utiligroup

Non-Confidential
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CMA Energy Market Investigation
Utiligroup's Response to Supplemental Notice of Possible Remedies

Utiligroup is pleased to provide a response to the Supplementary Notice of Possible Market Remedies as part of the Energy Market Investigation by the Competitive Markets Authority. On this occasion, we write from a particular perspective in mind – that of new and growing independent energy suppliers. Our company is proud to work with a large and diverse range of these competitive energy suppliers where we have facilitated the entry and effective market operations of many recent new entrants in addition to traditional participants.

Our experience of working so closely with more than thirty new entrant energy suppliers, and more currently in the pipeline, shows that removing barriers to entry and perceived structural market advantage are vital enablers to growing the competitive basis of the energy market. We note that new entrants have revitalised the competitive energy sector, improved choice and contributed to greater customer engagement in the sector.

In reviewing the Supplementary Notice we were therefore interested to see the suggestion of phasing out evergreen tariffs, as proposed by Centrica and Scottish Power. We do not believe that evergreen tariffs prevent a barrier to customer engagement. Indeed, engagement is plainly evident with a sustained trend of customers choosing to move to new entrants, who need to work hard to build trust in the relationship that is driven by continual and meaningful communication with their customers. These customers become insightful as to the best market offers and compare across their current supplier, other new entrants, and the so called 'Big 6' incumbent providers. Price competition is fierce and the need for customer communication is paramount to retain the customer and keep ensuring they have the best offer that will avoid them choosing to leave.

We note that in recent months, the lowest tariffs available have frequently been evergreen or variable tariffs offered by new or smaller independent suppliers. This has been possible because smaller suppliers are able to react faster to declining wholesale prices than those who have hedged based on an expectation of increasing prices which did not materialise. It does not seem sensible to propose the withdrawal of a tariff structure which produces the lowest pricing available in the market.

Evergreen tariffs themselves do not discourage engagement and we believe this is more to do with the basis of the relationship and less to do with the tariff itself. This may not be the fault of the supplier but their customers may actually prefer an uncommunicative, 'as necessary' basis for their communications which may also reflect some trust in the continuity of service. Evergreen tariffs also provide some confidence to customers moving to new suppliers who then can trust in their basis of their relationship and service provision, that prices may move up or down but will always be 'fair' or 'best value'. Moving to new suppliers, particularly new entrants, is not a casual matter for the first time switching customer (as many today are). Such customers may have a rudimentary understanding of energy and be scared that their supply will be cut off or interrupted if they move supplier (drawing on experience of moving banks, TV services or broadband). The concept of an evergreen tariff may therefore be helpful.

Fixed tariffs have themselves had criticism before with accusations of pricing low for the first period and then higher in the second. The concept of moving if no deliberate choice is made to a default tariff attracted intense customer and media attention as rolling customers onto higher price tariffs.

New entrant energy suppliers can grow and prosper by integrating their customer proposition with their market trading and balancing position. Companies are not expert in the wholesale markets in their early years, and do not have the mitigating benefits of owning or operating their own generation portfolio. The complexities of trading energy have been perceived as a barrier to effective competition (this representing around 50% of the customer bill cost), so independent suppliers need the ability to purchase energy in the wholesale market in as flexible way as possible. On the basis of evergreen contracts, new entrant energy suppliers are able to learn as they go and gradually put in place a stratified trading policy. If their whole portfolio were on fixed tariffs from the outset they will find it difficult to understand how to hedge and forecast their demand effectively. The large incumbents and established new entrant suppliers have a level of customer volume where varying contract bases and tariff types smooth out, but this is not true for a new entrant supplier.

There does not seem to be an obvious or evidential link between contract period and customer engagement with their energy supplier. Providing usage insight, tips and customer knowledge sharing, ability to control demand, new tools and community energy models are all examples of ways in which suppliers can and are engaging with their customers, irrespective of the contract period. We note that the two companies proposing the phasing out of evergreen tariffs are currently active in customer engagement with advertising campaigns that are not linked to tariffs or their duration.

The proposals for a fixed term contract which apparently allows a customer to leave at any time with no penalty, and allows price variation, seems likely to cause more confusion than clarity in the mind of the consumer. We do not believe that any remedy that reduces competition, increases prices or frustrates customers are outcomes sought by the CMA in their review. There are clearly positives and negatives to all tariff regimes, but removing the option of evergreen tariffs may be unbalanced, unrepresentative of all customer interests and have unforeseen consequences that require their own investigation. Further, in our view, the measure will have a disproportionate effect on new and smaller independent energy suppliers, whose ability to innovate will be constrained.

We hope this initial response is helpful and welcome engaging further as part of the ongoing market review.