Appendix 7.3: The pricing strategies of the Six Large Energy Firms in the retail supply of electricity and gas to domestic customers over the specified period (January 2006 to end 2014)

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Introduction

1. In this appendix we set out information gathered on the pricing strategies of the Six Large Energy Firms in the supply of domestic customers over the specified period (2006 to 2014). In particular:

   (a) the strategic objectives of these suppliers in relation to the competitive positioning of their domestic retail business;

   (b) the range of tariffs, the prices of the tariffs,[1] discounts and other incentives offered by each of these suppliers;

   (c) how the prices for the standard variable and non-standard tariffs are determined;

   (d) how tariff prices have varied between distribution channels, by consumption volumes and across regions;

   (e) the suppliers' customer retention and acquisition policies;

[1] Based on dual fuel, monthly direct debit customer consuming 3,200 KWh of electricity a year and 13,500 KWh of gas and the prevailing standard variable tariff (i.e. not allowing for any announced changes to the standard variable tariff at launch).

(f) the impact of certain regulatory interventions on pricing;

(g) the non-price aspects of these suppliers' domestic retail offer; and

(h) how each supplier has positioned their standard variable and non-standard tariffs on price relative to the tariffs offered by the other five large energy firms and the independent suppliers.

2. The main sources of information are: documents provided by suppliers in response to the 'first day letter' and the supply questionnaire; supplier responses to questions in the supply questionnaire; information on tariffs provided by suppliers in response to further information requests; and comments on draft descriptions of each supplier's pricing policies.

3. For each of the Six Large Energy Firms there is a section setting out the information listed above. In the next section we set out our main findings in relation to the following:

(a) the strategic objectives of these suppliers in relation to the competitive positioning of their domestic retail business;

(b) a general description of how prices for standard and non-standard tariffs are determined;

(c) a description of how competition in the supply of domestic customers has evolved over the period;

(d) the prices and discounts offered by each supplier and the impact of the standard licence condition (SLC) 25A and Ofgem's retail market review (RMR) reforms; and

(e) the relative competitive positions of these suppliers.

4. In the main findings we present diagrams that show how dual and single fuel standard variable and non-standard tariffs have evolved over time.

5. For each of the Six Large Energy Firms, we present diagrams that show how standard variable and non-standard tariffs have evolved over time, how standard variable tariffs have compared with non-standard tariffs, how different types of non-standard tariffs have compared (for example, own with white label tariffs) and how one supplier's tariffs have compared with those of others.

6. All these diagrams are based on information provided by the Six Large Energy Firms and mid-tier firms. In particular, these suppliers provided for all non-standard tariffs launched since 2004 the annual bill, at time of launch, for

a direct debit, typical consumption customer relative to that applying the standard variable tariff.

7. Annual bills are calculated as an unweighted average of the regional tariffs (ie they are not weighted by the numbers of people subscribing to tariffs in each region). This means that the results will not be affected by the relative presence of suppliers in different regions.

8. In response to comments from parties, we asked for this information: (a) for dual fuel and single fuel customers; and (b) using both Ofgem's current definition of typical consumption and the definition at time of launch. In most cases we report results for dual fuel, direct debit customers using the current definition of typical consumption.

9. RWE said that comparisons made on this basis are simplistic as they do not take into account:

   (a) the one off discounts and sales incentives used to support acquisitions, particularly on the standard variable tariff (which for RWE ranged from £10 to £100 during the specified period);

   (b) the importance of non-price factors (for example some customers may have a preference for the price reassurance provided by some of the longer-term fixed-price tariffs);

   (c) the impact of changing consumption and prices over time; and

   (d) comparison of tariffs using Ofgem's typical medium user consumption could give a misleading impression of the relative competitiveness of different non-standard tariffs, depending on tariff structure (eg standing charges, unit rate, etc).

10. We recognise these limitation to our analysis, in particular that discounts at launch depending on the structure of the fixed-term tariff and subsequent movements in the standard variable rate might over- or under-estimate the discount over the life of the tariff (for variable-rate fixed-term tariffs the discount at time of launch is more likely to over- than under-estimate the discount over the tariff term). However, we consider that the comparisons made provide insight into the competitive positioning of these non-standard tariffs. In addition, for fixed-rate tariffs we look at how the tariff compared with the standard variable tariff over the life of the tariff, and we set out the information provided on the discounts, rewards and incentives offered by the Six Large Energy Firms over the specified period and their acquisition and retention strategies.

Main findings

Strategic objectives

11. The Six Large Energy Firms' strategic objectives in relation to the competitive positioning of their domestic retail gas and electricity businesses have some common themes around differentiating their offer by improving customer service, promoting trust and providing value-added products and services. These include the following:

    (a) Centrica aims to position British Gas as the most innovative energy supplier doing the most to give domestic customers informed choices and control to reduce their energy bill. On price, Centrica said that it positioned British Gas as providing value for money for dual fuel domestic customers.

    (b) EDF Energy said that its price positioning had been influenced by its commitment to trust and fair value for its customers; a desire to grow its domestic customer base in order to achieve better economies of scale in the retail supply business; and a desire to achieve growth in profitability.

    (c) E.ON's objective is to become its customers' trusted energy partner. [✄].

    (d) RWE's vision is to become the most trusted and high-performing provider of energy solutions to domestic customers and to be known as the company that, among other things, provides energy at a fair price but with exceptional service; is trusted to have honest conversations; and provides information and tariffs in a clear and simple manner, enabling domestic customers to capture greater control of their energy usage.

    (e) Scottish Power said that in recent years its strategic focus had shifted to delivering products and services that make it easier for its domestic customers to deal with them and take control of their energy needs, and that continue to offer a value proposition.

    (f) Scottish and Southern Energy (SSE)'s vision is to be a digital and diversified market-leading retailer of energy and essential services (including boiler maintenance, telecoms and broadband services). SSE aims to offer all its domestic customers class-leading levels of service at a competitive tariff by offering product choice; providing greater price stability; entering into 'white label' partnerships; offering value for money through class-leading service and reward programmes; and maintaining a simple tariff structure and a range of payment options while retaining cost reflectivity.

Determination of prices

12. In broad terms the approach taken to setting prices by the Six Large Energy Firms is as follows:

(a) For standard variable tariffs, decisions on price options are informed by volume forecasts; financial performance and strategic objectives; movements in costs; licence requirements; and expectations in relation to the financial position and strategies of rivals – in particular, whether, when and by how much they might change the prices of their standard variable tariffs. [✂], energy costs are a weighted average of the price paid for volumes purchased and remaining volumes priced at market prices with some adjustments to allow for costs incurred nearer the time of delivery to ensure that volumes purchased match the expected pattern of demand. [✂]. Some suppliers use models that 'unpack' costs by eg region, meter type and payment type to 'translate' 'headline' pricing options into a detailed structure of charges. Other suppliers build back from a regional assessment of the markets and financial and strategic objectives to a headline price change. This can be an iterative process.

(b) For fixed-term tariffs, the approach is somewhat different. The level at which tariffs are priced is driven by strategic decisions on the competitive positioning of tariffs and so the pricing of tariffs offered by rival suppliers; the performance of existing tariffs; and acquisition and retention targets. Expected volumes will partly depend on the likely ranking of the tariff on price comparison websites (PCWs). Practice varies in estimating energy costs. Fixed-term tariffs may be launched to retain existing domestic customers coming to an end of a fixed-term contract or to target domestic customers coming to the end of a fixed-term contract with a rival. Models are used to calculate measures of the financial performance of specific tariffs (such as gross margins and net present values (NPVs)) and/or bills at certain consumption levels. Assumptions may include rates of diversion from other tariffs and the behaviour of customers during the term of a tariff and at the end of the term.

13. EDF Energy and RWE said that standard variable and fixed-term tariffs [✂]. In particular:

(a) EDF Energy said that a competitively priced fixed-rate tariff coupled with a reputation as a trustworthy supplier increased its ability to attract and retain customers. EDF Energy also said that it could only continue to offer fixed-term tariffs at current levels while the portion of the market addressed by fixed price tariffs remains marginal.

(b) [✂].

14. [✂].

15. In pricing fixed-term tariffs some of the Six Large Energy Firms make assumptions on the proportion of domestic customers who at end of term will switch to the standard variable tariff:

    (a) [✂].

    (b) [✂].

    (c) [✂].

16. In addition:

    (a) [✂];

    (b) E.ON told us that it makes assumptions in its internal models which result in the proportion of customer assumed to be on certain tariffs after a number of year in future. [✂]; and

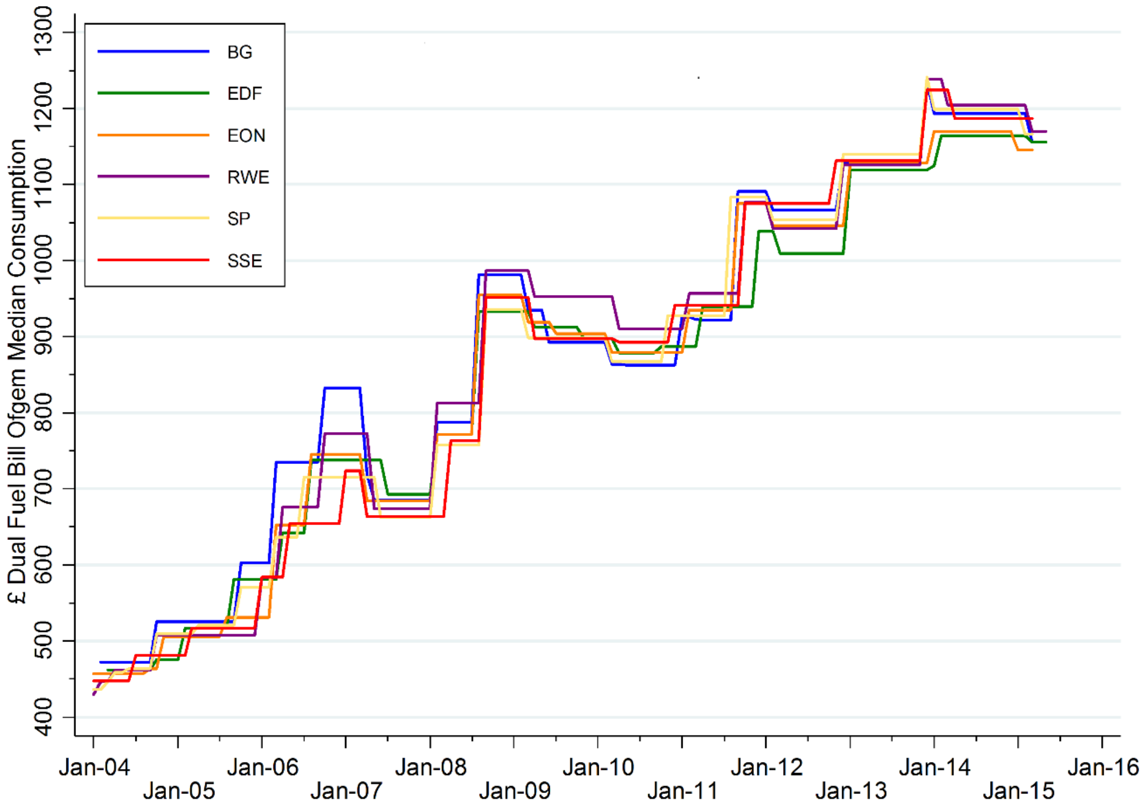
    (c) Scottish Power told us that between about [✂] and [✂] of customers migrated at term to the standard variable tariff, many of whom select a new fixed-term tariff or leave in following years.

