

Centrica supplementary submission on Remedy 3

1. In our response to the Provisional Findings and Remedies Notice, we set out our support for Remedy 3. In particular, we said that:
 - the removal of the ‘simpler’ RMR tariff rules would be an important measure that would be effective in increasing competition by enabling suppliers to develop more engaging and innovative products / product structures; and
 - without the four tariff, discount and bundling rules we would look to market more innovative bundles of products, tailored to be more appealing to key customer segments.
2. As part of this response, we also suggested the CMA should seek to remove or amend a number of the information remedies also introduced as part of the RMR, under the ‘clearer’ RMR banner. We stated that although we fully support measures that ensure customers have all the information necessary to make an informed decision, a number of the existing information provision rules are inconsistent with the future market envisioned by the CMA.
3. In particular we highlighted that the obligation to provide customers with the Cheapest Tariff Messaging (CTM) is incompatible with a market that is moving towards one in which suppliers have more freedom to develop compelling products for customers, and target these more effectively at customers segments. Specifically, we believe:
 - the prescriptive nature of the CTM means the regulation fails to describe innovative products accurately, such as ones bundled with related services (an issue that will become more problematic once the CMA’s remedies are introduced); and
 - this prescription has the potential to distort supplier behaviour, undermining the effectiveness of remedies the CMA are introducing to increase customer engagement. This is a particular concern given innovation, by its nature, has the potential to take competition in unexpected directions if unconstrained by unnecessary regulation.
4. Our concerns regarding the CTM have been exacerbated by Ofgem’s open letter of 27 October in which it set out the circumstances under which a collective switching scheme tariff should also be included within the CTM¹.
5. The purpose of this additional supplementary submission is therefore to:
 - articulate the distortions we are concerned may arise if the existing form of the CTM is retained; and
 - propose an alternative approach that we believe would be more consistent with the future form of the retail market the CMA envisages.

¹ <https://www.ofgem.gov.uk/publications-and-updates/open-letter-inclusion-collective-switch-tariffs-cheapest-tariff-message>

Concerns with the CTM

6. A number of the possible remedies set out in the Remedies Notice are designed to encourage specific developments in the retail market. These include:
 - maximising the impact of the smart meter rollout on customer engagement (Remedy 4a);
 - the more effective targeting of customers, by providing suppliers with an “incentive to tailor tariffs to the needs and/or preferences of different customers”, enabled by Remedy 3;
 - enhanced competition amongst price comparison websites, by allowing suppliers to offer different tariffs on different PCWs (also enabled by Remedy 3);
 - ensuring customers receive appropriate information for their needs, designed to best encourage engagement (Remedy 9).
7. We have concerns that the CTM – and in particular its prescriptive nature – has the potential to undermine these remedies, and make it less likely that the desired outcomes will be achieved.

Implications for smart meter rollout

8. The CMA highlights in numerous instances in the PFs and Remedies Notice that the rollout of smart metering represents an important opportunity to increase customer awareness and interest in their ability to switch supplier². Critical to the success of smart meters will be the ability to offer innovative products that include time of use pricing (such as our “Free Saturdays” offer).
9. The prescriptive rules that determine how CTM is presented to customers are entirely inappropriate for new tariff structures such as a “Free Saturdays” offer. The CTM fails to adequately describe the potential for customer benefits from static ToU tariffs available in the market today, such as E7, and relies on assumptions relating to a ‘typical’ customer’s load profile rather than comparisons for the customer’s actual usage. This problem will become worse in future as we move to a market with future ToU tariffs where price varies dynamically based on the market conditions at the time. The CTM is therefore incompatible with such products.
10. We believe that the existing CTM rules would fail to reflect adequately all of the elements of innovative products that comprise an element of time of use pricing. Not only will this mean CTM would be misleading, but may also significantly reduce consumers’ interest in such products, potentially hampering the realisation of smart meter benefits, and potentially the success of the smart meter rollout (where demand-led).

More effective targeting of customers

11. An important market development envisaged by the CMA, enabled by the removal of RMR tariff rules in particular, is to enable suppliers to design and target propositions for customers according to their preferences and needs, and provide discounts or bundles accordingly.
12. We strongly support this objective as we consider there to be numerous different drivers of competition in the market for energy supply. We find that not every customer will

² For example, in paragraph 54, page 18 of the Remedies Notice.

make a decision on the basis purely of price. Allowing suppliers more flexibility to develop propositions that customers find appealing will therefore have a material and positive impact on customer engagement.

