

Centrica Response to Supplemental Notice of Possible Remedies

1. In the event that the CMA's Provisional Findings of weak customer response and unilateral market power are upheld, we believe that proposals for encouraging engagement by prohibiting the use of evergreen tariffs (without imposing a regulated safeguard tariff cap) would be an effective and proportionate remedy.
2. We believe these proposals would directly address the issue the CMA has provisionally identified by removing evergreen products from the domestic market. We also believe it would avoid the material distortions to competition associated with the so-called Safeguard Tariff, which we believe to be both ineffective (as it would reduce rather than increase engagement) and disproportionate (because we believe there is a better alternative with significantly fewer unintended consequences).
3. Our responses to each of the CMA's consultation questions are set out below. However, we highlight a number of important points by way of context:
 - **These proposals should be considered as alternatives to Remedy 11.** Remedy 11 already involves the banning of evergreen tariffs; our proposal sets out an alternative way in which this should be designed and implemented. Remedy 11 was proposed by the CMA as a way of protecting those customers who it considers to be "disengaged". We believe that our proposal directly addresses this issue and strengthens customer response. In contrast we consider that if the regulated safeguard tariff cap proposed under Remedy 11 were to be combined with these proposals then it would *weaken* customer response (exacerbating the issue the CMA has identified). This is because, as stated in our proposal, the existence of a safeguard regulated tariff cap would create a "safe haven" effect, reducing the incentive for customers to seek better propositions and deals (or engage at all) in the competitive marketplace.
 - **These proposals will be most effective if introduced at the same time as restrictions on tariffs, bundled propositions and customer communications are removed.** It will be important to remove the "simpler" tariff restrictions and "clearer" constraints on customer communications introduced by Ofgem following the Retail Market Review if the impact of ending of evergreen contracts is to be maximised. Such prescriptive regulation has resulted in the unintended consequences of restricting customer choice and supplier innovation, contributing to the CMA's provisional findings of weak customer response and the existence of barriers to accessing and assessing information. We therefore believe that the CMA should replace these regulations with a principle-based approach in order that that the ability to engage customers effectively (such as through the design of products, bundles and communications), becomes a point of competitive differentiation. We believe it is the inter-relationship between the removal of these prescriptive rules and the ending of evergreen contracts that will prompt the step-change in customer engagement the CMA is seeking in a dynamic and evolving, smart-enabled market.

- **Unless designed and implemented appropriately, the proposal to prohibit evergreen tariffs could lead to material unintended and negative consequences.** For example:
 - **A phased notification of the end of evergreen over two years is essential** to allow time for the industry to develop the capacity and capability to handle an FTC only market whilst maintaining service levels such that the switching experience of SVT customers does not lead to disengagement. It is also essential to enable the inter-relationship between the ending of evergreen and the CMA's other remedies to take full effect.
 - **A variable price default tariff should be allowed to avoid unnecessarily high prices and customer mistrust.** Unlike the Scottish Power proposal, we believe it is essential that the default tariff is not restricted to being fixed. This will ensure that commodity price risk can be managed efficiently, mitigating the impact on the price level of the default tariff. Fixed default tariffs may also create customer confusion and comparability issues because such an approach would result in a series of different fixed price default tariffs in the market for each supplier. Fixed default tariffs may also preclude certain customers (e.g. with prepayment meters) from benefiting from this remedy¹.

Responses to specific consultation questions:

(a) Would this remedy be effective in encouraging customers to engage more frequently in the market? Are there certain groups of customers who could not be covered by this remedy and, therefore, would not benefit, eg those on prepayment, DTS or other meters?

1. To what extent is the higher level of engagement observed in response to end of fixed-term contract notifications the result of the type of customer who has chosen those products, rather than a response to the notification itself?

4. We believe that this remedy will be effective in encouraging customers to engage more frequently in the market. Specifically, it would change the market from one in which consumers can avoid interacting (whether deliberately or not) with their energy supplier for an open-ended period to one which is entirely based on fixed term contracts (FTCs), similar to other markets such as insurance.
5. The efficacy of this remedy would be further enhanced by it being phased in just as the CMA's engagement remedies and other market developments were taking effect, such as:
 - The removal of the "simpler" and "clearer" elements of the retail market review in order to drive enhanced differentiation by suppliers and PCWs (an extended remedy 3);
 - The growth in customer engagement prompted by the rollout of smart meters;
 - The removal of actual or perceived barriers to switching and engagement (remedies 4 and 9);

¹ Since prepayment meters could not handle the numerous different default tariffs (until they are replaced with smart pre-payment).