17. All the Six Large Energy Firms said there were no tariffs available to new domestic customers only and that all tariffs were available through all channels.

Evolution of price competition

18. Figure 1 shows the evolution of the standard variable tariff for each of the Six Large Energy Firms based on the annual bill for a direct debit, dual fuel, typical consumption customer (using the current Ofgem definition).

Figure 1: Standard variable tariff annual bill (for a direct debit, dual fuel, typical consumption customer (using Ofgem's current definition), 2004 to 2014 (£)



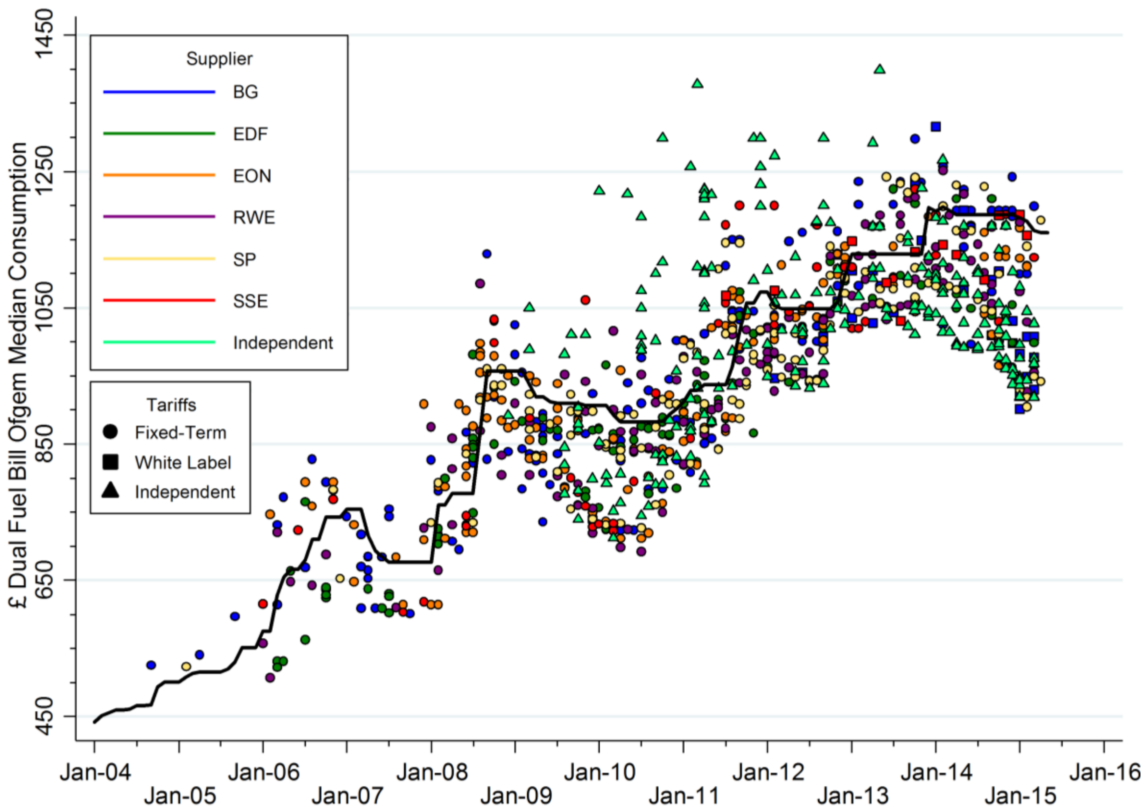
Source: CMA analysis of data provided by Six Large Energy Firms.

19. Annex A sets out the standard variable single fuel electivity and gas tariffs. This shows that: British Gas's electricity standard variable tariff has often been the cheapest of those offered by the Six Large Energy Firms and its gas standard variable tariff the most expensive; and that SSE has priced its gas tariff more competitively than its electricity tariff.

20. We also looked at standard variable tariffs for each of the Six Large Energy Firms based on the annual bill for a direct debit, dual fuel, typical consumption customer using (a) the current Ofgem definition and (b) the prevailing Ofgem definition. We find that the relative positions of some suppliers is sensitive to the definition in some years. For example, between the 2009 and 2011, RWE is among the most expensive suppliers applying the current definition, but more competitively positioned applying the prevailing definition.

21. Figure 2 shows the evolution of the non-standard variable tariff for each of the Six Large Energy Firms (and independents) based on the annual bill at time of launch for a direct debit, dual fuel, typical consumption customer (using the current Ofgem definition).

Figure 2: Non–standard tariffs annual bill (for a direct debit, dual fuel, typical consumption customer (using Ofgem's current definition), 2004 to 2014 (£)



22. Generally we find that the relative pricing of fixed-term tariffs and standard variable is similar for single fuel electricity and gas tariffs.

Post-liberalisation

23. Prior to liberalisation in the late 1990s, the electricity supply companies had local monopolies (the areas of which were defined by the physical layout of the distribution networks) and British Gas had a monopoly in the supply of gas.

24. Post-liberalisation, the incumbent electricity suppliers aimed to convert domestic customers in their 'home' areas to dual fuel customers and to attract new domestic customers in other areas. For most of the Six Large Energy Firms, key to these objectives was the offer of dual fuel discounts and lower 'out-of-area' standard variable tariffs.

25. Post-liberalisation, British Gas aimed to grow its retail business by converting its existing gas domestic customers to dual fuel and by attracting new dual fuel domestic customers. Key to these objectives was to have an out-of-area standard variable electricity tariff cheaper than the one offered by the incumbent electricity suppliers.

Prohibition on regional price discrimination

26. From September 2009 Ofgem prohibited unfair price discrimination, including regional price discrimination (SLC 25A) and payment method price discrimination (SLC 27.2A). In particular, it prohibited regional price discrimination without objective justification (SLC 25A) and payment method price differentials that were not cost reflective (SLC 27.2A).[2] The background to the former licence condition was concern that a less active group of incumbent domestic customers may not be benefiting from competition to the same extent as more engaged customers.

27. RWE said that their incentives to discount out-of-area were reduced over time. They had acquired customers out-of-area, sought to regain lost customer in-area and margins were converged. EDF Energy said that they took steps in advance of the implementation of SLC 25A to reduce regional price discrimination. SSE said that SLC 25A just accelerated its existing move to cost reflectivity and minimising price discrimination.

28. While the prohibition under SLC 25A applied to all tariffs, guidance provided for the use of discounted fixed-term tariffs to attract and retain domestic customers. The information gathered to date suggests that this encouraged greater use and uptake of the latter (with most suppliers offering more tariffs in years 2010 to 2011 than they did in 2006 to 2008). These tariffs took various structural forms including percentage discounts and minimum guaranteed percentage discounts to the standard variable tariffs, fixed-rate tariffs and capped tariffs.

29. British Gas said that since 2009 any regional variation in its non-standard tariffs had been broadly cost reflective, but that fixed-rate tariffs had sometimes varied to balance affordability and competitive positioning across regions. For the incumbent electricity suppliers, since 2009, margins on non-standard tariffs were more likely to be lower out-of-area, although this would differ between suppliers and from year to year.

30. Since around 2007, the cheapest tariffs have been non-standard tariffs. Post 2009 domestic customers have continued to be acquired onto or retained on standard variable tariffs supported by cost and non-cost reflective discounts and other incentives (including reward points, energy credits, cash-back offers and vouchers).

[2] *Gas Act 1986: Standard conditions of gas supply licence. Electricity Act 1989: Standard conditions of electricity supply licence.*

Doorstep selling

31. Until 2011 doorstep selling and other face-to-face channels such as stands in and outside retail outlets were important routes to market for all the Six Large Energy Firms. In 2009 Ofgem introduced both new and modified licence conditions designed to improve the quality and accessibility of the information available to domestic customers.[3] To complement these new rules, Ofgem introduced within the modified marketing licence conditions a set of overarching standards of conduct for telesales and face-to-face sales that it expected suppliers to take all reasonable steps to adhere to when marketing to domestic and small business customers.

32. As a consequence of these licence conditions, enforcement action and media and political pressure in opposition to doorstep sales, during 2011 and 2012 all the Six Large Energy Firms withdrew from doorstep selling. This contributed to online channels (both PCWs and suppliers' own websites) becoming more important acquisition channels.

33. British Gas and RWE tend to position their non-standard tariffs to be competitive for [✂] domestic customers. For SSE [✂]. [✂]. E.ON generally positions its non-standard tariffs to be attractive to [✂] domestic customers. One reason for this is an understanding that domestic energy customers using PCWs tend to have higher than average consumption.

RMR reforms

34. In 2013 Ofgem proposed changes to a number of licence conditions with the objective of making the market simpler, clearer and fairer to customers. These reforms are generally known as the RMR reforms.[4] The background to the RMR reforms included concerns that the following features of the retail markets were contributing to the disengagement of domestic customers: the existence of a large number of complex tariffs; the absence of information from suppliers; and the low levels of trust among domestic customers that suppliers would treat them fairly.

35. However, the Six Large Energy Firms said that before this they had been taking steps to rebuild trust partly in response to pressure from Ofgem and elsewhere. In particular, EDF Energy launched its 'Feel Better Energy' strategy in 2012 with the objective of building trust; in 2011 E.ON launched its 'Reset' programme with the principles of transparency, fairness and trust; and

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[3] Ofgem letter to gas or electricity supply licence holders, consumers and their representatives, and interested parties.
[4] *The retail market review – implementation of simpler tariff choices and clearer information*.

SSE said that building trust in the energy markets was consistent with its brand and its building trust agenda (launched in October 2011), and that in 2012 it had reduced the number of live tariffs from 68 to 4 and made it easier for customers to compare tariffs.

36. As a result of the RMR reforms, non-standard tariffs offered to domestic customers by energy suppliers now tend to be fixed-term and fixed-rate tariffs, and all tariffs must have a standing charge (which might be zero) and single unit rate structure. Suppliers are also limited to only four core tariffs for gas and four for electricity per customer (the 'four-tariff' rule). Certain tariffs (including premium green tariffs, fixed-bill products and tariffs aimed at low consumption customers) and certain discounts (including prompt pay discounts and acquisition cash discounts) have been withdrawn.

Tariffs, prices and discounts by supplier

37. The two main tariff types currently available to domestic customers are as follows:

    (a) Standard variable tariffs: These are generally the suppliers' 'default' tariff. They will have variable prices. They are also referred to as 'evergreen' tariffs.

    (b) Non-standard tariffs: These now tend to be fixed-term fixed-rate tariffs.

38. The percentage of customers of the Six Large Energy Firms on the standard variable tariff differs between suppliers: British Gas [✂]%; EDF Energy [✂]%; E.ON [✂]%; RWE around [✂]%; Scottish Power [✂]%; and SSE [✂]%.

39. British Gas has had a white label arrangement with Sainsbury's Energy since 2011. The percentage of these customers who are on standard variable tariffs is included in the British Gas figures above. SSE have white label arrangements with M&S and Ebico. [✂]% of M&S Energy customers are on its standard variable tariff. SSE also has its Atlantic online brand.

