer may send a notification in writing in order to terminate the auto-rollover contract by a particular date and a statement explaining the consequences of the microbusiness customer not renewing the auto-rollover contract or agreeing a new contract.

7. Ofgem told us that SLC 7A.8 required suppliers to provide microbusiness customers with certain information 60 days before the end of the initial period (unless the supplier had agreed a new contract with the microbusiness customer). This information includes:
 - the SORT;
 - a copy of the relevant principal terms which might apply to the micro-business customer after the current fixed term period, including in the event that the customer does nothing; and
 - the customer's annual consumption details.

What prompt(s) are currently mandated during the rollover period of the auto-rollover contract?

8. Ofgem told us that SLC 7A.7 required suppliers to take all reasonable steps to provide microbusiness customers with the following information within ten days following the start of a new contract or the extension of a contract with a rollover:
 - a copy of all the express terms and conditions of the microbusiness contract; and
 - the SORT (if the rollover period was fixed-term).

9. Ofgem added that if the rollover period was fixed, suppliers are also required to send a SORT 60 days before the end of the fixed term of the rollover period. However, we note that this does not apply when the rollover Period is not for a fixed term.
10. Ofgem told us that it was in support of measures that would provide prompts to microbusiness customers so that they are able to effectively engage. It added that its experience showed that prompts would be better communicated through dedicated SORT mailings than through the regular bills. Reflecting the work it had previously undertaken on information remedies in the RMR and its April 2015 billing information changes, Ofgem recommended that prompts to engage:
 - (a) be tailored to different types of disengaged customers;
 - (b) remind customers to consider switching;
 - (c) refer customers to webpages/factsheets on the switching process and their rights; and
 - (d) encourage customers to negotiate contracts to obtain a better deal.
11. As a result, Ofgem recommended that further research and testing be done to identify the format, appropriate language, timing and targeting of prompts to ensure effective design.

What prompts are currently mandated to microbusiness customers on deemed, OOC and evergreen contracts?

12. Ofgem told us that SLC 7.7 and SLC 7A.4 require suppliers to provide microbusiness consumers who have a deemed contract with the following information:
 - (a) a statement to the effect that the licensee is seeking to enter into a legally binding contract with the microbusiness consumer;
 - (b) the principal terms of the proposed contract; and
 - (c) notice that contracts, with terms that may be different from the terms of deemed contracts, may be available and of how information about such contracts may be obtained.
13. Ofgem told us that it was concerned with the lack of engagement among some microbusiness customers on deemed, and evergreen contracts (including those on OOC rates). In light of this, it made changes to the information that suppliers must include on their bills and SORT notifications in

April 2015. Ofgem said it would have a better understanding of the impact of these changes when its annual micro and small business survey was completed in early 2016. Therefore, in relation to prompts, Ofgem said it did not have evidence of how its recent changes to mandatory notifications had changed the markets; and it would therefore favour a targeted trial of any additional prompts to microbusiness customers to engage.

Parties' views on prompts to microbusiness customers on default contracts

14. Centrica said that it preferred a principles-based framework regarding prompts, rather than prescriptive prompts which could have unintended consequences. It added that suppliers had experience and incentive to ensure that end-of-contract notifications were designed effectively to prevent customers from moving onto a default contract. This was because compared with fixed-term acquisition and retention contracts, customers on default contracts carried greater hedging, churn and debt risk.
15. Scottish Power supported a requirement for suppliers to send a prompt 30 days before the end of the initial term of the auto-rollover contract. It was also supportive of prompts for microbusiness customers on default contracts. But it added that such measures would need to be carefully thought through and designed.
16. EDF Energy said that most microbusiness customers on default contracts already received sufficient prompts. Therefore increasing the frequency of prompts would not increase engagement. Instead, it suggested that existing prompts should be clear and appropriately timed, which in its view might increase engagement.
17. SSE told us that it was broadly supportive of prompts. However, it suggested that they should be trialled before being rolled out across the industry to gain evidence of the effectiveness of such a remedy.
18. E.ON said that it supported requirements for suppliers to send a prompt 30 days before the end of the initial term of the auto-rollover contract, and also for microbusiness customers on evergreen and OOC contracts. However, it added that prompts should not be prescriptive in terms of its content.
19. RWE said that it supported a requirement for suppliers to send a prompt 30 days before the end of the initial term of the auto-rollover contract. It also said there was merit in suppliers sending regular prompts to microbusiness customers on auto-rollover and default contracts. However, it suggested trialling different approaches and choosing the most effective method.

20. Good Energy said that it supported a requirement for suppliers to send a prompt 30 days before the end of the initial term of the auto-rollover contract, as the current 60 days mandated by the SLCs was often too early for the customer to take action. It also said that customers on auto-rollover contracts should be encouraged to engage in the market.
21. Opus Energy said further prompts (at contract end) would be unwelcome by microbusiness customers. However, it said there was a case for sending more regular prompts for customers on evergreen, deemed and OOC contracts.
22. Total Gas and Power said that it would not object to a requirement for suppliers to send a prompt 30 days before the end of the initial term of the auto-rollover contract.
23. Corona Energy said that the suppliers should not be mandated to send any further prompts other than those currently mandated by the SLCs.
24. BES Utilities told us that it should not be mandated to send any further prompts other than those currently mandated by the SLCs.
25. Gazprom said that it should not be mandated to send any further prompts other than those currently mandated by the SLCs.
26. Haven Power said that it did not support the requirement for further prompts to microbusiness customers.