- More effective prompting of customers (remedy 10); and
- The continued growth of independent suppliers, collective switching and PCWs.

In addition, we anticipate that significant competitive activity, advertising and media coverage will accompany the mass roll-off from evergreen contracts.

6. When combined with these other developments, we believe this remedy will create a step change in consumers' attitudes towards energy, such that they see it as a product in which they should (and must) engage on a regular basis in terms of active product choice.
7. As such we anticipate that once SVT customers are encouraged (and ultimately required) to move on to FTCs, many will begin to replicate the switching behaviour of existing FTC customers on an enduring basis (even if these are different 'types' of customer). Today, up to 60%² of FTC customers contact us to discuss their options at roll-off [§].
8. Whilst we acknowledge that the behaviour of FTC customers today is not an exact proxy for how SVT customers would necessarily react to an end of fixed-term notice, we believe it provides a strong indication that this remedy would result in significant levels of engagement from those customers that the CMA has previously suggested to be 'inactive'. This belief is further supported by the following evidence:
 - Our analysis shows that when SVT customers switched to an FTC³, [§] went on to switch to another FTC product or supplier within three months of their contract end date.
 - Ofgem research found that "of the routine communications, we found that end of fixed-term notices were most likely to prompt action: 43% of consumers checked the features of the tariff they were on, 34% looked into switching tariffs with their own supplier, and 24% looked into switching supplier"⁴.
 - Furthermore, Ofgem have found end of fixed-term notices to be the most effective form of communication across all groups that it surveyed including those that it classified as the least engaged (the "unplugged")⁵.
 - In the SME market (in which 92% customers are on FTCs⁶) we find that, having ended auto-renewal, around [§] of customers contact us when they go through a renewal event.
9. We also note the CMA's recently published Provisional Findings into SME banking and personal current accounts comments that "PCAs are 'evergreen' products (ie there is no contract end date), which means that there are few, if any, natural trigger points for customers to consider searching for and switching PCAs."⁷ We believe similar considerations apply to evergreen energy products and that by removing them

² [§].

³ [§].

⁴ www.ofgem.gov.uk/ofgem-publications/96565/rmrsurvey2015reportforpublication-pdf

⁵ <https://www.ofgem.gov.uk/ofgem-publications/89113/ofgemrmbaselinefinalpdf.pdf> - page 41

⁶ https://www.ofgem.gov.uk/sites/default/files/docs/2015/03/non_dom_quant_final_v4_0.pdf. We also note that in this paper Ofgem found that "Receiving a renewal notice from an existing supplier was a significant trigger for switching (47% citing this as a reason)".

⁷ SME banking and Personal current accounts, para 7.32.

from the market, this remedy will create conditions more akin to other FTC-only markets, such as insurance markets, which often have higher switching rates⁸.

10. We recognise that a relatively small proportion of customers may still decide not to actively choose a different energy product even following the implementation of this remedy. However, as we set out in our original proposal, we anticipate these customers will be small in number – potentially as few as 7% of British Gas customers by the end of the implementation, with an additional 11% of customers ‘active’ but temporarily on the default tariff, for example following a home move.
11. Customers who find themselves on the default tariff would be subject to a range of additional prompts, including an end of contract notification if they remained on the product for one year. When combined with the other market developments and remedies set out above, we consider that the very significantly reduced number of remaining ‘inactive’ customers would be entirely consistent with that observed in a well-functioning competitive market.
12. Finally, we do not agree with Scottish Power’s suggestion that some customer groups would need to be exempt from this remedy. Indeed, a significant positive feature of our proposal is that there is no need to exempt any customer groups since each supplier places all of their inactive customers on the same fixed term-variable price default tariff structure.

(b) Would this remedy be effective in protecting those customers who failed to engage in the market, even after receiving prompts, from paying high prices? Would the extension of SLC 7 in the manner proposed by Centrica, provide such protection?