40. E.ON has a commercial relationship with Age UK and offers tariffs under the Age UK brand, and Scottish Power with Cancer Research UK is offering tariffs that provide for a contribution to Cancer Research UK.

Relative prices of standard variable and non-standard tariffs

41. For each of the Six Large Energy Firms, we looked at how the prices for their standard variable and non-standard tariffs compared over the specified period.

From 2006 to 2013

42. We found that, for each of the Six Large Energy Firms, their cheapest tariffs were typically non-standard variable tariffs and, for some suppliers, their fixed-rate tariffs were typically priced, at launch, at a premium to the standard variable tariff (although increases in the standard variable tariff often resulted in the fixed-rate tariffs being cheaper than the standard variable tariff). The main exceptions to this were that:

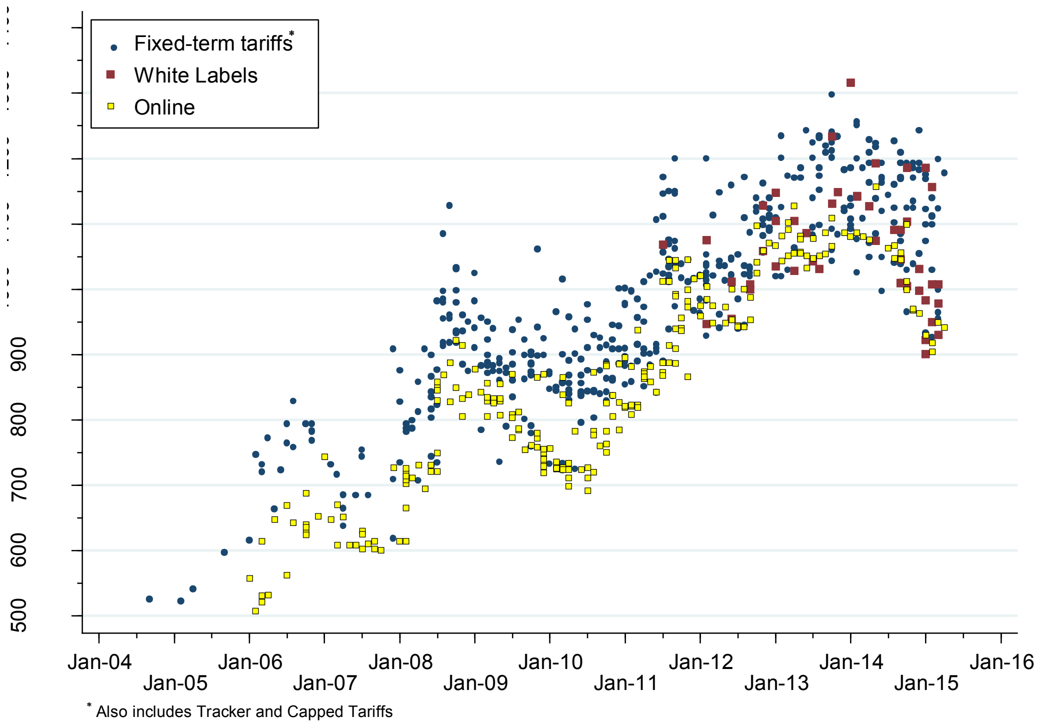
   (a) since Q1 2012 EDF Energy's cheapest tariffs have been fixed rate and priced at a discount to its standard variable tariff; and

   (b) from early 2009 to mid-2010 E.ON's cheapest tariffs were online fixed-rate tariffs.

43. We also found that the cheapest tariffs might have been available through online channels only. For British Gas this was the case until end 2013; for E.ON this was the case until end 2011; for RWE this was the case until 2008; and for Scottish Power until 2012. EDF Energy said that its online tariffs were offered until 2011 but that these were also available through other channels. Since these dates some tariffs have required customers to manage their accounts online.

44. Figure 3 shows for all Six Large Energy Firms non-standard tariffs based on annual bill, at time of launch, for a direct debit, dual fuel typical consumption customer (using Ofgem's current definition). This shows that the cheapest tariffs have typically been identified as online.

Figure 3: Non–standard tariffs annual bill (for a direct debit, dual fuel, typical consumption customer (using Ofgem's current definition), 2004 to 2014 (£)



45. The differential between the price of standard variable and non-standard tariffs varied over time, by tariff, by distribution channel and between the Six Large Energy Firms. Over this period discounted tariffs offered from 1 to 24% reductions on the standard variable tariff at launch.

From 2014 to present day

46. We found that the cheapest tariffs were all fixed-rate tariffs with terms of one to two years. Longer-period fixed-rate tariffs are typically priced at a premium to the standard variable tariff. As at January 2014 fixed-rate tariffs with a duration of one to two years were launched at discounts to the standard variable tariff in the range of 1 to nearly 20%.

47. SSE appears to have adopted a different strategy. Few of its tariffs have been online-only tariffs. For two periods (ie September 2009 to June 2010 and January 2013 to November 2014) it was active in the sale of discounted tariffs – some through M&S Energy. Outside these periods it has been less active both in terms of the number of tariffs launched and the size of the discounts offered. In March 2014 SSE announced that it would freeze its standard variable tariff prices until at least 2016.

Discounts and other incentives

48. All Six Large Energy Firms have also offered discounts and incentives to support acquisition and promotion of their products or to encourage certain behaviour. All Six Large Energy Firms have offered discounts to vulnerable domestic customers.

49. The most widely offered discounts have been dual fuel, direct debit and prompt payment discounts. Prompt payment discounts were prohibited by the RMR reforms. They were removed end 2013.

50. Other incentives include discounts for managing accounts online and retail vouchers and credits to energy accounts. British Gas has a partnership with Nectar. E.ON has a relationship with Tesco Clubcard.

Impact of standard licence condition 25A

51. To comply with SLC 25A, which came into force in September 2009, the Six Large Energy Firms made the following changes:

   (a) British Gas changed gas standard variable tariffs by an amount equivalent to £20 on the typical annual bill and changed electricity standard variable tariffs by an amount equivalent to up to £40 on the typical annual bill.

   (b) EDF Energy said that it pre-empted the introduction of SLC 25A by reducing the average in-area to out-of-area differential by £10 for a typical electricity domestic customer in March 2009. However, movements in regional cost differences required a further change in October 2010 to reduce price differentials, which EDF Energy achieved by increasing out-of-area electricity tariffs for standard meter customers by 2.6% and increasing in-area electricity tariffs for Economy 7 domestic customers by 2.6%.

   (c) E.ON said that for a typical consumption credit domestic customer the in-area gross margin was £9 higher than the out-of-area gross margin. In December 2008, before SLC 25A, E.ON had already announced a no mains gas discount for in-area electricity customers in order to align in-area and out-of-area margins for customers without access to mains gas; this was increased in September 2010. Regional marginal equilibrium was maintained in subsequent general price changes, eg by reflecting regional cost changes.

   (d) [✂].

(e) Scottish Power said that it increased its out-of-area standard variable electricity prices relative to its in-area prices by around 4.6%.

(f) SSE said that this condition required it to accelerate adjustments already implemented and planned to ensure cost reflectivity.

Relative prices of suppliers

52. For each of the Six Large Energy Firms, we looked at how the prices of their standard variable and non-standard tariffs compared with those offered by the other five large energy suppliers.

Standard variable tariff

53. We compared the standard variable tariffs of the Six Large Energy Firms based on the annual bill for a dual fuel domestic customer, Ofgem typical consumption, monthly direct debit customer. We observed that:

(a) the relative positions of the Six Large Energy Firms changed over the specified period;

(b) British Gas had sometimes been the most expensive or among the most expensive, sometimes the cheapest, and other times 'mid-pack'

(c) EDF Energy had consistently priced its standard variable tariff to be the cheapest of the Six Large Energy Firms;

(d) E.ON in the past had adopted a mid-market position. In 2014, of the Six Large Energy Firms, E.ON and EDF Energy offered the cheapest standard variable tariffs;

(e) RWE's position had varied being among the most expensive from 2006 to 2011; more competitive in 2012 and 2013; and in 2014 again amongst the most expensive;

(f) Scottish Power had adopted a mid-pack position from 2006 to mid-2007 and then moved to being more competitively priced. In 2010 and 2011, [✂]. Since the start of 2014 it had again adopted a mid-pack position; and

(g) SSE was from 2006 to 2009 one of the cheapest suppliers; since then it has generally had a mid-market position.

Non-standard tariffs

54. We also compared the non-standard variable tariffs of the Six Large Energy Firms. Based on various sources, our observations were also as follows:

(a) British Gas's fixed-term tariff have often been among the most expensive offered by the Six Large Energy Firms, but for 2014 to March 2015 its Sainsbury's Energy tariffs were the cheapest of those offered by the Six Large Energy Firms.

(b) EDF Energy expected its fixed-rate tariffs (with terms of fewer than two years) launched in 2013 to achieve between 4th and 8th positions (with 1st position being the cheapest tariff) among all tariffs offered by the Six Large Energy Firms (including white label brands) and 4th to 10th among all suppliers. EDF Energy said that this was because it was only offering fixed-rate tariffs while other suppliers continued to offer non-standard variable rate tariffs with larger initial discounts (because the rates on these tariffs could then be raised later in the fixed term). Since November 2013, EDF Energy's tariffs were better ranked with its tariffs expected to be in the top three among the major suppliers.

(c) E.ON's cheapest non-standard tariffs in 2013 and 2014 were generally among the more expensive with the exception of several short periods when it was the cheapest of the Six Large Energy Firms. Recently E.ON has offered fixed-rate tariffs at discounts of up to 19% (at typical consumption levels) in response to market conditions that were leading to falling customer numbers.

(d) RWE's tariffs for the period 2006 to 2011, with the exception of 'Go Fix' and 'Football Saver', were generally in the top five positions among the cheapest tariffs offered by the Six Large Energy Firms. [✂]. We observed that the majority of its tariffs were within the top 10.

(e) At key points between 2010 and 2012 Scottish Power adopted a more competitive position in pricing its fixed-term (variable and fixed-rate) tariffs, but in 2013 the ranking of its tariffs declined due, in part, to the entry of smaller suppliers. Scottish Power told us that from the start of 2014 it had aimed to have a competitively priced fixed-rate tariff.

(f) In January and February 2013 SSE launched discounted tariffs which, at time of launch, were the cheapest of the tariffs offered by the Six Large Energy Firms. Since then, SSE's tariffs have typically been in 5th or 6th position at time of launch. In June 2014, against a background of underperformance against sales, SSE told us that it developed three non-standard tariffs aimed at driving retention and acquisition.

PSR

55. The Priority Services Register is an obligation under Standard Licence Condition 26. The PSR must list all of a supplier's domestic customers, or a member of their household, who are: of pensionable age, disabled or chronically sick, and have either asked to be added to the PSR or had a person ask on their behalf. Centrica, E.DF and E.ON said that they are proactive in identifying qualifying customers during key touch points in the relationship with the customer.[5]

56. Table 1 provides the percentage of suppliers domestic customer base on the register as at end 2014 is as follows:

Table 1: Percentage of domestic customer accounts on the suppliers' PSR, December 2014

	%
Centrica	[✂]
EDF Energy	[✂]
E.ON*	[✂]
RWE	[✂]
Scottish Power**	[✂]
SSE	[✂]

* E.ON said that once a customer's account has been flagged to its PSR, it is not always updated, so customers who no longer fulfil the criteria for the PSR may continue to be flagged as PSR.
** Scottish Power said that [✂] of its domestic customers satisfied its wider definition of Special Need.

