

ENERGY MARKET INVESTIGATION

Notice of addendum to provisional findings report made under Rule 11.3 of the Competition and Markets Authority Rules of Procedure (CMA 17)

1. On 26 June 2014, the Gas and Electricity Markets Authority in exercise of its powers under sections 131 and 133 of the Enterprise Act 2002 (the 2002 Act) (as provided for by section 36A of the Gas Act 1986 and section 43 of the Electricity Act 1989), made an ordinary reference to the Chair of the Competition and Markets Authority (CMA) for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013 for an investigation into the Supply and Acquisition of Energy in Great Britain.

Provisional findings

2. On 7 July 2015, the CMA inquiry group (the Group) appointed to consider this reference provisionally found, pursuant to section 134(1) of the 2002 Act, that there are features of the relevant markets, which alone or in combination prevent, restrict or distort competition in the supply of electricity and gas in the Great Britain, and accordingly that there are various adverse effects on competition (AECs) within the meaning of section 134(2) of the 2002 Act. The Group's reasons are set out in full in the [provisional findings report](#).
3. In its provisional findings, among other things, the Group provisionally concluded that prepayment meters (PPMs) might exacerbate the feature of weak customer response and the resulting AEC of unilateral market power.
4. Following the publication of its provisional findings report, the CMA has further considered whether there are features of the GB energy markets relating to the prepayment segments (PPS) that restrict competition in connection with the supply and acquisition of energy by customers on a PPM (other than those features identified in the provisional findings report). As part of its further investigation, the CMA issued information requests to suppliers of PPM infrastructure and to energy firms operating in the PPS.
5. On the basis of the evidence it has gathered, the Group has provisionally found that a combination of features of the markets for domestic retail supply of gas and electricity in Great Britain, relating specifically to the PPS, give rise to an AEC. These features, in combination, reduce retail suppliers' incentives

(and, for some, their ability) to compete to acquire PPM customers (in particular, customers with an outstanding debt or a poor credit history) and to innovate by offering tariff structures that meet customers' demand. As a result, the tariffs available in the PPS are not competitively priced compared with the DD segment. These features are as follows:

- (a) Technical constraints that limit the ability of all suppliers, and in particular new entrants, to innovate by offering tariff structures that meet demand from PPM customers who do not have a smart meter.
- (b) Softened incentives for all suppliers, and in particular new entrants, to compete to acquire PPM customers due to:
 - (i) actual and perceived higher costs to engage with, and acquire, PPM customers compared with other customers; and
 - (ii) a low prospect of successfully completing the switch of indebted customers, who represent about 15% of PPM customers.

- 6. The Group's reasons are set out in full in the addendum to its provisional findings report (see Notes below).

The next steps

- 7. The Group now invites interested parties to submit reasons in writing as to why the addendum to the provisional findings report should not become final (or, as the case may be, should be varied).
- 8. Unless otherwise specified to a party, these reasons should be received by the Project Manager no later than **5pm on 6 January 2016**.
- 9. Unless a different date is agreed with any party, the Group will have regard to any such reasons provided by this date in making its final decisions in the investigation.
- 10. The Group is today also publishing a Second Supplemental Notice of Possible Remedies which it considers might be taken by the CMA or others to remedy the AECs it has provisionally identified in this addendum to provisional findings, comments upon which should be received no later than **5pm on 6 January 2016** unless otherwise agreed with any party.

(signed) ROGER WITCOMB
Panel Chair
16 December 2015

Notes

- (i) A copy of this notice and of the addendum to the provisional findings report will be placed on the CMA website on 16 December 2015. The published version of the addendum to the provisional findings report will not contain any information which the Group considers should be excluded from the report, having regard to the three considerations set out in section 244 of the 2002 Act. These omissions are indicated by [✂].
- (ii) Comments should be made by email to energymarket@cma.gsi.gov.uk or in writing to:

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Competition and Market Authority
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16 December 2015