13. As set out in our proposal, we believe that the competitive pressure created by both the ending of evergreen and the other measures the CMA proposes to increase engagement will put strong pressure on suppliers to ensure the default tariff is priced competitively. We therefore do not believe it would be necessary for this condition to be applied.
14. However, in the event the CMA concluded some form of additional and explicit assurance regarding the competitive pricing of the default tariff was necessary as a backstop, we believe an obligation for the pricing of the default contract to adhere to SLC7 would remove any concern that the small number of customers who still did not engage with the market might be charged prices which “significantly exceeded”⁹ the costs of supply or be charged a margin which significantly exceeded that earned on other tariffs.

(c) Should this remedy apply to domestic customers only, or should it also be extended to microbusiness customers?

15. We do not believe this proposal would be a proportionate remedy for the microbusiness market. As we have set out previously, we believe this market exhibits

⁸ A study for Ofcom in 2013 suggested that car insurance switching rates for car insurance were c. 36% compared to c. 12% for energy

⁹ Standard condition 7 of the electricity and gas supply licences: <https://www.ofgem.gov.uk/licences-codes-and-standards/licences/licence-conditions>

fundamentally different dynamics to the domestic market, and is a market that is experiencing a period of major transition. We believe that introducing such measure at this time in the microbusiness market would therefore be at best unnecessary, and at worst create a range of unintended consequences.

16. In particular, we would note that there are relatively few microbusiness customers who remain on variable products (our Out of Contract or Variable Price Plan products) for long periods of time and in our experience the majority of those knowingly remain on them because they prefer the flexibility they afford. That flexibility can, for example, be preferential where tenancy duration at the business premises is uncertain or where circumstances/usage may change in the period ahead and so customers don't want to commit to a fixed term contract. The other microbusiness customer segment on an evergreen product is Deemed customers who are afforded protection under the Deemed licence condition (SLC 7).
17. There is also already a strong incentive on suppliers to agree fixed term contracts with microbusiness customers currently on evergreen, as this provides certainty of cashflow, and mitigates price and volume risk. However, should the CMA ultimately determine that a remedy such as ending evergreen is both necessary and proportionate for microbusiness customers, it is important that design of such a remedy fully reflects important differences between the domestic and non-domestic sectors – not least customer preferences over contract form, a general preference for contracting on a single fuel basis and higher debt risk presented by Deemed customers

(d) The wording of the end of fixed-term notifications appears to be critical to the effective functioning of this remedy. Should Ofgem take responsibility for developing and testing appropriate wording, or should the energy suppliers retain responsibility for this?

1. If suppliers design these prompts, how can they be incentivised to maximise their effectiveness?

18. Suppliers have both the expertise and the incentive to ensure end of contract notifications are designed effectively. They should therefore have flexibility over how to design them in terms of content, format, channels and timing. Notwithstanding this, it would however be appropriate for a limited set of requirements to be set out by either the CMA or Ofgem regarding the FTC notification process, for example the minimum number of prompts that must be sent.
19. We spend a great deal of effort gathering insight in how to design customer communications and would use this capability to ensure that the design of our end of contract notification was as effective as possible at triggering engagement.
20. Furthermore, in our experience different communications are likely to be needed for different customer groups. For example, whilst the cheapest unit rate may be attractive to some customers, other customers may engage more with offers of price certainty, upfront discounts, bundled products or cost saving features such as energy efficiency or time of use tariffs. Only suppliers will be best placed to understand the various needs of their customer base, and respond with tailored end of contract notifications designed to create maximum engagement.