57. EDF Energy told us that it launched in January 2015 its Personalised Support Service tool, offering vulnerable customers the opportunity to access the services they are eligible for and during Winter 2014/15 it contacted all its PSR customers to tell them about the tool and encourage them to contact an adviser to find out if it could offer them a cheaper tariff. EDF Energy said that, as a result of this and other activities, a higher proportion of its PSR customers are on fixed-term tariffs (46%) compared with non-PSR customers (39%).

58. RWE said that when PSR customers contact them it may also offer information on alternative payment methods and tariffs and it has proactively contacted all customers in receipt of the Warm Home Discount, to inform them of alterative tariffs and promote the PSR.

[5] See responses of Six Large Energy Firms of 9 June 2015

59. Other Six Large Energy Firms did not take steps, targeted at PSR customers, to encourage them to move to cheaper tariffs. In particular:

(a) Centrica said that it had a specialist team dedicated to supporting vulnerable customers (which will include those on the PSR) and that team would have discussions about more favourable tariffs and payment methods. Centrica also said that it worked with third parties and partners,[6] promoted the PSR and the Warm Homes Discount scheme and funded an independent charity (British Gas Energy Trust) that provided financial support (including advice on more favourable tariffs via the third parties associated with the scheme);

(b) E.ON said that it does not proactively contact PSR customers to offer them advice and services. Instead E.ON supports such customers on a reactive basis, when they contact, and E.ON has a number of dedicated internal servicing teams who focus on PSR customers. E.ON said that it will discuss tariff options with any customers calling them who have concerns around their ability to pay and would go through the choice of E.ON tariffs available (a process known as 'Best Deal For You') and allow the customer to choose the best deal for their needs;

(c) Scottish Power said that it provides all customers with messages on bills and Annual Statements which tell the customer how much they could save by moving to the relevant cheapest similar tariff (based on the customer's current tariff type) and the cheapest overall tariff. Scottish Power also said that it promotes cheaper tariffs for that customer should any customer call a Customer Services department, and also gives customer options to find the current cheapest tariff on its website and on online accounts; and

(d) SSE said that the PSR is intended to provide eligible customers with practical help (such as braille bills and priority assistance in power cuts).

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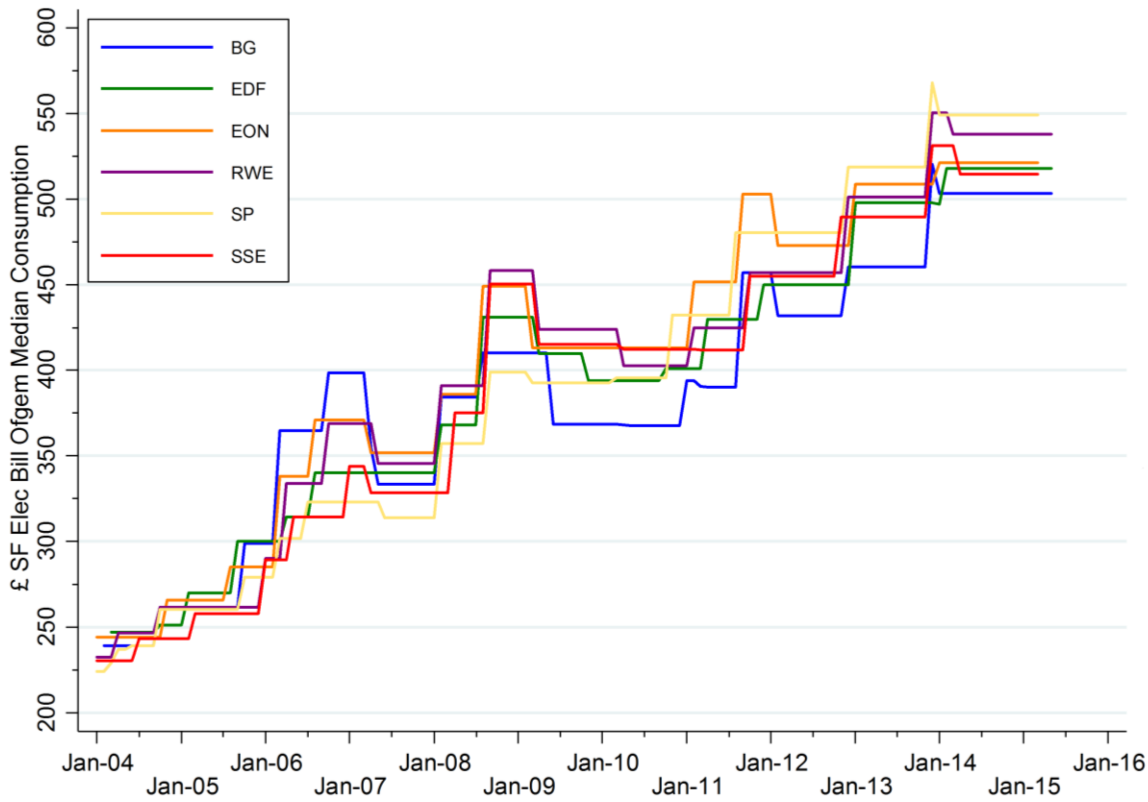
[6] Including StepChange, Debt Advice Charity, Shelter, MacMillan, Islington Council, Foundations and the Scottish Government

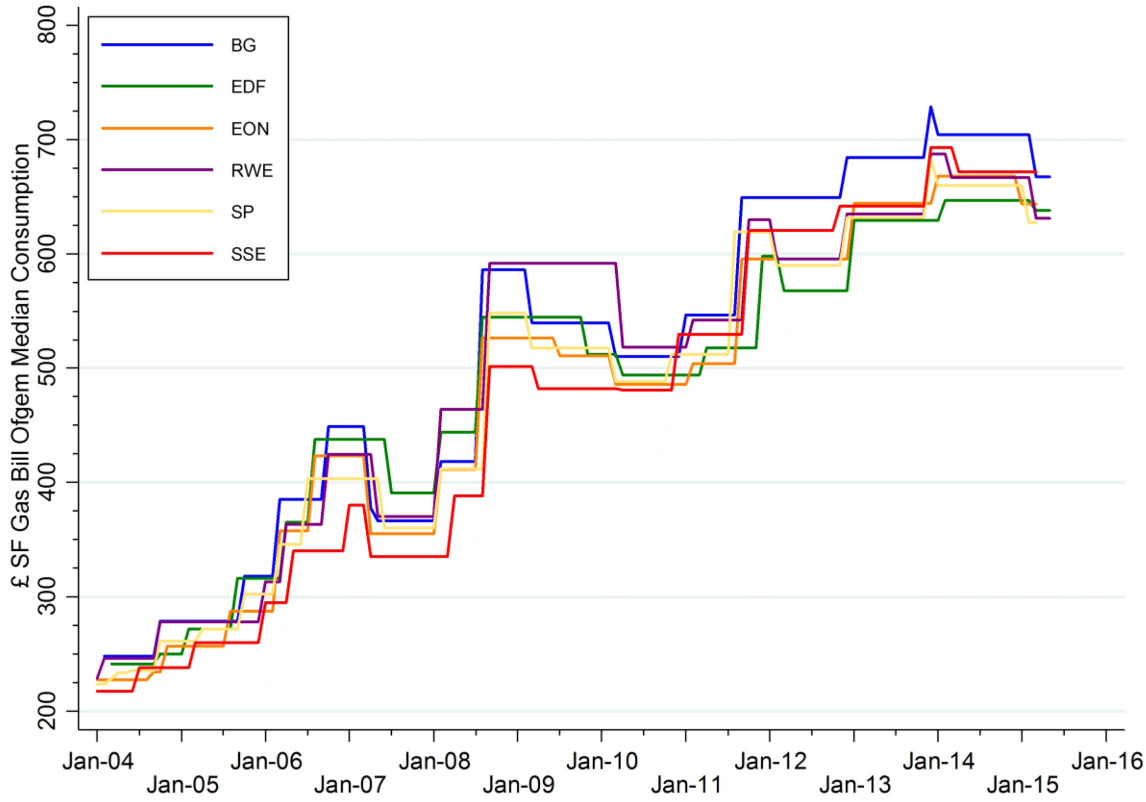
Annex A: Comparison of the Six Large Energy Firms' single fuel standard variable tariffs applying Ofgem's current definition of typical consumption

Figure 1: Standard variable tariff annual bill (for direct debit, single fuel electricity, typical consumption customer (using Ofgem's current definition)



Source: CMA analysis of data provided by the Six Large Energy Firms.

Figure 2: Standard variable tariff annual bill (for direct debit, single fuel electricity, typical consumption customer (using Ofgem's current definition)



Source: CMA analysis of data provided by the Six Large Energy Firms.

Annex B: British Gas

Key findings

1. Centrica told us that it aimed, particularly in recent years, to position British Gas as the most innovative energy supplier doing the most to give customers informed choices and control to reduce their energy bill. On price Centrica said that it positioned British Gas as providing value for money for dual fuel customers. British Gas has aimed to convert its gas-only customers to dual fuel customers through offering a competitively priced electricity product. British Gas also seeks to differentiate itself on other factors such as a dependable service and overall energy costs (by helping customers to better manage their energy usage supported by innovative products and tariffs)

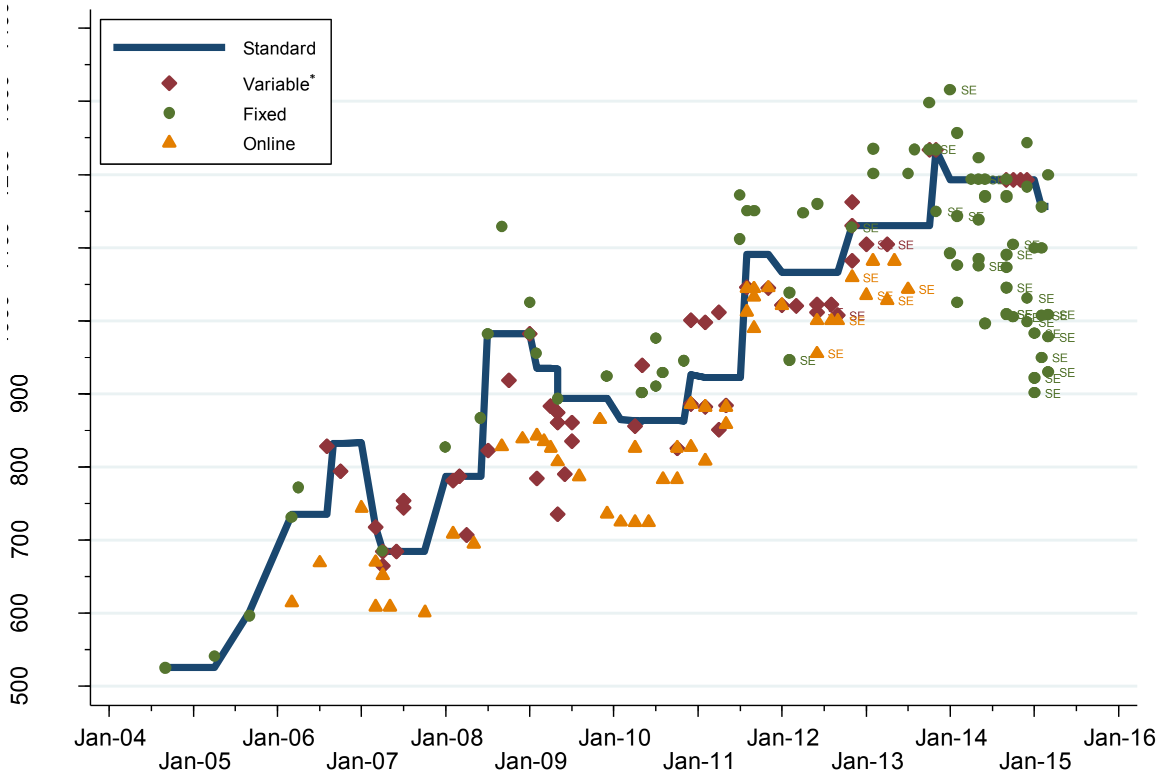
2. As at end 2014 [✄]% of British Gas domestic customers subscribe to its standard variable tariff including Sainsbury's Energy customers.

