



The business people – an extension to your team

Utilities report

December 2010

The Forum of Private Business is a proactive, not-for-profit organisation, providing comprehensive support, protection and reassurance to small businesses. We add value to businesses through the collective voice for members in local, central and European government, and the provision of tailored solutions that promote business success

Summary of the results

Over 75% of businesses feel that continuity of supply is good or excellent, however less than one in ten think the same thing about the cost of utility provision.

Business owners also feel that utility providers are failing to deliver in terms of clarifying terms and conditions, allowing businesses to switch and not providing comparable contracts. Customer service was also described as 'poor' or 'very poor' by one in three respondents.

Micro businesses that are protected under Condition 7a* are less dissatisfied than smaller firms who are not protected under these circumstances.

69% felt that it was difficult for their business to keep up to date with contract anniversaries and a number of businesses commented that notification windows were even harder to keep track of as they varied from contract to contract. There was no evidence that businesses with more than 10 employees were better equipped to deal with energy contracts than micro businesses.

35% do not know when their contract ends and 31% rely to some extent on the arrival of the renewal letter to begin the process of comparing their current provider with the market. Just 16% have a formal process. As a consequence 42% of respondents have been caught out by a roll-over contract.

75% would like to see a greater transparency in billing, 73% would like a reminder of the contract date on their bills and 63% would like to see a standardisation of contract termination terms and over half would like to see greater compensation provided to firms. Those protected under Condition 7a would like to have greater opportunity to dictate repayment terms if the supplier has made an error, whereas those who have ten or more staff would like to see an explanation of key contract terms and conditions and receipt of a renewal letter by recorded delivery.

73% feel that they will bear the brunt of any increase in green taxation, with the price rises not being proportionate with domestic usage. Just 2% think that they will be treated fairly and the rest do not know. The majority of businesses blame the utility providers, there is evidence that the Government is embarking on a similar course with its green taxation.

* Under Condition 7A, micro businesses have greater protection than other smaller firms through Ofgem. These are businesses with fewer than the equivalent of ten full time employees **and** an annual turnover or annual balance sheet total not exceeding 2 million euros **or** an annual consumption of electricity of not more than 55,000kWh; **or** an annual consumption of gas of not more than 200,000kWh. For the sake of this research we have used the employee figures as an indicator of the whether the business fits into this category.

Policy recommendations

The balance between utility provider and business customer needs to be rebalanced so that the system is fairer and more transparent. The current byzantine system will impede government policy for some small businesses to benefit from the new series of feed-in tariffs (FiTs) as a collective entity. Roll-over contracts could have a place in a transparent competitive marketplace and high prices would be more palatable if they could be justified. As a result the Forum would like to see:

- The Ofgem investigation into utility prices extended to commercial customers particularly smaller firms with less purchasing power
- Condition 7a to be extended to businesses with fewer than 50 employees as there is no evidence that businesses with 10 or more employees are able to cope more effectively than smaller businesses. Specifically micro businesses are provided with the following protection from the energy supplier:
 - **When entering a new contract**
 - The new supplier must explain the key terms and conditions of the new contract before the customer signs
 - The customer should receive written copies of the contract and the terms and conditions usually within 10 days
 - **At the end of the contract**
 - The customer should receive a statement of renewal terms approximately 60 calendar days before the end of the contract (this can be up to 120 days)
 - The customer will then have a **30 day notification window** to contact the supplier if they wish to switch or negotiate a new deal.
 - If the customer does not contact the supplier during this window, the contract can be rolled over for a **maximum length of 12 months**
 - If the customer wishes to prevent being rolled over, **they can write to the supplier at any point** from when the contract is agreed to the end of the notification window. However, this must be in accordance with the terms of the contract
- More transparent billing practices with utilities companies providing the same level of information as they do for domestic consumers. Unless the contract system becomes more transparent then roll-over contracts should be banned.
- Contract date or status and contact details for the complaints process on bills, some providers such as British Gas already provide information on complaints procedures but not all do
- Standardisation of contract termination from suppliers (this varies from 4 months to 28 days depending on supplier)
- Greater balance between utility providers and business owners when an error occurs. Businesses should have better access to compensation (not credit on future usage) and a greater say on repayment terms if bills have been underestimated.
- Suppliers to be signed up to a recognisable professional body which would encourage best practice. The Forum feels that all brokers, intermediaries and other supplier should be members of the UIA.
- A robust code of conduct for providers to comply with including response times to questions and a more customer-focused resolution process.
- Raise awareness on the amount of money that can be saved by businesses who are prepared to negotiate hard with their suppliers. Just 5% of those who felt that they would have to pay more than necessary on their utilities contracts see themselves as partly or wholly responsible for this.