21. We contrast this approach with that which Ofgem has taken in recent years to designing (and mandating) supplier communications such as the bill, the annual statement and price change notification. We believe that such highly prescriptive regulations are a key contributor to the CMA's provisional finding of the existence of barriers to accessing and assessing information. Our experience is that the resulting communications are unappealing, complex, and have hindered innovation and differentiation. We see no reason that this would be any different were Ofgem given responsibility for mandating the content and design of an end of contract notification in future; on this point, we note the CMA's provisional conclusions about the substantial adverse effect on competition brought about by prescriptive regulation in the past (a conclusion with which we agree).¹⁰
22. Suppliers have a strong incentive to ensure that the design of these notifications is as effective as possible in order to engage their customers. It is important to note that not all of those on the default tariff will be the least active, indeed we expect the majority to be customers who are only temporarily on the default, for example whilst they shop around or move home. Customers on a default tariff will therefore be, from a supplier's perspective, amongst those most at risk of switching to a competitor, particularly as they will be subject to additional prompts to consider their options, on a product with no exit fees and targeted by suppliers who will be able to offer more effective and tailored propositions as a result of the other CMA remedies and market developments.
23. Encouraging default tariff customers to switch on to an alternative deal would therefore be as important as targeting the acquisition of default tariff customers of our competitors.
- (e) Should the default tariff be fixed price as well as fixed term, or should suppliers be allowed to roll customers onto a variable price tariff?**
- I. If the default tariff were variable price, should energy suppliers be required to roll all customers who did not take action onto the same tariff, such that in effect there was only a single variable price default tariff per supplier?**
- II. If the default tariff were fixed price, should energy suppliers be required to roll all customers who did not take action within a given period, eg one month, onto the same default tariff? Is there a risk that the existence of multiple default tariffs (eg one for every month) would reduce the pressure on SVT pricing that currently results from media attention on changes to SVTs?**
24. We believe that it would be wrong (and disproportionate) to require default tariffs to be fixed price. There is considerable merit in default tariffs having a single variable price per supplier¹¹, which will apply to all customers who have not actively chosen another product.
25. A variable price would enable suppliers to best manage the commodity requirements for the default tariff, which will be highly variable due to the uncertainty over default customer numbers and tenure - particularly given the regular prompting and lack of exit fees. With a fixed price tariff the pre-purchase of all commodity requirements at

¹⁰ Provisional Findings, para 7.215.

¹¹ A single price for dual fuel, electricity only and gas only, with usual variances for payment method and region

the start of the tariff would not be possible without incurring significant risk, which would ultimately be reflected in higher prices for customers.

26. A fixed price tariff would also require¹² a different default tariff at a new price point at regular intervals e.g. monthly. Not only does this make it more complex and confusing to compare default prices, it could also result in some customers on a default tariff paying a materially higher price than others in the same circumstances, simply because they happened to drop on to it at a time when underlying costs were higher. This disparity would be likely to create confusion and mistrust, potentially harming levels of engagement.
27. Finally, we agree that fixed price default contracts would also risk reducing the price pressure that currently results from the media attention surrounding price changes to SVT products (albeit the number of customers impacted would be considerably less given we expect the vast majority of customers would not be on a default tariff). Changes to the price point of relaunched fixed price, fixed term products do not command the same media attention. Also, crucially, they do not impact existing customers on fixed price products, so they also remove the need to send out a price change notification¹³ - losing a further opportunity for a powerful prompt.
- (f) How should this remedy be implemented in order to ensure it is effective and proportionate?**
- I. How long should energy suppliers be given to phase existing customers off their SVTs?***
 - II. Should the remedy be phased in starting with customers who have been on the SVT longest? Alternatively, should it be organised geographically in order to facilitate marketing by competitors and support from consumer groups in later years? For example, energy suppliers might be required to move all SVT customers in a region to the default tariff in the same month, such that the following year energy suppliers, PCWs and other TPIs would know that a large number of customers in that region might be looking to move in that month.***
 - III. Should energy suppliers be required to provide contact details for all SVT customers or a subset of SVT customers (eg those who have been on the default tariff for several years in a row, eg three or five years) to Ofgem, which could then seek to contact them with further prompts? Alternatively, should suppliers be required to place the contact details of these customers on a shared database, available to all licensed energy suppliers, in order to allow targeted marketing to these customers? We note that GDF has been required to share such information on those of its customers who remain on the regulated tariff in France.***

¹² If there was only one Fixed Price Default Tariff per year then its price would more expensive than other tariffs in the market as not only would the number and tenure of customers on the default be uncertain, but the price would also need to be valid for 2 years (since a customer could start their 1 year fixed term up to 364 days after the tariff was launched). Over this period the underlying costs may have changed dramatically and yet the supplier would not have been able to fully hedge the product due to uncertainty over the volume required, hence a substantial risk premium would be required.

¹³ Standard license condition 23A requires suppliers to notify customers of a price change, but clearly for customers already on a fixed price product this situation would not arise.