3. Since Q1 2011 British Gas has also had a white label arrangement with Sainsbury. [✄]. Sainsbury's Energy has become predominantly an online channel. The Sainsbury's Energy standard variable tariff has been consistently priced at the same level as the British Gas standard variable tariff. From mid-2012 to end 2013, Sainsbury's Energy non-standard tariffs were cheaper than those offered under the British Gas brand. As at December 2014 the Sainsbury's Energy tariffs offered larger discounts, at launch, on the prevailing standard variable tariffs than the British Gas tariffs.

4. All British Gas tariffs are available both online and offline to new and existing customers.

5. Figure B1 shows how British Gas and Sainsbury's energy non-SVT tariffs compared, at launch, with the SVT, based on the annual bill for a dual fuel, monthly direct debit, typical consumption (using Ofgem current definition) customer. Centrica said that the online tariffs were tariffs available through online channels that required customers to sign up to online account management and paperless billing.

Figure 1: Comparison of British Gas standard variable tariffs with non-standard tariffs



* Also includes Tracker, Capped & Stepped Tariffs

6. With regard to relative pricing of its standard variable and fixed-term tariffs:

   (a) the results are similar for dual and single fuel tariffs;

   (b) variable non-standard tariffs have typically been priced at a discount to the standard variable tariff;

   (c) in years 2006 to 2011, the cheapest tariffs were typically British Gas online variable tariffs. For the tariffs launched in the years 2006 to 2009 the discounts were between 10 and 18%; and for the tariffs launched in 2010 and 2011 the discounts were between 4 and 17%;

   (d) in 2012 and 2013, the cheapest tariffs were Sainsbury's Energy online variable tariffs, offering discounts to the standard variable tariff of 5 to 8%;

   (e) in 2014 the cheapest tariffs were shorter term (ie one to two years) fixed-rate British Gas and Sainsbury's Energy tariffs offering discounts to the standard variable rate of between 4 and 16%; and

   (f) until end 2013, fixed-rate tariffs were typically priced at a premium to the standard variable tariff at the time of launch.

7. [✂].

8. [✂].

9. [✂].

10. [✂].

11. To be SLC 25A compliant British Gas changed its standard variable tariffs in some regions by up to £20 a year for gas and £40 a year for electricity, for a typical consumption dual fuel direct debit customer. Centrica also said that these reductions were driven by the strategy to offer the cheapest electricity price in every region for average consumers across all payment types.

12. Centrica said that sometimes there had been regional variation in British Gas fixed-rate tariffs not related to costs in order to balance affordability and competitive positioning across regions.

13. In October 2011 British Gas stopped unsolicited doorstep selling.

14. Centrica said that prior to the RMR reforms British Gas had begun to reduce the number of tariffs it offered to reflect increasing demand for simplicity. To be RMR compliant British Gas stopped offering prompt pay discounts, discretionary credits and rebates from end 2013. British Gas said that the four-tariff cap constrained its ability to offer green tariffs and a low standing charge tariff suitable for vulnerable customers or low consumption customers because of a focus on more mass market segments.

15. British Gas's standard variable dual fuel tariff has, over the specified period, sometimes been the most expensive or among the most expensive, sometimes the cheapest, and other times mid-pack.

16. British Gas's fixed-term tariffs are within the range of tariffs offered by other suppliers and some were among the cheapest being offered, at the time, by the Six Large Energy Firms. Sainsbury's Energy's cheapest available tariff was competitively priced to October 2013 and from then among the most expensive until Q2 2014, when it became competitively priced.

17. Centrica said that [✂]. British Gas products are focused on differentiation and innovation (eg Hive and Smart) to provide customers with reassurance (eg Fix and Fall) and control over their energy consumption (eg Fix and Control).

Annex C: EDF Energy

Key findings

18. EDF Energy said that its price positioning had been influenced by its customer commitment to trust and fair value; a desire to grow its customer base in order to achieve better economy of scale in the supply business; and a desire to achieve growth in profitability. As part of its trust agenda, EDF Energy decided end 2011, among other things, to withdraw variable discounted tariffs and termination fees.

19. In 2012 EDF Energy launched its ‘Feel Better Energy’ strategy with the stated objective of building trust by improving simplicity for billing, annual statements, tariffs and discounts; rewarding customers with a thank you; offering a fuel poverty package going over and above obligations and competition; and offering the ‘Blue’ range of tariffs with low carbon electricity.

20. In April 2012 EDF Energy launched the first of a new range of tariffs called ‘Blue + Price Promise’ incorporating a commitment to inform customers if any other tariff (offered by EDF Energy or a competitor) could save them more than £1 a week and with no termination fees.

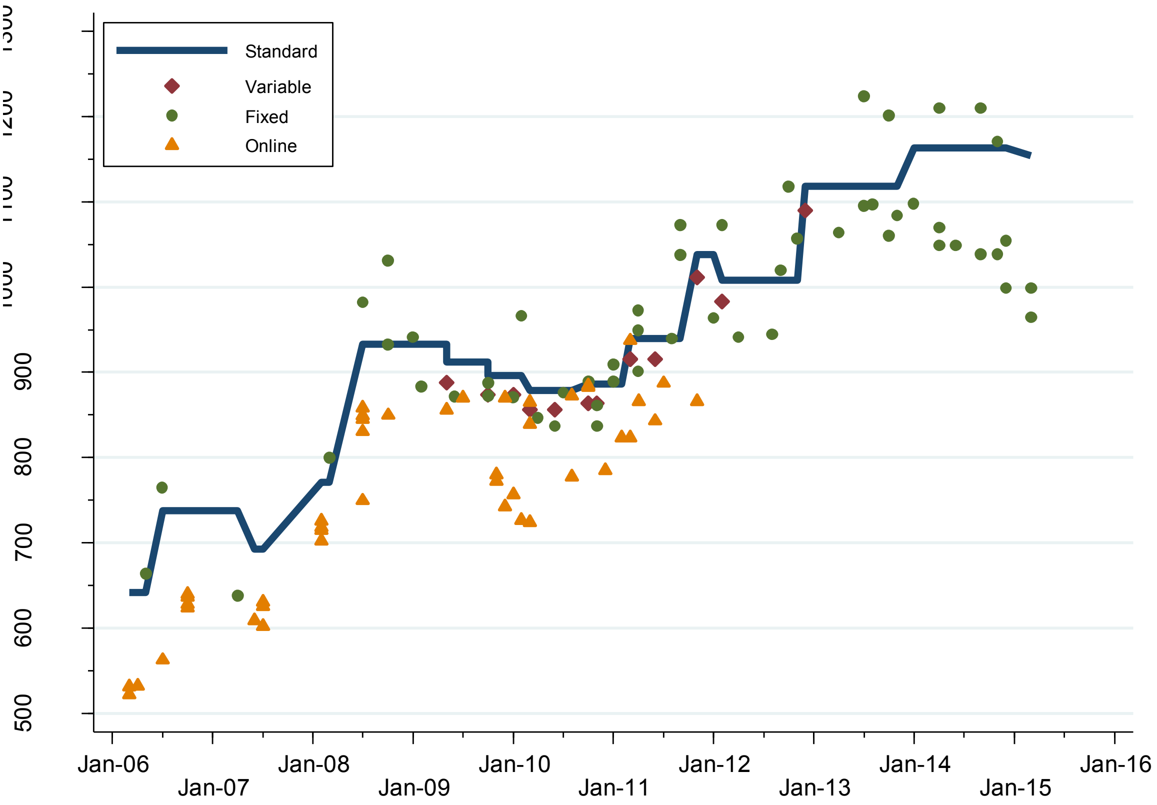
21. Currently (as at 18 January 2015) around [✂] of EDF Energy’s domestic customers ([✂]) subscribe to its standard variable tariff.

22. EDF Energy does not have any white label arrangements (its relationships with Nectar and Sainsbury both ended in 2010).

23. All EDF Energy tariffs are available through all its sales channels to new and existing customers.

24. Figure C1 shows how EDF Energy non-SVT tariffs compared, at launch, with the SVT, based on the annual bill for a dual fuel, monthly direct debit, typical consumption (using Ofgem current definition) customer. EDF Energy said that ‘online’ tariffs were available to all customers and did not require or include a discount for online account management.

Figure 1: Comparison of EDF Energy standard variable tariffs with non-standard tariffs



25. EDF Energy's estimates of the future energy costs it would incur on each of its fixed-term and standard variable tariffs reflect the different hedging strategies that are used for each tariff. However, both energy costs are a weighted average of what has already been bought, based on the actual cost incurred and the current wholesale market cost for the estimate of energy that still needs to be procured for each of the relevant future periods.

26. Until end 2011, the non-standard variable tariffs launched by EDF Energy were largely called online tariffs, but EDF Energy told us that these were available to all customers and did not require or include a discount for online account management. Based on the estimated bill for a dual fuel, monthly direct debit, typical consumption customers these tariffs were EDF Energy's cheapest tariffs with discounts of between 1 and 24%, with the discount declining over the period.

27. Since Q1 2012 EDF Energy's cheapest tariffs have been fixed-rate with discounts, at time of launch, in the range of 3 to 11%. Longer-term tariffs (ie more than two years) have been priced at a premium to the standard variable tariffs.

28. Generally the relative price of single fuel standard variable and fixed-term tariffs have been similar for gas and electricity. However, since Autumn 2014 the electricity single-fuel fixed-term tariffs have been relatively cheaper.

29. Over the specified period EDF Energy has offered direct debit and prompt pay discounts (£124 million in 2013), dual fuel (£16 million in 2013) and discounts for vulnerable customers (£41 million in 2013). For a direct debit typical consumption customer (applying Ofgem's current definition), these dual fuel discount amounted to a reduction in the annual bill in the range of 4 to 6% to 2009 and then 1% to end 2013 of the annual bill.