Business owners view of the current utilities provision

Over 75% of businesses feel that the continuity of supply is currently good or excellent, however in other areas utility providers do not offer a good service. Around half of businesses felt that the cost of utility provision was poor or very poor with fewer than 10% feeling that the cost of utility provision was good or very good.

Just 11% feel that utilities contracts are easy to understand, although 51% feel that they are no worse than other types of contract, however around 40% feel that the contract terms are poor or very poor. It is also not easy for companies to switch suppliers, particularly when owners compare their business contract to that of their own residential contract. Around 35% feel that the ease of switching suppliers could be improved, as often businesses only have a small window in which to change energy suppliers without penalty fines.

Figure 1 Current Provision for Business Owners

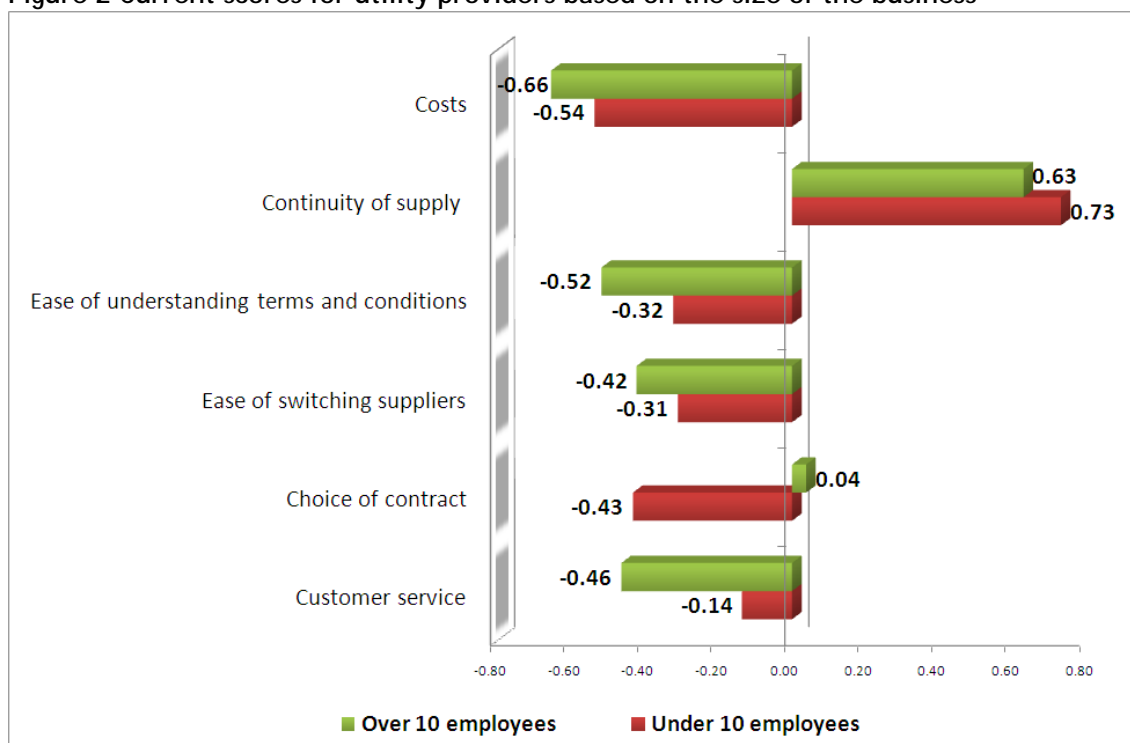
	Excellent	Good	Average	Poor	Very poor	Score(1)
Costs	<1%	9%	43%	29%	19%	-0.57
Continuity of supply	16%	60%	13%	2%	10%	0.70
Ease of understanding terms and conditions	2%	9%	51%	25%	13%	-0.38
Ease of switching suppliers	0%	17%	48%	20%	15%	-0.35
Choice of contract	1%	23%	37%	29%	11%	-0.30
Customer service	2%	21%	44%	17%	16%	-0.23