1. Duration of implementation

28. It would be important to ensure that the implementation of this remedy is phased over an adequate period in order to minimise the risk of unintended consequences. In particular it is vital that acceptable service levels are maintained so that SVT customers do not have a poor switching experience as this could lead to them becoming less likely to engage in the future. It is equally important to ensure that the ending of evergreen contracts occurs once the CMA's other remedies have started to have effect in order to maximise the effectiveness of the engagement opportunity. This will be key to the effectiveness of the CMA's remedy proposals.¹⁴
29. We propose that, after a pre-implementation period of at least 6 months¹⁵, SVT customers are notified over a two year period that their SVT contract will end 12 months later and a recommendation that they switch product. Any customers who do not switch off the SVT, despite prompting, would then receive an end of contract notice around 12 months later.
30. Once the implementation is complete and every customer in the market is on an FTC (whether one that they have chosen or a 1 year default contract), the industry will need to cope with an increase in customer contact and (internal and external) switching. Our initial estimates, based on broad assumptions, indicate that the cost to the industry of the additional contact (alone) would be between £85m and £115m per annum in order to maintain current service levels (in addition to set up costs of £25m to £35m). There are likely to be additional costs associated with the resourcing and system changes required to cope with the higher internal and external switching rates.
31. [REDACTED]
32. We note that Scottish Power has proposed a shorter implementation period of 6 month preparation, followed by 1 year notification period (with termination over a further year). We believe that this rollout timetable would be unfeasibly fast as 1/12th of all SVT customers would receive their initial notification in the first month of implementation. This means that suppliers would need to be already operating at the new, maximum level of capacity that will be required in an FTC only market, having had just 6 months to prepare.
33. [REDACTED] Furthermore, with all of the industry ramping up at the same time there will be a significant demand for resources which will push costs up and / or quality of recruits down. This would likely result in current SVT customers enduring a poor customer experience that would discourage them from switching in the future. This unintended consequence would result in the remedy having the opposite effect to that which is intended by reducing customer engagement.
34. In contrast we believe that our proposal is more feasible and proportionate. Whilst implementation would still begin after 6 months, full contact centre capacity would not

¹⁴ We note the CMA's guidance suggests that it "will tend to favour remedies that have a higher likelihood of achieving their intended effect" and also that it "will consider the way in which the measures are expected to interact with each other". Section 4 of the CMA's "Market Studies and Market Investigations: Supplemental guidance on the CMA's approach", Sept 2015.

¹⁵ This period is necessary for suppliers to develop the products, processes, communications, training and system changes required to operate effectively in an FTC only market, particularly in light of the other possible remedies such as the removal of the 4 tariff cap.

be required for at least a further 12 months (at which point a maximum of 1/12th of current SVT customers would receive a prompt – either an initial notification of the end of the contract or an end of contract notification). We believe our approach would improve the effectiveness of the remedy and reduce the risk of unintended consequences.

35. Furthermore, one significant advantage of this remedy is how it would interact with the other remedies the CMA is proposing to use to boost engagement. By phasing over a longer period of time, SVT customers will be making their first decision about which product to choose in a market with a greater range of engaging products and more effective prompts. This would maximise the number of customers actively choosing a product, limiting the number that fall on to the default tariff.
36. Finally we would note that any implementation approach that involved contacting all SVT customers at once (such as a mass notification of the end of evergreen, whether or not the actual termination of contracts was phased) would be extremely costly. As we noted in our submission, if up to 60% of SVT customers contacted us over 3 months this would require us (and presumably many other suppliers) to double our contact centre capacity (or see service levels plummet to unacceptable levels) at a vast expense (£500 to £700m) to the industry and, ultimately, customers. This would also be a recurring cost as many of these customers would then switch during this same short period each year, which would be highly inefficient.

II. Approach to customer phasing

37. We support ordering the phasing by length of tenure. Whilst we recognise a regional approach may allow a more co-ordinated marketing effort to accompany the roll out, we are also aware that SVT customers are not evenly spread across the country for all suppliers. A regional phasing would therefore result in certain suppliers facing extreme peaks and troughs in customer contact that would be extremely costly and liable to cause disengaging levels of customer service. The relative impact on smaller regional suppliers could be even more material.
38. A rollout phased by tenure would avoid these issues, and have the additional benefit of ensuring that the least active consumers could be prioritised.