30. To be SLC 25A compliant, EDF Energy increased its electricity prices for standard meter out-of-area and Economy 7 in-area by on average 2.6%. On the standard variable EDF Energy currently [✂]. EDF Energy's gas prices for the standard variable do not vary by region. On fixed-rate tariffs both electricity and gas regional variations that are not cost related are typically a response to competitor tariff prices or a means of targeting increasing customer numbers in specific regions. [✂].

31. In September 2011 EDF Energy stopped unsolicited doorstop selling.

32. To be RMR compliant, EDF Energy changed its direct debit discount structure, removed its prompt pay and no-mains gas discounts, and removed its premium green tariff and one of its carbon offset tariffs.

33. In 2012 EDF Energy concluded that since the cessation of face-to-face sales, growth had been biased towards aggregators that required heavy discounting to maintain a high ranking in price tables. EDF Energy decided to develop alternative acquisition channels, in particular digital and offline channels, to target higher value, more loyal customers.

34. Since January 2012 EDF Energy has consistently priced its standard variable tariff to be one of the cheapest of the Six Large Energy Firms.

35. EDF Energy has expected the fixed-rate tariffs (with terms of fewer than two years) launched in 2013 to achieve between 4th and 8th positions among the Six Large Energy Firms (including white label brands) and 4th to 10th among all suppliers. EDF Energy said that this was due to the fact that it was offering only fixed-rate tariffs while other suppliers continued to offer non-standard variable rate tariffs with larger initial discounts (because the rates on these tariffs could then be raised later in the fixed term). Under Ofgem's RMR reforms suppliers were prohibited from offering this type of non-standard variable tariff after October 2013. This meant that for tariffs launched since October 2013 EDF Energy's tariffs were better ranked with its tariffs expected to be in the cheapest top three among the Six Large Energy Firms (including white label brands).

36. [✂].

Annex D: E.ON

Key findings

1. E.ON's longer-term strategic objective in the retail market is to become its customers' trusted energy partner. [✂].

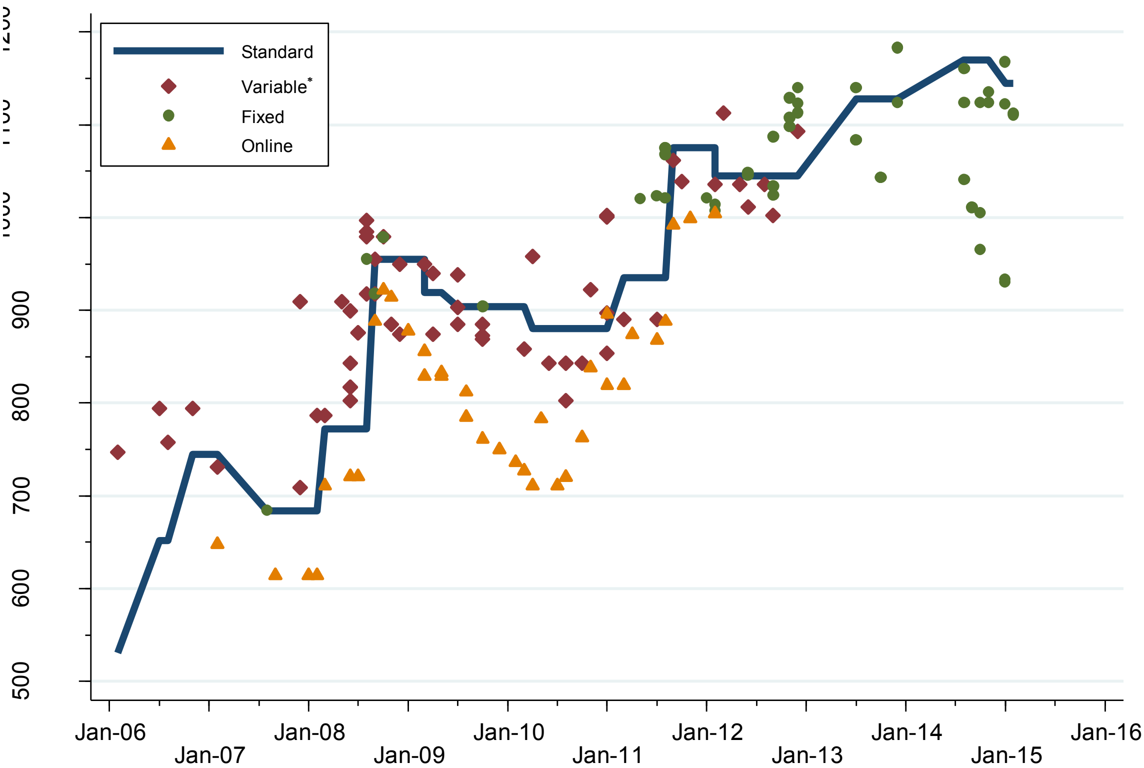
1. E.ON said that it desired to compete and grow on non-price factors such as [✂]. To this extent, and when asked, E.ON said that it viewed its strategic position as being more similar to British Gas and SSE than to some of its other large competitors that appeared to compete solely on price, based on British Gas's and SSE's public statements and actions in the market.

2. Around [✂] of E.ON's domestic customers subscribe to its standard variable tariff.

3. E.ON does not have any white label arrangements but it has a partnership with Age UK and offers tariffs under the Age UK brand.

4. Figure D1 shows how E.ON non-SVT tariffs compared, at launch, with the SVT, based on the annual bill for a dual fuel, monthly direct debit, typical consumption (using Ofgem current definition) customer.

Figure 1: Comparison of E.ON standard variable tariffs with non-standard tariffs



* Also includes Capped Tariffs

5. All E.ON products (with the exception of collective switching that by its nature demands a bespoke single channel product) are available through all sales channels to existing and new customers.

6. [✂].

7. Based on the estimated bill for dual fuel, monthly direct debit customers with current typical consumption[7] :

   (a) from 2006 to March 2012 E.ON's cheapest products were discounted online tariffs offering discounts of up to 20% on the standard variable tariff;

   (a) over the same period E.ON also offered tariffs priced at a premium to the standard variable tariffs typically in the range of 2 to 20%;

   (b) for the remainder of 2012 the cheapest tariffs were fixed-rate or variable-rate tariffs offering discounts, at time of launch, of up to 4% on the standard variable tariff;

   (c) in 2013 E.ON offered one-year fixed-rate tariffs offering discounts, at time of launch, on the standard variable tariff of 0, 4 or 8%, and two-year fixed-rate tariffs at a premium, at time of launch, to the standard variable tariff of 1 or 5%; and

   (d) in 2014 E.ON launched one-year fixed-rate tariffs offering discounts, at time of launch, to the standard variable tariff in the range of 3 to 17%, and two Age UK two-year fixed-rate tariffs (one at the standard variable tariff and one offering a 2% discount).

8. The relative pricing of single fuel fixed-term and standard variable tariffs is similar for electricity and gas, although from mid-2012 E.ON offered few single-fuel fixed-term gas tariffs.

9. Late 2011 E.ON launched its 'Reset' programme with guiding principles of being simple, open and transparently fair to help rebuild customer trust, and moved away from 'deep discounting' in the interests of fairness to its existing customers and commercial concerns relating to the economics of previous 'deep discounts'. Discounts for non-standard variable and fixed-rate tariffs (under the 'Best Deal for You' label) were typically limited to 4% and longer-term fixed-term tariffs offered at up to a 5% premium to standard.

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[7] Based on dual fuel, monthly direct debit customers consuming 3,200 KWh of electricity a year and 13,500 KWh of gas, and the prevailing standard variable tariff (ie not allowing for any announced changes to the standard variable tariff at launch).

10. Recently E.ON has offered promotion fixed-rate tariffs at discounts of up to 19% (at typical consumption levels) in response to the nature of competition in the market, which was leading to a fall in customer numbers. E.ON has in the past adopted a policy of pricing its standard variable tariff 'mid-market' among the Six Large Energy Firms although this is not its current approach to its standard variable tariff, which is recently among the cheapest in the market. It has adopted a hedging position based on attempting to ensure that E.ON does not find itself priced out of the market.

11. E.ON has typically priced to [✂] customers, but it has occasionally launched tariffs for higher usage customers.

12. Over the specified period E.ON has offered payment method and dual fuel discounts; Tesco Clubcard points for customers who sign up online or to eligible tariffs, or to reward loyalty; online and paperless billing discounts; discounts for vulnerable customers; and discounts for taking bundled products. In 2013, Tesco Clubcard rewards cost E.ON £16.2 million and other discounts £262.8 million (excluding winter fuel payment and vouchers used as sales incentives). For a direct debit typical consumption customer (applying Ofgem's current definition), the dual fuel discount amounted to a reduction in the annual bill in the range of 3 to 7% to end 2008 and then 2%.

13. In its 2008 market probe Ofgem found that, since 2003, E.ON had consistently had one of the lowest average percentage differentials between electricity prices in-area and out-of-area for standard credit customers.[8] E.ON said that as at January 2009 the average annual standard variable tariff gross margin (for a typical consumption, credit customer) in-area was £9 higher than out-of-area. E.ON was compliant with SLC 25A having previously announced the introduction of a 'no mains gas' discount to in-area electricity customers in December 2008. E.ON also reduced prices for Economy 7 customers by on average 4.4% in September 2010. E.ON also ensured that tariffs used to drive customer acquisition were priced to achieve a positive NPV and were not loss making at gross margin level in their first year.

14. For non-standard tariffs, discounts relative to the standard variable tariff have varied across regions to support growth in regions where E.ON had not achieved much market penetration. E.ON also said that its competitive price position had always been a factor. Since 2012, where there has been regional variation, discounts have tended to be higher in-area.

[8] See Ofgem *Energy supply probe – initial findings report* dated 6 October 2008, p81, Figure 7.4.

15. E.ON stopped doorstep selling in July 2012 (it was the last of the Six Large Energy Firms do so).

16. E.ON said that RMR reinforced its overall pricing philosophy. In particular, the prohibition of discounted variable rate, fixed-term tariffs would increase the risk to suppliers of recruiting new customers through promotional priced fixed-term tariffs that would now be fixed rate, thereby potentially changing the use of this practice; and RMR communication measures were expected to lead to increased levels of customer engagement – specifically, greater levels of internal tariff switching to cheapest deals.

17. E.ON said that since 2012 it has adopted a competitive standard variable position when compared to other major suppliers, and offered relatively modest discounts on promotionally priced non-standard tariffs. This model was felt to be fairest to customers and to be in accordance with the broader strategy of the business. In particular E.ON had previously adopted a policy of pricing its standard variable tariff 'mid-market' amongst the six large energy firms. .

18. Up to end 2011 E.ON offered tariffs that were among the cheapest in the market. It then [✂] when it again offered competitively priced tariffs. In October 2014 E.ON launched a fixed-rate tariffs at discounts of up to 19% (at typical consumption levels) in response to conditions in the market that were leading to lower customer numbers.

Annex E: RWE

Key findings

1. RWE's vision is to become the most trusted and high-performing provider of energy solutions to customers and to be known as the company that, among other things, provides energy at a fair price but with exceptional service; is trusted to have honest conversations; and provides information and tariffs in a clear and simple manner, enabling customers to capture greater control of their energy usage.

2. RWE has aimed to acquire new dual fuel customers and cross-sell the second fuel to existing single fuel customers to maximise value and aid retention. RWE also said that it had identified a demand for predictability and certainty and so had offered the longest fixed-rate deal in the market.