(1) Score refers to the average (mean) of between +2 and -2, after a weighting of +2 for Excellent, +1 for Good, 0 for Average, -1 for Poor and -2 for Very poor, with the total divided by the total number of responses. A positive score indicates above average performance and a negative score indicates below average performance.

Choice of contract and customer service were also quite variable, although in each case more businesses felt that the utility providers were poor than felt it was better than average.

Businesses were split between businesses that have 10 or fewer employees and those with more, as businesses with fewer than 10 employees were previously protected by Consumer Focus and now by Ofgem, whereas larger firms are not. Businesses with more than 10 employees felt that the choice of contract was better than average, but that other elements of the contract (ease of understanding and switching) was much worse. Customer service was also generally worse and some businesses felt that this was due to a lack of protection for employees with more than 10 employees.

Figure 2 Current scores for utility providers based on the size of the business



Most comments about current provision referred to continuous increases in price and then the difficulty in switching. Roll-overs were particularly disliked, with many business owners feeling that the system was illegal.

"The wicked system by which they can roll you over into another lengthy contract at an unfavourable price, because you missed the narrow "window", which it is in their interests not to tell you about." Member comment

Lack of notification was also an issue, particularly as it makes financial planning harder at a time of rising costs and fragile business confidence.

"You are not informed by utility suppliers about end date or rising cost; rising costs are found out through the TV and newspapers." Member comment

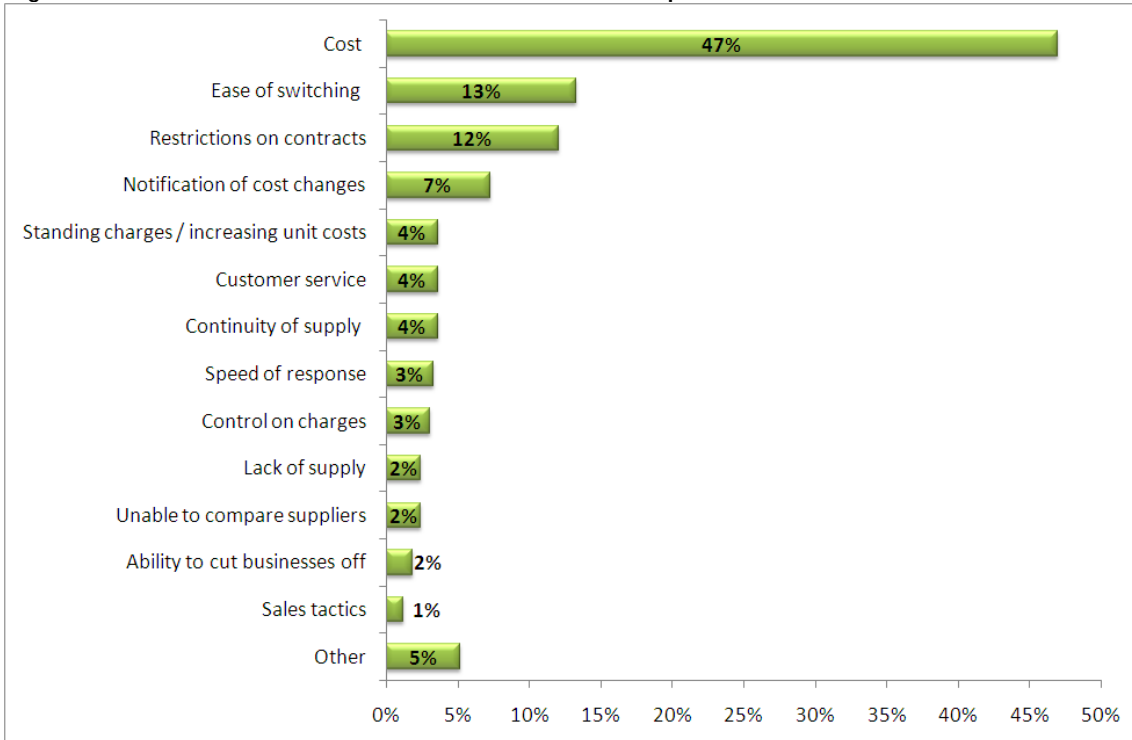
Also a concern was the control and the rights that the utilities companies have.

