

Micro-businesses and energy - the protection gap

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The Consumer Focus approach

- We are increasingly worried about the way micro-businesses are treated, especially in comparison with domestic consumers
- Starting point for us is that they should receive the same protections unless it can be shown otherwise
- We see both groups suffering from time pressures and knowledge gaps, as well as a lack of information
- In addition domestic consumers of micro-businesses suffer if the latter are treated badly

The protection gap

	Domestic	Non-domestic
Contracts	Evergreen or fixed - and RMR should improve things	Rollovers at punitive rates, expensive deemed rates otherwise
Back-billing	Back-billing code = 1 year	Up to 5/6 years
Debt and disconnection	ERA vulnerable Safety Net, negotiation and ability to pay LC	Disconnection in a matter of weeks even when debt due to back-billing
Marketing	SLC25, self-regulation, consumer protections	Unregulated brokers exploit businesses' lack of knowledge
Information	SLC31 & 31A - Annual Statements	Lack of visibility of contract terms, minimal info on price in public domain
Switching	Debt Assignment Protocol, Confidence Code	Churn at half domestic rate, levels of objections

Example: Back-billing

- Back-billing rules (where supplier at 'fault') protects customers and incentivises suppliers to get billing right
- Last year 40% of all Consumer Direct billing business cases concerned back-billing
- Businesses face back-billing periods of up to 6 years, which might mean a bill of c. £60,000...
- ...and then when micro-business cannot pay up in a few weeks they face disconnection

...then debt and disconnection issues

- Issues with debt makes switching more difficult – we also have concerns with the high volume of objections to transfer
- Analysis of CD cases suggests suppliers operate just as far as the law allows them – there seems to be very little sympathy for business debt cases
- Whilst the amounts of debt are concerning, the manner in which businesses get treated is equally worrying – no domestic customer would experience such pressure

Rollover contracts

- SLC7A made an impact but a combination of supplier practices (inconsistent interpretation), unregulated brokers and rollovers has meant many businesses still on inappropriate contracts
- Much like RMR helps domestic consumers by putting them on evergreen contracts after fixed terms end, we would prefer non-punitive rollovers
- Businesses should not be “punished” for not being able to engage in the market as adeptly as suppliers expect

Brokers

- Confusion over OFT/Ofgem role in regulating the behaviour of telephone brokers
- Some brokers use misleading marketing and sales pitches that would not be tolerated in the domestic energy sector
- Results from lack of voluntary disclosure by brokers as to their role and how much of the market they actually search
- Small number of very bad apples responsible for most of the complaints and detriment

Equal treatment as far as possible

- Whilst there is a cost to regulation, the benefits accrue to both the businesses concerned and the consumers they serve
- If the distinction continues business will inevitably be treated as second-class customers
- It should be comparatively easy to “extend” protections as they already exist for domestic consumers - and the precedent is set on complaint handling standards and redress
- We would like to see a mechanism to develop voluntary or self-reg initiatives, an ERA-equivalent in the non-domestic sector

Smart meters and the Green Deal

- Concerns here that schemes designed for domestic consumers cannot just be transplanted onto businesses e.g. Low use of space heating compared to domestic dwellings
- Worrying precedents already being set where advanced meters exist – such as charging for viewing consumption data
- Brokers are also keen to move into these areas so it is imperative their regulatory position is sorted in the near future

But small changes can make a big impact

- Not always a need for Ofgem to impose overt regulation
- Last year we asked business suppliers to signpost to Consumer Direct on bills and contracts – this helps with the accuracy of the CD data which we then use to identify areas of concern. Is also the route to the EHU for disconnection cases
- We also flagged up unacceptable behaviour from a particularly bad broker – suppliers reviewed commercial relationships based on this evidence

The future

- Seems Ofgem share many of the same concerns – RMR comments on brokers and SLC7A very welcome
- But domestic reforms (while obviously needed) will accentuate gap in protections for non-domestic e.g. Single tier tariff comparisons would be useful for micro-businesses too
- Scoping out the development of a non-domestic Confidence Code
- Where will micro-businesses sit in the new consumer landscape?

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