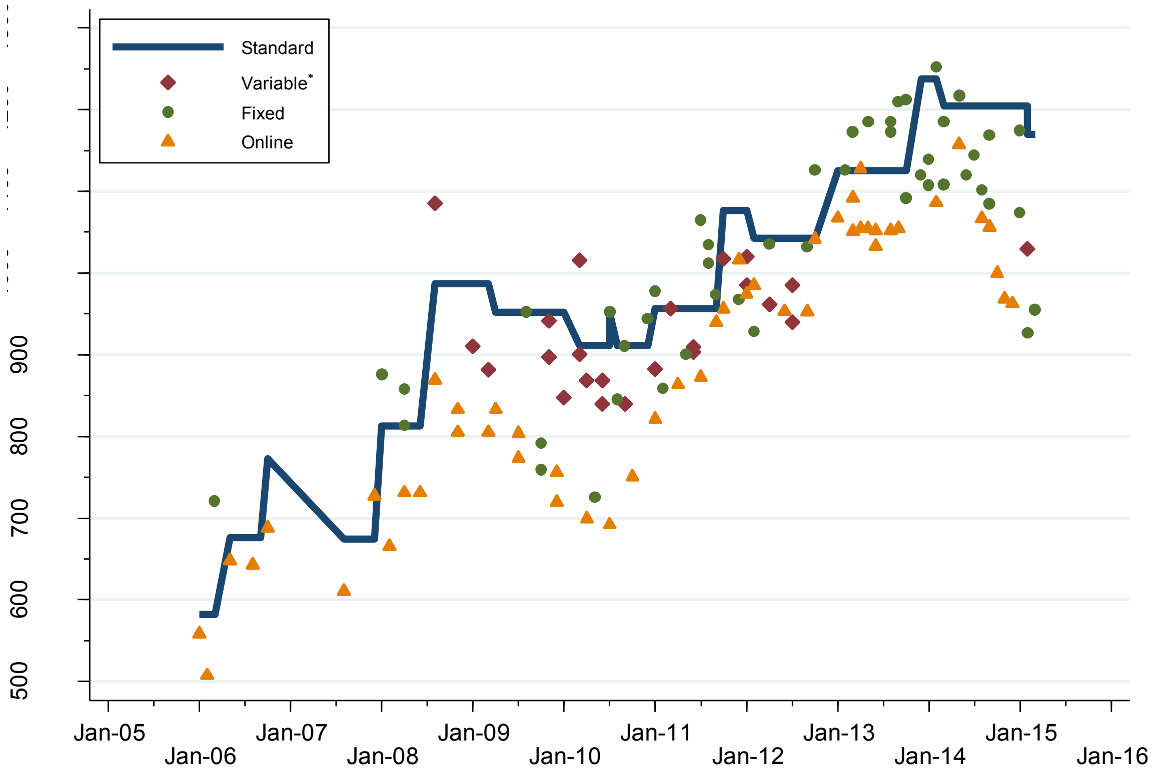
3. The proportion of RWE's domestic accounts subscribing to its standard variable tariff in 2014 was around [✂].

4. RWE does not have any white label arrangements.

5. All of RWE's four core tariffs are available through all sales channels to new and existing customers.

6. Figure E1 shows how RWE non-SVT tariffs compared, at launch, with the SVT, based on the annual bill for a dual fuel, monthly direct debit, typical consumption (using Ofgem current definition) customer. RWE said that online tariffs customers predominately manage their account online, and that prior to 2008 online tariffs were available online only and from 2008 available through all channels.

Figure E.1: Comparison of RWE standard variable tariffs with non-standard tariffs



* Also includes Capped Tariffs

7. Critical to RWE's pricing approach is a [✂].

8. The majority of RWE's non-standard tariffs were until March 2013 online variable rate tariffs that required customers to manage their account online, and since then fixed-rate online and offline tariffs.[9] Throughout the specified period RWE's cheapest tariffs were online tariffs with discounts: from 2008 to early 2011 in the range of 10 to 24%; from mid-2011 to end 2013 of generally less than 10%; and in 2014 in the range of 4 to 20%. Fixed-rate tariffs have been offered at both a discount and premium to the standard variable tariff.

9. [✂].

10. RWE has observed that since early 2012 a greater proportion of customers are choosing to move to another fixed-term tariff at term end, rather than moving to standard.

11. In pricing fixed-term tariffs, RWE currently assumes the following:

(a) [✂].

[9] RWE defined online products as those which required customers to manage their account online. From 2008, the products themselves were available to customers engaging with RWE through all sales channels.

(b) [✂].

12. RWE has offered direct debit and dual fuel discounts ([✂] in 2013); one-off sales discounts ([✂] in 2013); online discounts ([✂] in 2013); price guaranteed deal discounts ([✂] in 2013); 'bill saver' discounts ([✂] in 2013); and 'warm home' discounts ([✂] in 2013). For a direct debit typical consumption customer (applying Ofgem's current definition), the dual fuel discount amounted to a reduction in the annual bill in the range of [✂] to March 2010 and then [✂] to end 2013.

13. RWE's acquisition and retention strategies have included competitively priced online tariffs available through PCWs and RWE's website; one-off discounts and rebates; launching competitively priced tariffs when an RWE or a rival's tariff is coming to term; and proactive sales to aid retention and regain customers.

14. From 2011 RWE used online tariffs[10] to target [✂]. These were, and still are, the most competitively priced RWE tariffs. RWE has attempted to maintain a top ten table position on PCWs throughout the specified period.[11]

15. [✂].

16. RWE said that post-liberalisation gains were initially from out-of-area with discounting to attract new customers and from in-area by cross-selling gas to existing electricity customers. Over time, the proportion of in-area consumers who were RWE customers decreased and the proportion of out-of-area consumers who were RWE customers increased. As a result, over the relevant period, RWE was competing to win new customers both in-area and out-of-area. The combination of SLC 25A and RWE's sales strategy has resulted in margin convergence across the regions.

17. RWE's doorstep selling activity ceased on 30 November 2011 followed by the closure of its events sale operation in June 2012.

18. To be RMR compliant, RWE withdrew one of its fixed-rate tariffs from sale in order to sell its Nest bundle (Intelligent Control); removed from sale its green energy Juice tariff; did not develop a white label offering; stopped offering bonus payments made after a period of time and bundled deals; removed its dual fuel discounts; and changed the structure of its standard variable tariff from a two-tier structure to a standing charge and unit rate tariff.

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[10] These online tariffs require customers to manage their account online but are available through all sales channels

[11] 2008-July 2014 non-standard products' shows the broker table price position of tariffs

19. The position of RWE's standard variable tariff varied over the period. In particular, for the years 2006 to 2011 the RWE standard variable price was among the most expensive; in 2012 and 2013 it was more competitively priced; and in 2014 it was again among the most expensive.

20. However, RWE said that historically notional consumption was higher and that npower had a high a relatively high gas standing charge. An analysis based on current notional consumption would therefore make RWE tariffs look less competitive than would have been the case.

21. Comparison of RWE's fixed-term tariffs with other tariffs offered by the Six Large Energy Firms shows that over the period RWE offered tariffs that were amongst the cheapest in the market.

Annex F: Scottish Power

Key findings

1. Scottish Power said that in recent years its strategic focus has shifted to delivering products and services that make it easier for its customers to deal with them and to take control of their energy needs, and which continue to offer a value proposition.

2. Scottish Power said that it had set its standard variable tariff to be in line with the market [✂], supported by more competitively priced tariffs [✂]. Nevertheless, standard sales in recent years made up a reasonable proportion of Scottish Power's customer acquisitions.

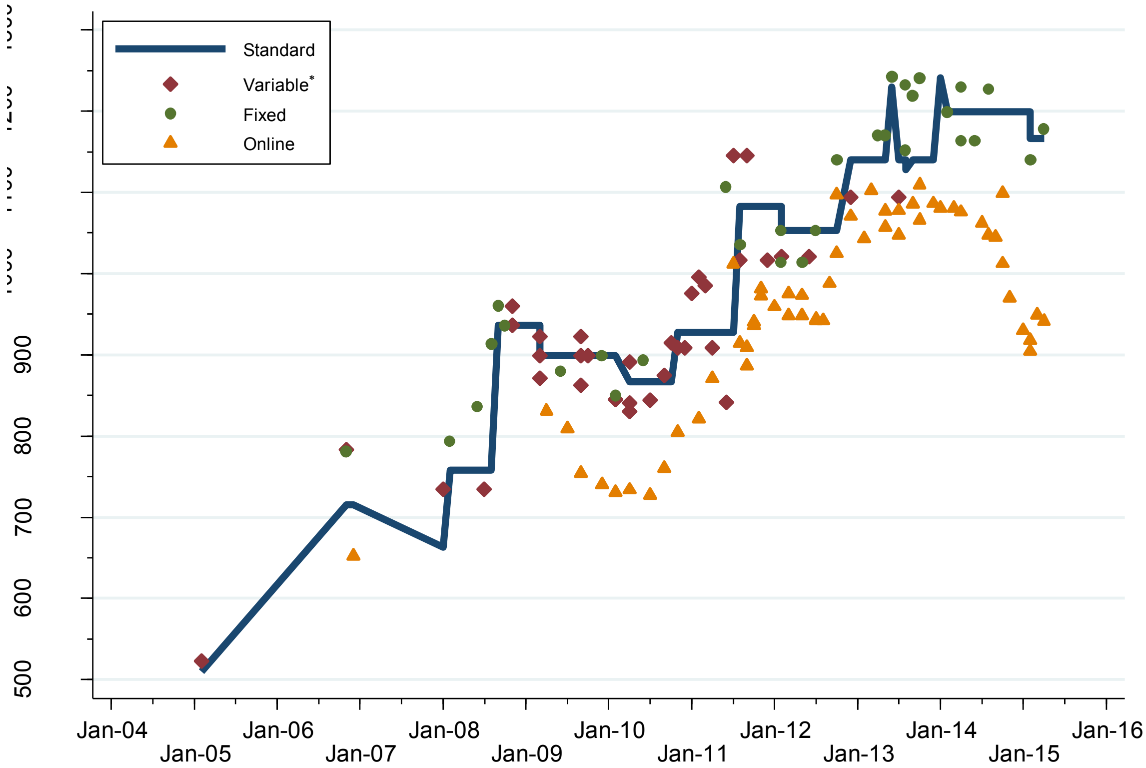
3. The number of customers on its standard variable tariff was [✂] at the end of 2014.

4. Scottish Power has a partnership arrangement with Cancer Research UK and offers tariffs that include a contribution to Cancer Research UK.

5. Scottish Power is currently offering an online tariff (ie tariffs that require customers to manage their account online) that is available through all its sales channels. All Scottish Power tariffs are available to new and existing customers.

6. Figure F1 shows how Scottish Power non-SVT tariffs compared, at launch, with the SVT, based on the annual bill for a dual fuel, monthly direct debit, typical consumption (using Ofgem current definition) customer.

Figure 1: Comparison of Scottish Power standard variable tariffs with non-standard tariffs



* Also includes Tracker and Capped Tariffs

7. [✂].

8. Scottish Power currently expects around [✂] the customers on fixed-term tariffs at maturity to move to the standard tariffs and the balance to either move to a new Scottish Power tariff or to switch to another supplier.