III. Third party access to customer data

39. We do not believe that providing third parties access to suppliers' customer details would be proportionate, particularly given the risk of significant unintended consequences as a result of customers receiving unwanted or excessive communications.
40. Our recent, small scale survey suggests that 46% of customers would prefer to be contacted by their supplier, 32% by Ofgem, 14% by third parties and 2% by other suppliers. As such, the vast majority of customers would prefer not to receive prompts from other suppliers and TPIs, so to force them all to do so would be highly contentious and could lead to distrust and disengagement.
41. We would be particularly concerned if customer data was provided to multiple parties (even with the required customer consent) due to the potential for simultaneous contacts from over 40 entities (e.g. 29 suppliers, 12 accredited PCWs and other

parties) as this is also highly likely to damage trust and engagement (and result in more customers opt-outing of all communications, even from their own supplier).

42. As we noted in our original response to the Notice of Possible Remedies, if the CMA were to continue to believe such an intervention is necessary and proportionate, then one option to consider would be to allow Ofgem to send an annual prompt (with customer consent, either directly or via suppliers) to customers who have been on the Default Tariff for over a year to express concern and encourage switching. It would not be appropriate within the first year as it is reasonable to expect there to be a number of customers who are temporarily on the Default Tariff (e.g. whilst they find time to shop around or during a home move) and therefore they (and their suppliers) should be given more time to engage. The CMA would need to consider how this might be funded and how it could be delivered cost effectively, including the cost of obtaining and managing customer consent.

(g) What should the default tariff be called? Should it be the ‘emergency’ tariff to further prompt engagement or would some other wording be more appropriate? Is there a risk that certain customers will be concerned that their energy supply will be cut off if they do not engage following an end of contract prompt?

I. How should the CMA assess the costs of such potential distress to customers?

II. Are there means by which this distress could be avoided or mitigated?

43. It is important that the name of the tariff does not imply that it is either a safe haven for consumers (which could be detrimental to engagement), or that the customer will be disconnected once the product comes to an end (which could cause distress and / or damage trust). Whilst we have used the term “default tariff”, we recommend that customer testing / trialling is undertaken in conjunction with suppliers to determine the most appropriate name.

(h) Should Ofgem monitor the proportion of customers on default tariffs, their average tenure and/or the pricing of default tariffs (eg with a view to publishing summary information)?

44. As noted in our proposal, the CMA could consider introducing measures to require suppliers to submit data to Ofgem on the pricing of their default tariff, and the tenure of customers on this tariff as part of an expanded form of regulatory reporting.

45. However we do not believe this will be necessary as suppliers will be under strong pressure to engage their customers and to ensure prices are set competitively. This pressure will be created by the combination of ending evergreen, and other CMA measures to increase customer engagement.

(i) Should all energy suppliers be subject to the prohibition on evergreen tariffs?

46. It is essential that all suppliers are subject to the prohibition on evergreen tariffs. Applying the remedy to only part of the energy supply market (for example, just to the largest suppliers) would damage the effectiveness of the remedy, given the objective is to change the way consumers engage with the market as a whole.

47. Furthermore, market rules should be non-discriminatory so that all consumers have the same protections and competitive choices. Limiting this remedy to only the largest

suppliers may create a material distortion to competition. This is because any customers who actively wanted to choose an evergreen tariff would be required to contract with a smaller supplier, limiting competition for those customers and creating customer confusion and mistrust due to the lack of consistent customer proposition across the industry. To the extent any such consumers are recipients of the Warm Home Discount, this may create further distortion – given the majority of smaller suppliers are exempt from offering this payment.

(j) *Would any energy suppliers have the ability to circumvent the remedy? If so, how could they do this?*

48. We see no obvious way in which the remedy could be circumvented, so long as the remedy is applied to all energy suppliers.

(k) *Could this remedy give rise to unintended consequences and, if so, what these might be and how they might be prevented or mitigated?*

49. Only if the proposal is designed and implemented appropriately will unintended consequences be avoided. Most importantly:

