

Priti Patel MP
Chairwoman, All Party Parliamentary Small Shops Group
House of Commons
London
SW1A 0AA

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Dear Priti

All Party Parliamentary Small Shops Group inquiry into energy

Thank you for the opportunity to provide supplementary evidence to the All Party Group's inquiry. We welcome the interest of the inquiry into the non-domestic energy sector.

During the hearing on 10 September, I outlined British Gas' support for the Ofgem Retail Market Review and in particular the introduction of Standards of Conduct. Putting fairness at the heart of the energy market will provide genuine benefit for small businesses and ensure they get the support they need.

We support Ofgem's work in this area. As you will have gathered from my appearance at the hearing however, I believe two particular areas of concern remain outstanding. Ofgem should use their review in to the use of auto-renewals to end this unfair and unpopular practice across all energy suppliers. As part of their work on third party intermediaries across the energy sector, Ofgem should also consider how best to ensure businesses are protected from the minority of brokers who act unscrupulously, and in particular those brokers that refuse to disclose their commission or fees. We support an Ofgem Code of Practice as a way of addressing these concerns.

Please find attached an appendix which provides further information on these areas.

I would be very happy to discuss further with you.

Yours sincerely



Stephen Beynon
Managing Director, British Gas Business



Cc Shane Brennan, Association of Convenience Stores

Appendix – supplementary evidence

1. British Gas welcomes Ofgem's Retail Market Review reforms and in particular the introduction of the Standards of Conduct, which will put fairness at the heart of the energy market and ensure small businesses get the support they need. We believe further fundamental reform is required to prevent customer detriment caused by the auto-renewals process and by a minority of unscrupulous brokers. We support the efforts of the No 10 SME working group to reach voluntary agreements between suppliers and also believe proportional regulatory intervention from Ofgem may be necessary to end auto-renewals and ensure brokers are transparent about which suppliers they represent and any commission they receive.

Treating customers fairly and the Standards of Conduct

2. British Gas welcomes the introduction of Standards of Conduct. We pride ourselves on providing a good customer service and are already investing significant amounts in improving this further. We are committed to using the Standards of Conduct to embed fairness in the culture of our organisation however, and have therefore commenced a full review of practices across British Gas. We would welcome input from business customers to help us identify processes or correspondence which could be improved.
3. A requirement to treat customers fairly should help improve competitive market. If any supplier is treating customers unfairly, then other suppliers will have an opportunity to differentiate and provide a better and fairer service. We strongly believe that Ofgem should consider fairness in the same way across all energy suppliers. Small businesses will expect the same level of protection whether they are with a large or a small supplier. It would be perverse for some suppliers to operate to a lower standard of fairness when it comes to their SME customers.

Ending the practice of auto-renewals

4. Ofgem should prevent non-domestic suppliers from using contracts which provide for auto-renewal at the end of the contract term. We support an industry-wide ban on all new auto-renewal contracts and a gradual phasing out of existing auto-renewal contracts. This would be consistent with the ban on auto-renewals Ofgem is introducing for domestic suppliers. We will work with Ofgem and consumer groups to achieve this outcome.
5. In the meantime, Ofgem should require suppliers to provide the current and the proposed prices on any renewal correspondence. This would help businesses understand the cost of not responding to the renewal letter and would be fairer and more transparent.
6. British Gas was the first supplier to announce, in July 2013, an end to auto-renewals and we are pleased to see most other suppliers follow our lead. We do not support the development of a multi-tier framework, whereby some suppliers continue to operate auto-rollovers, and believe that Ofgem abolishing auto-rollovers across the industry would be the fairest outcome for customers. This view is based upon substantial customer research, and the engagement that we have undertaken to inform our own decision to abolish auto-rollovers.
7. A two-tier approach introduces unnecessary complexity for customers when considering which supplier to contract with. Furthermore, it gives suppliers who do not abolish auto-rollovers a competitive advantage over those that do, as they would be able to use the secure cash flows and higher rates charged under auto-rollovers to cross-subsidise

acquisition tariffs - a practice that suppliers who have abolished rollovers could not match. I note that the cross-subsidisation would be funded by the most disengaged micro businesses who would continue to be involuntarily auto-renewed onto higher rates.

8. We understand that some small suppliers' commercial models and financing arrangements have been designed to specifically target the more secure cash flows afforded by auto-renewals, and that more secure cash flows drive lower costs of capital. We do not believe that it is fair for those micro businesses that are auto-renewed to bear an unfair proportion of small suppliers' financing costs to the sole benefit of private equity investors. Abolishing auto-renewals would not preclude suppliers from entering into fixed-term contracts in an informed, negotiated and fair manner. Those fixed-term contracts would reflect current market rates while affording suppliers the same cash flow certainty.
9. Moreover, we do not believe allowing customers to 'opt-in' to auto-rollovers at contract agreement is fundamentally different to current practice and therefore do not support this option. Whilst an 'opt-in' could potentially improve customer choice, it risks asking customers to make a choice without a full understanding of the implications as they would need to make a decision about their purchase requirements up to three years in the future with no knowledge of those future prices or their energy needs. We do not believe that an informed choice can be made in these circumstances.

Ensuring better regulation of brokers

10. Many brokers offer a well-informed and well-intentioned service to business customers, helping them effectively navigate the energy market. We believe customers need protection however from the minority of brokers who act unscrupulously, for instance in refusing to disclose any fees or commission received. The average commission appears to be a double digit percentage of the total annual energy bill, though this may vary between brokers. Our analysis suggests that some businesses could be paying their broker more than £1,000 per year without even knowing they are paying a fee at all.
11. To reduce the risk of customer detriment, we support a mandatory Ofgem Code of Practice for brokers, with an explicit requirement that commission rates are clear and transparently signposted before any contract is signed. We believe this Code should be backed up by a requirement for energy suppliers to only work with brokers accredited through the Code. We recognise Ofgem must consult on this proposal and support the introduction of the Code early in 2014.