9. Throughout the period Scottish Power's cheapest tariffs were online tariffs (typically variable rate until March 2013 and then fixed-rate). From 2006 to 2010 these discounts were in the range of 8 to 19%; in 2011, 6 to 18%; in 2012, 6 to 11%; in 2013, 3 to 8%; and in 2014 10 to 13%. Fixed-rate tariffs have been offered at both a discount and premium to the standard variable tariff.

10. The relative pricing of single fuel standard variable and fixed-term tariffs is similar for gas and electricity.

11. Scottish Power has offered dual fuel discounts ([✂] in 2013); online discounts ([✂] in 2013); and prompt pay discounts ([✂] in 2013). It said that the online and dual fuel discounts were set to support its competitive positioning in the market and therefore not directly cost related. For a direct debit typical consumption customer (applying Ofgem's current definition), the dual fuel discount amounted to a reduction in the annual bill in the range of 1 to 2% over the specified period.

12. Scottish Power said that its acquisition activity had been focused on *(a)* ensuring that it had a competitive range of fixed-term offerings, and *(b)* being innovative and getting tariffs to market quickly. It said that it was important to maintain a competitive price position in the online tariff market for both customer acquisition and retention purposes. For its online tariffs, Scottish Power has [✂] in order to increase market share.

13. Scottish Power has designed its online tariffs to ensure that they rank competitively [✂]. It has run campaigns targeted [✂] customers for acquisition, up-sell and retention purposes. [✂]. It will immediately target those customers who choose to leave Scottish Power with [✂] opportunities to encourage them to return.

14. To be SLC 25A compliant, Scottish Power increased its out-of-area electricity prices relative to its in-area prices by around 4.6%. It said that its online fixed-term tariffs and, sometimes, its offline fixed-term tariffs had been priced more aggressively in certain regions in order to increase market share.

15. Scottish Power ended doorstep selling in late 2011. It said that the result was a marked reduction in the level of switching including switching onto its standard tariffs. Sales onto the standard tariff have dropped [✂] since doorstep selling stopped.

16. To be RMR compliant, Scottish Power stopped offering Online Energy Saver 22 (a discounted variable tariff), Simply Green (a premium green tariff) and Platinum Fixed Energy (a tariff bundled with boiler care).

17. Scottish Power also removed two-tier tariffs that benefited very low-consuming customers. With many suppliers not targeting one of their four available tariffs at such customers, Ofgem is considering derogations to assist vulnerable consumers.

18. Over the Specified Period Scottish Power's positioning of its standard variable tariffs has changed, but since mid-2011 it has been amongst the most expensive of the Six Large Energy Firms.

19. At key points between 2010 and 2012 Scottish Power adopted a more competitive position in pricing its fixed-term tariffs (relative to the positioning of its standard variable tariffs), but in 2013 the ranking of its tariffs declined due, in part, to the entry of smaller suppliers. From the start of 2014 Scottish Power has aimed to have competitively priced fixed-rate tariffs.

20. Scottish Power's current strategy (as at end 2014) is [✂]. It continues to see a need to have a well-placed tariff offering in the online market.

Annex G: SSE

Key findings

1. In 2013 SSE set out its vision to be a digital and diversified market-leading retailer of energy and essential services (including boiler maintenance, telecoms and broadband services), and to achieve this by being ‘bolder, broader and smarter’.

2. In particular, SSE aims to offer all its customers class-leading levels of service at a competitive tariff by offering product choice; providing greater price stability; entering into white label partnerships; offering value for money through class-leading service and reward programmes; and maintaining a simple tariff structure and a range of payment options while retaining cost reflectivity.[12]

3. In October 2011 SSE said that it took the commercial decision to simplify tariffs as part of its building trust campaign. In February 2012 SSE reduced the number of live tariff offers from 68 to just 4 tariffs (two fixed rate, one fixed discount tracker and its standard variable tariff).

4. In May 2014 around [✄] of SSE’s domestic customers and [✄] of M&S Energy customers were on the standard variable tariff. SSE said that at the end of the term for fixed-rate tariffs about [✄] of customers defaulted to the standard variable tariffs.

5. SSE currently has white label arrangements with M&S and Ebico.

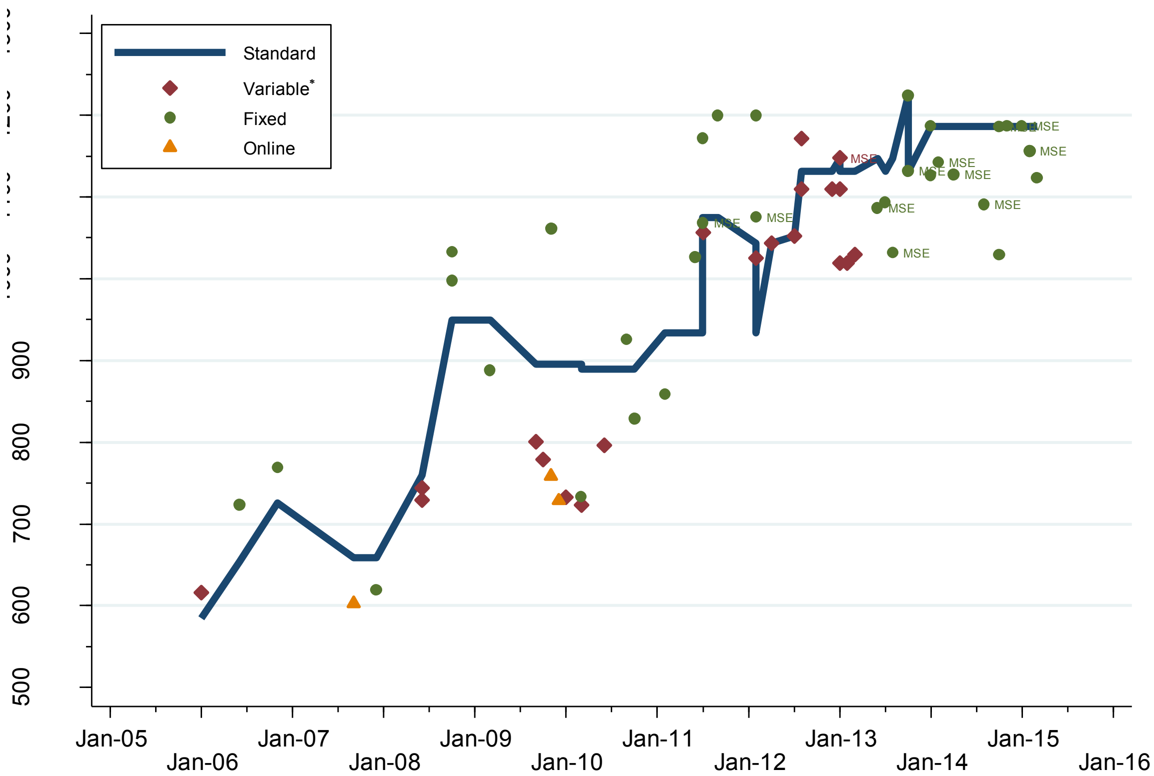
6. Currently all SSE’s tariffs are available to all its customers with the exception of fixed-rate offers which, for technical reasons, cannot be offered to prepayment customers.

7. Over the specified period SSE did not launch many online-only tariffs.

8. Figure G1 shows how SSE non-SVT tariffs compared, at launch, with the SVT, based on the annual bill for a dual fuel, monthly direct debit, typical consumption (using Ofgem current definition) customer.

[12] SSE said that some of the new entrants did not currently offer prepayment as a payment option. SSE customers who do not have access to a bank or building society account may pay by a range of cash methods.

Figure 1: Comparison of SSE standard variable tariffs with non-standard tariffs



* Also includes Capped Tariffs

9. From September 2009 to June 2010 SSE launched nine tariffs offering discounts in the range of 10 to 19%, and then from January 2013 to November 2014 it launched 11 discounted tariffs (several under the M&S brand) offering discounts in the range of 3 to 13%. Outside these periods it has been less active both in terms of the number of tariffs launched and the size of the discounts offered.

10. Generally, the relative pricing of standard variable and fixed-term tariffs has been similar for gas and electricity tariffs

11. [✂].

12. While the evidence is evolving and the results are mixed, SSE has found that at the end of the term for fixed-rate tariffs about [✂]% of customers default to the standard variable tariffs. However, for modelling purposes, to compete with the cheapest in the marketplace, SSE currently assumes that [✂]% of customers will leave before maturity; and in the year following the end of the fixed-term, [✂]% of the residual customers will switch to another supplier, [✂]% will stay on SSE's standard tariff and [✂]% will switch to another fixed-term tariff.

13. SSE currently offers monthly direct debit and paperless billing (£[✂] in 2014 including staff discounts); prompt pay discounts (£[✂] in 2014); vouchers and credits to support retention and acquisition (£[✂] in 2014 including M&S energy sales). Over the period May 2006 to March 2010 customers who signed up for single fuel gas went on a higher priced tariff for their gas (c. +3% compared to standard gas unit rate).

14. One of SSE's current objectives is identifying, targeting, acquiring and retaining high-value (ie high-usage) customers. Customers acquired through PCWs and on fixed-rate tariffs tend to have higher than average consumption so the standing charge and unit rates are set to be more attractive to them.

15. SSE told us that for a tariff that delivers a top five price position through PCWs, it would expect [✂]% of sales to be incremental (either a new gain or an avoided loss) and that [✂]% of sales were from existing SSE customers.

16. SSE told us that adjustments it made to be SLC 25A compliant were an accelerated continuation of its existing policy to ensure cost reflectivity and minimise regional differentials. In January 2006 the difference between the in-area average gross margin and the out-of-area average gross margin based on a typical consumption customer taking both fuels from SSE was £23. In April 2007 this was £13 and April 2008 –£7.

17. SSE stopped doorstep selling in June 2011 although face-to-face sales through its M&S brand continued until April 2013.

18. SSE told us that it had expressed concern that the four-tariff rule limited the ability of suppliers to innovate and provide products that customers wanted, eg not being able to offer a prompt payment discount or discounted variable fixed-term tariffs that were very popular with customers.

19. SSE's standard variable tariff was priced from 2006 to 2009 to be one of the cheapest standard variable tariffs and from 2009 to 2014 it had generally held a mid-market position.

20. [✂].

21. Over the period 2013 to 2014 it appears that SSE's non-standard tariffs (based on dual fuel, direct debit, typical consumption customers) were either among the least competitive or the most competitive of the Six Large Energy Firms and even cheaper than those of First Utility, Ovo Energy and Co-operative Energy.

22. [✂].

23. SSE said that from 2006 to 2009, it was one of the cheapest suppliers due to a combination of market conditions and [✂]. However, since then, rivals have enjoyed a number of cost advantages and have been able to offer cheaper tariffs. SSE said that it repositioned itself to differentiate itself from other suppliers by reference to its policy of fairness to all customers to build trust.

24. The position of SSE's standard variable tariff compared with the Six Large Energy Firms has varied over the period. From 2006 to 2009, it was amongst the cheapest supplier. From 2009 to 2014 it has generally had a mid-market position.

25. SSE's fixed-term tariffs over the Specified Period have only for limited periods been amongst the cheapest in the market.