

Why we should be checking our power contract renewal letters

Extract from article by Patrick Hoskins, The Times Money Section, January 2, 2010

‘Buyer beware or be fleeced’

My friend Hugh volunteers as treasurer for his village hall. A few months ago he received a letter from British Gas. The gist was that the village hall’s annual gas supply contract was about to expire.

A casual reading of the letter suggested that it would be rolled over on the same terms. British Gas talked of renewing the contract automatically.

“You don’t have to do a thing ... We’ll continue to offer you great value,” British Gas said.

Nowhere in the letter was there any mention of a price rise, although it did speak ambiguously of new prices. At the very end, Hugh was told the price per kilowatt hour. But there was no mention anywhere of the existing price, for comparison.

Hugh, dutiful and thorough, dug out the old invoice and discovered that British Gas was attempting to foist a 42 per cent price increase on the village hall — which was bad news for the Brownies, not to mention the bridge society and the Old Time Dancing Club.

He rang British Gas. Almost before he could voice his complaint, he was offered a much lower new tariff, this time only 0.4 per cent higher than the existing one.

The impression he was left with — one the call centre worker did nothing to dispel — was that British Gas has a policy of seeing what price it can get away with. Then, at the first sign of customer resistance, it backtracks and offers a much more reasonable deal.

A few weeks later Hugh got another letter from British Gas, this time about the village hall’s electricity supply. Same story. In this case, after digging out the old invoice, he discovered that British Gas was trying to sneak a 63 per cent price rise past him. He rang again to protest and British Gas again capitulated immediately, proposing a tariff increase of only 1.6 per cent.

It is hard to disagree with Hugh that this amounts to sharp practice. Of course, British Gas must have the freedom to adjust its prices in reaction to the wholesale cost of gas.

But this was plainly not the issue here. If it were, it surely would have remained resolute when challenged. It was the company’s instant willingness to backtrack that gave the game away. Customers too trusting, too busy or too idle to challenge the company were, it seems, regarded as fair game — sheep to be fleeced.

The vast majority of British Gas's 600,000 small-business customers are on this pricing regime. The company declines to say how many of them accept their new terms without question, oblivious of the fact that they might secure much better terms for the price of a phone call.

A few weeks ago my colleague Rebecca O'Connor reported how one company that failed to challenge British Gas ended up with a 435 per cent tariff increase.

British Gas, and Centrica, its parent company, says that it is "absolutely dumbfounded" by Hugh's experience and that the reduction he was offered when he challenged the price increase was "unheard of". Hmm, I wonder.

Treating loyal, unquestioning customers badly is becoming endemic across large tracts of the British service industry. In banking and insurance it is virtually de rigueur, as it is among mobile phone operators and broadband providers.

The customer who doesn't relentlessly switch suppliers or at least threaten to defect is too often regarded not as a valued client to be cherished and treated well, but as a fool to be gouged.

Sadly, this policy of differential pricing is becoming institutionalised in many companies. Renewal letters are deliberately drafted to gull the customer or, at best, to gloss over the intended price increase. At the same time, call centre workers are trained to capitulate at the first sign of resistance. This is scripted into the business model.

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