ENERGY RESEARCH COUNCIL

RESEARCH BRIEF

Buyer Beware: Early Contract Termination

An increasing conflict that burdens electricity customers, suppliers, and the marketplace as a whole is early contract termination. Early termination occurs when a customer locks into a contract with an electricity supplier for a start date that overlaps with an existing supply contract.

In some cases, electricity customers are either unaware that they are locked into a supply contract, or unaware of their contract's expiration date. Confusion may arise when a business has employee turnover or restructured job roles. For instance, the accounts payable department or energy procurement decision maker at a business may not know that a former employee locked into a supplier contract, and consequently may select a conflicting start date for their company's next supply contract.

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Supplier contract conditions

ERC research shows that seven out of every 10 small-to-medium business (SMB) owners are unaware or do not believe that their electricity supply contract has an early termination provision. In fact, most supplier contracts include an early termination penalty clause. Out of approximately 1,250 ERC survey respondents, 21% believe their current supplier contract will continue on a month-to-month basis after expiration, and 32% don't know if their current supplier contract includes an auto-renewal clause. Overall, electricity consumers find supplier contract conditions are unclear, which introduces opportunities for error and early termination in the contracting process. Nearly half (48%) of SMB owners rate their current electricity supply contract as complex or very confusing.

Slamming

Adding to the problem of early contract termination is the notable increase of assertive energy salespeople targeting business owners through mailings, phone calls, and door-to-door soliciting. "Slamming" occurs when a misleading salesperson obtains a customer's electricity account number, and switches their supplier without the customer's knowledge or consent, effectively terminating the customer's existing supplier contract. Customers whose supplier contracts are terminated without their authorization face hefty financial penalties.

Many misleading energy salespeople are unlicensed and inexperienced. Not only do these unethical salespeople dupe customers, but also they often violate "do not call" lists and marketing regulations set forth by state public utility commissions (PUCs).

Customer Story

"Like so many business owners in Pennsylvania, I'm bombarded with phone calls from energy salespeople," says the owner of an automobile dealership near Pittsburgh. "Recently, I told one particular caller that I was locked into a supplier contract. The caller assured me that he wouldn't jeopardize my current contract, but he promised me an additional 10% discount on my current locked-in fixed price. I reluctantly agreed." Soon afterward, she learned that her supplier dropped her dealership's account and would charge early termination fees. "I attempted to contact the salesperson that misled me, and he was unreachable. Fortunately, my energy consultant worked with my supplier to reenroll my account without termination fees or 'gap in service' penalties."

Customer Fees & Penalties

Most electricity suppliers charge an early termination fee to a customer that terminates a contract before it expires. If the customer requests to reenroll the account, some suppliers charge a "gap in service" penalty. Each supplier contract is different in how penalties are assessed. Some suppliers charge a specific penalty fee per meter. Other suppliers calculate a penalty fee based on the contract's remaining time and electricity usage.

Who is affected?

Electricity consumers, suppliers, utility companies, and public utility commissions are each affected differently by early contract termination. Electric utilities are indifferent to customer choice, meaning they don't know which customers in their service territory use a competitive supplier. Local electric utilities remain fully responsible for reliable delivery of electricity to residential and commercial accounts. Thereby, business owners notice no difference when electric supply is switched from one supplier to another.

Customer Story

"I handed over my electricity bill to a man who visited my office and claimed to represent my local utility company. He offered to evaluate my electricity bill as a complimentary service. A few weeks later, my electricity supplier unexpectedly dropped my account. Without my consent or knowledge, the man had obtained my account number from my bills and canceled my electricity supply contract for my business. I was at risk of being charged hefty termination fees for canceling my supply contract before its expiration date.

I had no idea that the contract was canceled. My supplier worked to reenroll my account and reinstall my electricity supply contract, saving me thousands of dollars in early termination penalties. I called my utility and determined the name of the company that canceled my electric supply without my knowledge. I reported the company to the Better Business Bureau, and sequentially learned that the man who misrepresented himself was no longer with the energy company."

Suppliers face serious consequences when a contract is terminated early. Supplier companies that practice questionable sales techniques, such as switching a customer's supply without notice or authorization, may be charged substantial penalties, or even be forced out of business. Penalties for supplier companies charged with slamming include customer refunds, civil penalties, loss of license, and ongoing monitoring and reporting to ensure compliance with the PUC. Some supplier companies have lost their licensure and have gone out of business. Other suppliers have been forced to retrain their sales force and pay civil penalties as high as $2.3 million. Pennsylvania's PUC has reported a substantial increase in customer complaints against misleading energy salespeople.

In 2014, the Pennsylvania Bureau of Consumer Protection and the Office of Consumer Advocate jointly filed complaints with the PUC against five electricity suppliers, seeking to suspend the suppliers' licenses and impose civil penalties. Between February and June 2014, the Pennsylvania Office of Consumer Advocate received 3,000 customer complaints, many of which involved electricity suppliers switched without customer consent. The Pennsylvania Office of Attorney General reports that it received 42,603 telephone complaints about electricity price spikes in the same timeframe.

Customer Story

"A company offered me a supplier contract with a 6-cents-per-kilowatt-hour (kWh) fixed price," says the owner of a 100-acre camp and retreat center. "I signed the agreement, but when I received my first bill, I realized I was getting charged for much more than the fixed price." Only the energy portion of his bill was 6 cents/kWh. He was charged market rates for all other pass through costs (transmission, distribution, gross receipt tax), which increased his invoice to more than 10 cents/kWh. This businessman reached out to an energy consultant who helped him terminate the misleading contract, avoid fees, and obtain competitive pricing.

Resources available on request. For more information about the Energy Research Council, contact John Dyes, Business Developer, at 667-330-1149.

✔ Best Practices

Awareness and education are your best defense against slamming. To prevent slamming from happening to your business:

1. Make your employees aware of misleading callers. Even employees that are not authorized to discuss your utility bills or make contract decisions can be hounded by a caller and tricked into providing confidential information.
2. Protect your energy bills, account numbers, and related information as you would treat any confidential business information. The account number on your monthly electricity bill is the only requirement to switch suppliers.
3. Beware of an energy salesperson that walks into your business and claims to represent the electric utility. Anyone who works for the electric utility already has digital access to all of your account information.
4. Beware of promotional offers that require your signature.
5. Advise your employees to block salespeople from engaging with other employees.
6. Ask callers if they are properly licensed with the PUC.
7. Request to be removed from call lists.
8. Review your electricity bill each month.