13. However, the CTM as currently specified is narrowly focused on a given price point. To the extent that customers use the CTM as a comparison tool, the CTM will therefore overlook important elements of given offers which may have been designed specifically to appeal to them (e.g. the inclusion of energy efficiency measures).
14. As a consequence, suppliers will be discouraged from developing elements of propositions that cannot be fully reflected within Ofgem's prescriptive CTM rules. In effect, the prescriptive nature of the CTM rules will shape and constrain supplier propositions; a feature of the regulation that Remedy 3 aims to remove.
15. We note that in comparable markets – such as fixed and mobile telecoms – customers are able to choose from a range of product bundles in which different parameters of competition are given different emphasis. This diversity allows customers to make a choice as to which combination provides the most appealing proposition. A hypothetical regulatory mandate for price to be the determining reference point would influence the way such bundles are constructed and the resultant distortion would reflect regulatory priorities rather than underlying consumer preferences.
16. The effect on tariffs designed for collective switches may be similar, as they are usually designed and priced specifically for the characteristics of customers who are expected to engage with a given collective switch scheme. Such customers may differ from the national 'average' customers in any of a variety of ways, for example in terms of demographic, geography or interest in associated products.
17. The requirement to include such deals in the CTM will limit the incentive on suppliers to tailor such propositions to certain customer segments. Instead, the CTM rules will influence the form of collective switch propositions, reducing the number of innovative tariffs we see offered.
18. In summary, CTM is inappropriate for a market in which unnecessary regulatory constraints are lifted (as envisaged by the CMA's proposed remedies). CTM in such an unconstrained market will act to reduce the intensity of competition, ultimately frustrating the objectives of the remedies that the CMA is considering.

Price comparison website deals

19. An important implication of Remedy 3 is that suppliers would be able to offer different tariffs on different PCWs, increasing price competition between PCWs. The incentive for suppliers to offer different tariffs through different PCWs would be to access certain customer groups more effectively, and target them with bespoke products designed specifically to attract these groups.
20. We would expect such bespoke tariffs to be designed and priced specifically for the characteristics of customers who will use the PCW in question.
21. As with collective switch tariffs, we are concerned that a requirement to include all offers (including bespoke offers developed with certain PCWs) will reduce the incentive on suppliers to tailor compelling propositions for certain customer segments. Instead, the

design of such propositions will be influenced by the way in which they can be represented within the confines of the prescriptive CTM rules.

Appropriate information

22. A key objective of Remedy 9 is to ensure that customers receive information that encourages engagement. As set out in our August response, our ability to differentiate ourselves from rivals through how we engage with customers is a crucial element of how we compete. Fundamentally, we believe that we can distinguish our brand and attract customers from our rivals if we provide customers with better, more useful information, in a clearer and more engaging way than our competitors.
23. However, the prescriptive rules that are set out in the “clearer” elements of RMR seriously constrain our ability to do this. In the case of CTM, the rules heavily constrain precisely which elements of customers’ deals we are able to reflect in the messaging. The rules also specify where on the page it should be provided, and even what wording and font size should be used.
24. We do not believe that such prescription is consistent with the innovative and dynamic retail market, and more effective customer targeting envisaged by the CMA. In effect, such regulation places Ofgem in the position of determining how best to communicate with energy customers, and not the energy suppliers who have the experience and insight in to how best to do this, and the incentive to do it better than their rivals.

An alternative to CTM

25. On the assumption that some form of customer notification is required, and instead of the existing highly prescriptive approach to information provision currently favoured by Ofgem, we believe the CMA should relax these regulations and replace them with an emphasis on ensuring suppliers achieve specific outcome-based goals. For example, this could be a requirement placed on suppliers that all customers are able to access information about the best tariff for them readily.
26. This would allow suppliers to use their insight to deliver the information customers want, in an engaging way which allows differentiation of brand and more active competition for their rivals’ customers. The advent of smart metering, and the increased availability of data on individual customer preferences and consumption patterns has the potential to make such differentiation even more powerful and compelling for consumers.
27. In the context of CTM, this would mean removing the existing prescriptive rules, and instead introducing a principles-based requirement that suppliers should ensure customers are notified of the best deal available for them. The responsibility would then be on suppliers to ensure that offers are reflected and communicated fairly.
28. This would place the onus on suppliers to justify the approach taken to providing such information to customers. It would also allow suppliers to use such communications as a real opportunity to engage customers, becoming a point of competitive differentiation, rather than purely a regulatory requirement.