"The utilities have the right to cut you off if they haven't - or think they haven't - been paid. There should be a greater requirement on them to ensure the prior court process is properly and fairly conducted. They are no longer the statutory monopolies they were but private companies with disproportionate powers. We've been taken to court without our knowledge all because the utility claimed not to have received a letter from us - they banked the cheque in the envelope though!" Member comment

The rights of businesses were contrasted to the rights of domestic consumers, to indicate the lack of protection for a business. This was not just for energy supply but also for water, following the introduction of surface water drainage charges in 2008.

In total 47% of those businesses that gave an opinion cited the ever-increasing costs as the main issue with utility providers, with many businesses feeling that the cost of energy was destroying their business. This includes a number of businesses who rented premises and felt that their landlords were charging a premium for energy.

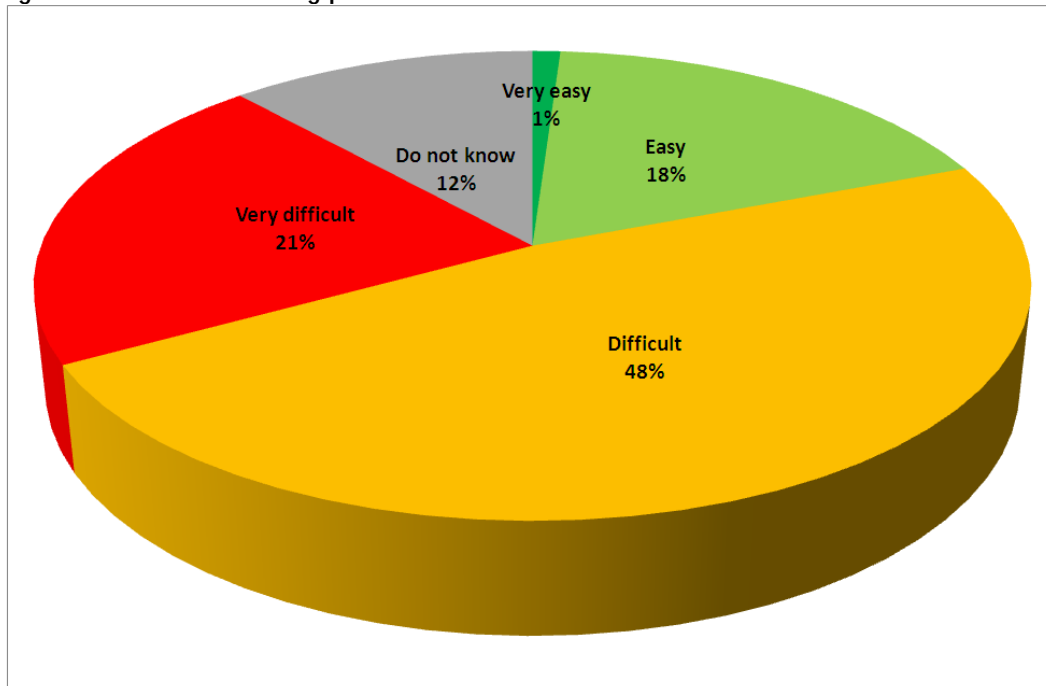
Figure 3 Main issues smaller firms have with utilities providers



Ease of keeping up to date with contract dates

Just under 19% felt that it was easy for them to keep up to date with their contract, with 69% feeling that it was difficult or very difficult. 12% were unsure and some of these organisations admitted that they undertook such work on an ad hoc basis, whilst others left it up to their brokers to resolve.

Figure 4 Ease of switching providers



In terms of business size, micro firms (those with fewer than 10 employees) found it easier to keep up to date than businesses with 10 or more employees. This indicates that smaller firms

with 10 employees or more are less well equipped to deal with utilities contracts than has been assumed by legislators.