- **the proposal must have a phased implementation**, with customers being notified of the end of their evergreen tariff over years 1 to 2 with termination in years 2 to 3 (starting with those who have been on evergreen tariffs the longest). This is necessary to maximise the opportunity presented by the end of evergreen, allowing time for the inter-relationship between the ending of evergreen and the CMA's other remedies to take full effect and for customers to adjust to the new FTC only market. It will also avoid unnecessary and unhelpful spikes in customer contact and switching that would have the potential to harm levels of customer service and / or increase prices by adding substantial industry costs – all of which would disengage customers. Smoothing out the notifications and switches will also prevent this issue from recurring on an annual basis by ensuring that all current SVT customers do not roll off from their future FTCs at the same time of year.
- **the level of the default tariff should be set by suppliers, not set or capped by the regulator**. If the level of the default tariff was set or capped by either the CMA or Ofgem, the remedy would suffer from the same major drawbacks as the existing Remedy 11 as proposed. Setting the level of this price or cap would be extremely complex, and itself be subject to unintended consequences if set 'too high' or 'too low'. Customers could also take comfort from the default being set or capped by CMA or Ofgem, creating a 'safe haven' effect (the opposite of the CMA's intentions) reducing the incentive for consumers to look for better deals in the competitive marketplace.
- **the default tariff should be allowed to have a variable price**. The risks of purchasing commodity for the default tariff would be best managed through variable pricing because, under this proposal, the number and tenure of customers on the tariff is very uncertain. This creates material uncertainty as to the volume of commodity suppliers should purchase for customers on the default tariff. It is therefore highly unlikely that suppliers would be able to purchase all of its commodity requirement (as it will be unknown) at the time of setting the Default Tariff price and would therefore need the flexibility to re-price as incremental commodity was bought or sold. Managing these risks through fixed price tariffs

would not only result in higher prices to cover the risks, but also multiple Default Tariffs. This could result in some customers on the default tariff paying a materially higher price than others simply because they happened to drop on to it at a time when underlying costs were higher. Given they have not chosen this product such a disparity may result in confusion and lower trust – which could harm levels of engagement. It could also exclude certain customers from this remedy such as those on prepayment meters (which could not handle the multiple default tariffs).

(l) Are there any relevant customer benefits to which we should have regard as being affected by the proposed remedy?

50. The CMA's guidance states that relevant customer benefits can result from "greater choice of goods or services or greater innovation in relation to such goods or services". As we have previously stated¹⁶, material numbers of customers value the SVT product. Clearly by prohibiting evergreen tariffs this remedy would therefore restrict customer choice to a certain degree. This could be somewhat mitigated if, in conjunction with the proposed remedy to remove the 4 tariff cap, suppliers were to offer, for example, a 3 year fixed term, variably priced product for customers to choose if they valued the smoothing effects of such a product

51. Also, as noted above in response to question (k), we believe that the Default Tariff should be allowed to have a variable price so that suppliers can manage the risks associated with pricing a tariff with such uncertain volume requirements. This would ensure that these customers did not lose the relevant customer benefit that they receive today, if they are on SVT, of a smoothed price that is not subject to the high risk-premium that would need to be charged if the Default Tariff were of fixed price during certain market conditions.

(m) What are the relevant costs and benefits that we should take into account when considering the proportionality of this remedy?

52. If implementation is phased over the timescales set out in our proposal, and the default tariff designed to allow the tariff to vary and be set by suppliers, we believe the costs of implementation are proportionate to the benefits expected to arise from increased engagement.

53. Material costs would be incurred were the proposal implemented over too short a time period. As noted in our proposal, were the customers notified of the end of evergreen over a very short period (e.g. three months) and 60% of our customers on Standard Variable Tariffs contact us in that time, we would need to double our contact centre capacity (at significant extra cost) or face catastrophic customer service issues. This cost issue would repeat itself each year as all current SVT customers would reach the end of their contracts at the same time of year.

(n) Are there any alternative remedies that would be as effective as the proposed remedy in addressing the provisional AEC and that would be less costly and/or intrusive?

54. Should the CMA conclude in line with its provisional findings regarding the provisional AEC, we believe this proposal is the most effective way of addressing the CMA's concern provided, as noted above, it is in conjunction with the other engagement

¹⁶ [3<]

remedies and not in conjunction with remedy 11, which would itself *weaken* customer response.

(o) *Should the CMA seek to implement this remedy itself via an order (eg to make a licence modification), or whether it should make a recommendation that another body, such as Ofgem or DECC, implement the remedy?*

55. It is critical that remedy is carefully designed and key aspects subjected to customer research prior to implementation. If the CMA has insufficient time to conclude this design and research before the end of the investigation, it would be preferable to make a recommendation for Ofgem to implement the remedy.

56. We would not favour a recommendation that DECC should implement the remedy, given this is a matter for independent regulation, not a ministerial department of Government.