Figure 5 Ease of switching by size of employer

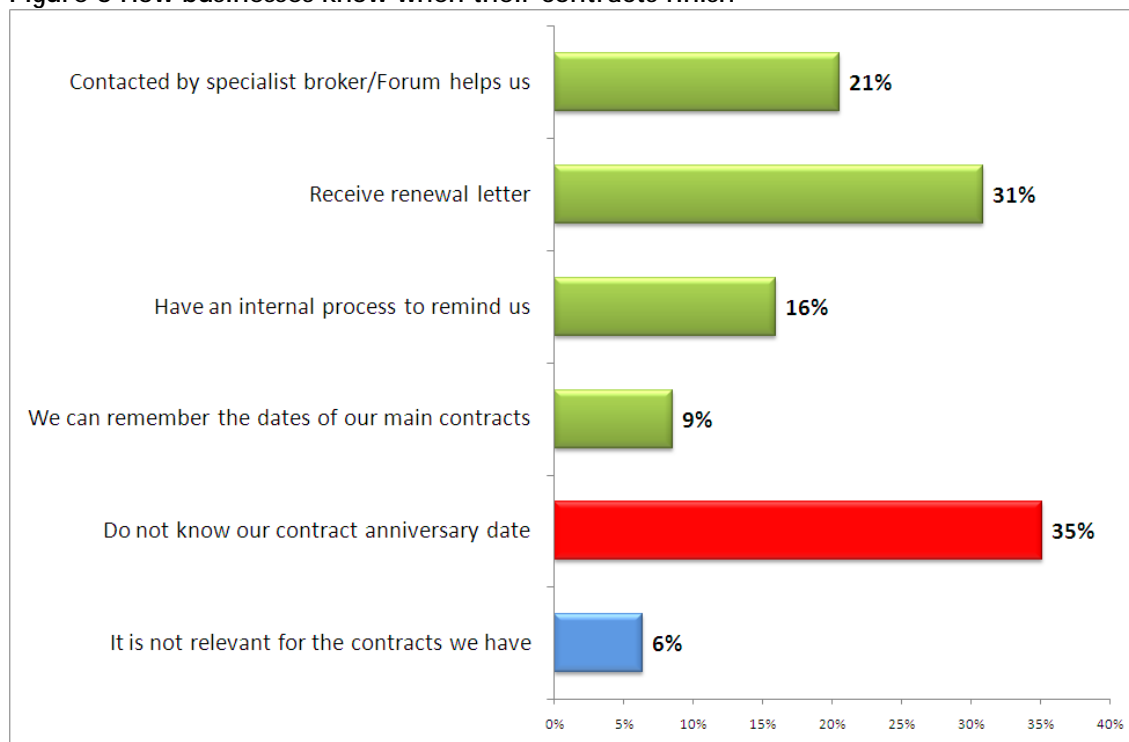
	Overall	Fewer than 10 employees	10 employees or more
Easy	19%	22%	15%
Difficult	69%	65%	76%

A number of businesses felt that it was relatively easy to keep up with contract dates but not with the notification windows that they were expected to know. One or two remarked that customer service staff at utilities providers were loath to give out such information when they made an inquiry.

Notification period

Over one in three businesses do not know when their contract anniversary date is or their utilities contracts. 16% have a formal process to deal with the issue and 21% use the support of a specialist broker or the Forum to help them, with around 10% doing both.

Figure 6 How businesses know when their contracts finish



Roll-over contracts and their impact

In total 42% of businesses have been caught out by a roll-over contract. In most cases this was an energy contract, although telecoms suppliers and water companies were also mentioned. The impact was generally on the profitability of the business due to an increase in unnecessary costs, although for one business it almost proved fatal. Others reported significant cash flow issues, stress and wasted time in proving their case.

“Fortunately, after a lot of phone calls and complaints, we managed to find a cheaper price from another supplier which prompted our present supplier to drop their price accordingly.”
Member comment

As the comment above indicates many businesses felt that the suppliers were excessively obstructive rather than focused on reaching an agreement.

A number of businesses found that being caught was actually a useful experience as the costs were relatively small but the process focused the mind to monitor contracts in future.

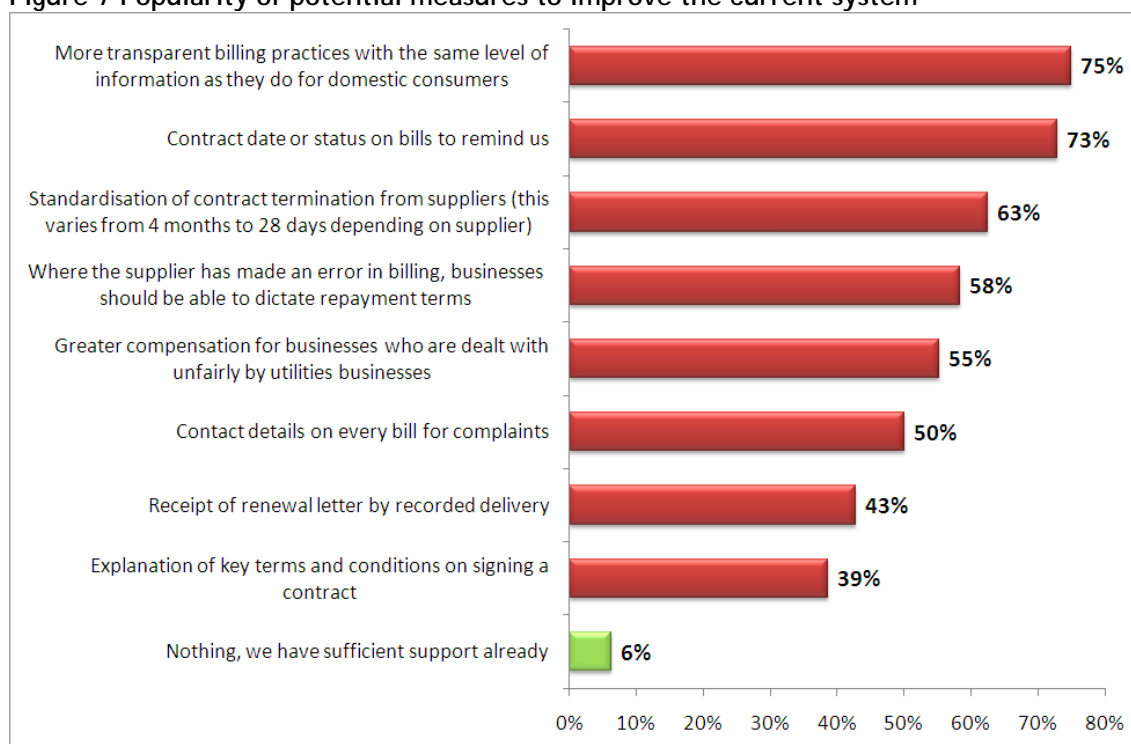
Suggestions to support smaller firms in the future

96% of business owners want greater protection from utilities providers, with more information on their current contracts being the most popular requirements. $\frac{3}{4}$ want more transparent billing practices with the same level of information as domestic customers receive. A similar number want their contract date or the status of their contract on the bill to let them know when their contracts are coming up for renewal. However only 39% wanted an explanation of key contract terms provided, indicating that owners were most concerned with the small print than the key elements of the contract.

Standardisation of contract termination periods would also help businesses to plan so that they avoid being rolled over on their contact rather than being frustrated by the small print of the contract when they want to change supplier.

Businesses also wanted greater protection from utilities providers, with 58% wanting the ability to dictate payment terms if the supplier has made an error and a similar number wanting greater compensation for businesses that are not treated fairly.

Figure 7 Popularity of potential measures to improve the current system



Businesses with fewer than 10 full-time employees have additional rights and this is evident in the response to this question. Utilities providers are already required to provide business with fewer than 10 employees a hard copy of their renewal terms and conditions within 10 days of renewing a contract, for this reason they appear less concerned with an explanation of key terms and conditions and receipt of a renewal letter to be sent by recorded delivery.

In contrast larger businesses were less concerned with contact details on their bills for complaints as some owners have been told that they do not qualify for support due to their size. Likewise employers with 10 employees or more are more likely to be concerned about repayment terms after an error in billing except in extreme circumstances.

In all other areas there was little difference according to size.

Figure 8 Popularity of potential measures based on the size of the business

	All businesses	Those with under 10 employees	10 employees or more
Nothing, we have sufficient support already	6%	6%	7%
Explanation of key terms and conditions on signing a contract	39%	30%	59%
Receipt of renewal letter by recorded delivery	43%	39%	52%
Standardisation of contract termination from suppliers (this varies from 4 months to 28 days depending on supplier)	63%	63%	62%
Contract date or status on bills to remind us	73%	67%	86%
Contact details on every bill for complaints	50%	55%	38%
More transparent billing practices with utilities companies providing the same level of information as they do for domestic consumers	75%	75%	76%
Where the supplier has made an error in billing, businesses should be able to dictate repayment terms	58%	66%	41%
Greater compensation for businesses who are dealt with unfairly by utilities businesses	55%	57%	52%

Other suggestions from respondents

The most popular suggestion from our members was to simply outlaw roll-over contracts, although this may leave some disorganised businesses without supply at times. One business suggested that micro businesses should cancel their contract the day after it starts by recorded delivery. This, however would not work for businesses that do not fit into Ofgem’s micro business criteria as the maximum 12 month roll-over period does not apply.

Business owners also wanted greater government intervention on the rising cost of utilities (not just energy suppliers) to stop them profiteering from an essential business need and in general a tougher regulatory environment. Some business owners felt that nationalisation should be considered.

Improving customer service and the complaints procedure was another common theme, with business owners wanting better account management from suppliers, statutory response requirements from providers (they have to response to enquiries within a week etc) and a more robust complaints procedure.

“With some suppliers the complaints process is a nightmare - it is impossible to get refunds of overpayments, and getting anything in writing is not worth the stress. Suppliers should be made to provide written explanation of any dispute, instead of forcing customers to ring premium telephone numbers.” Member comment

Some responses were more, positive wanting more widespread of the smart metering/billing technology, the introduction of an energy comparison website (although some respondents believed a fair comparison between suppliers is impossible) bonuses for prompt payment or loyalty or making utilities suppliers part of a recognisable professional association.

Paying for the green agenda

"We have no real control over the price and don't know whether the prices we are being charged are competitive. The extra 'green' levy should be scrapped immediately. We certainly don't use any more fuel than we need to run our business." Member comment

Business owners feel that they will have to pay a disproportionate amount of future green taxation. Only 2% feel that they would be treated fairly and less than 1% felt that they would have to pay a lower rate than domestic customers. Some businesses commented this would naturally happen as they pay VAT on utility bills in contrast to domestic customers. This has not been helped by the news in November that Ofgem would only look at increases to household bills rather than considering the impact on commercial entities. The fieldwork was undertaken before the Cancun climate change conference but reflect the growing anxiety of business owners about the will to regulate utility suppliers.

Figure 9 Fairness of future property rises

	All businesses	Those with under 10 employees	10 employees or more
Businesses will have to pay a higher rate than domestic customers	73%	78%	63%
Businesses will have to pay a lower rate than domestic customers	<1%	0%	<1%
We will be treated fairly	2%	1%	4%
Do not know	24%	21%	32%

Of those who expect a future change in the cost of utilities compared to the domestic companies, just 5% feel that there are no particular drivers for this. Those that felt they would pay a lower rate or that they would be treated fairly indicated that this was due to their own organisation in terms of contract negotiation or investment in technology. Around 5% of those who felt they would have to pay a higher rate felt this was partly due to the organisation. The biggest culprit was felt to be utility suppliers with 79% unhappy with their recent performance.

Figure 10 Drivers for changes in prices

Utility suppliers	79%
Ourselves	6%
Politicians	34%
No one	5%

34% also felt that politicians would be partly responsible, with comments indicating concern over the green agenda. This perception has been verified by the impact assessment by the Department of Energy and Climate Change in July 2010, which indicated that non domestic consumers would have to pay proportionally more for energy in the future*.

*DECC, Estimated impacts of energy and climate change policies on energy prices and bills, July 2010.

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