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Competition and Markets Authority
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Dear Will,

Second supplemental notice of possible remedies

Thank you for the invitation to respond to the above document. Good Energy is a fast-growing 100% renewable electricity supply company, offering value for money and award-winning customer service. An AIM-listed PLC, our mission is to support change in the energy market, address climate change and boost energy security.

Executive Summary

Good Energy recognises that the level of switching in the PPM market is lower than for other payment methods, but believes that inertia is a poor measure of harm as it there will be many customers who remain with a supplier, particularly an independent; because they are happy with the service they receive.

The PPM market also differs significantly in demographics from the overall market which affects switching rates. PPMs are more prevalent in high transit rental accommodation, where customers do not intend to stay for any period of time. Many renters also perceive, or are told by their landlord that the choice of payment method and/or supplier is not theirs to make. We believe that measures to address this misconception may have a greater success in encouraging switching than a regulated cap.

Until recently, the PPM offerings from independent suppliers were not competitive because the PPM infrastructure controlled by the incumbents has never really worked for a competitive market, nor moved with technology changes. It is notable that recent challenges in the PPM market from independents has occurred outside the existing infrastructure by using new technology to keep the supplier in control and not reliant on incumbent suppliers.

Finally, as with the CMA's proposals for a regulated safeguard tariff, we believe a safeguard cap will offer customers false security that the regulator is ensuring they are not overcharged, and thus reduce the incentive for customers to seek a better tariff. We believe this would compound the risk of inertia rather than alleviate it. We therefore oppose the proposals for such a cap.

Proposed Remedies

Remedy 19 facilitating sharing of data relating to prepayment meter customers.

(a) Would this remedy be effective and proportionate in increasing competition for non-smart prepayment meter customers?

This measure is unlikely to be effective as it is based on the premise that suppliers want to grow their share of the PPM market and are being hampered from doing so by an inability to identify such customers. It also assumes that PPM customers are more likely to switch if they receive a direct approach from alternative suppliers.

For independent suppliers, the current PPMIP infrastructure run by the incumbent suppliers is not fit for purpose and excessively costly to operate. Independent suppliers are required to request cards/keys from the incumbent supplier and payments made by customers are sent to the incumbent supplier for distribution to other suppliers. In many cases, payments get lost in the system and need to be chased. They are also reliant on the incumbent metering agent to physically visit the property to reset the tariff to their tariff. If the supplier changes the tariff rates, then physical visits are required to change the tariff rate on all affected meters. This means customers payments rarely match their consumption as there is a time lag between the tariff change date and the physical change being made to the meter. This means that whilst meeting their obligation to offer terms, few independent suppliers actively market to PPM customers. Those that do, such as Utilita and Ovo do so by fitting smart solutions allowing them to operate independently of the old PPMIP infrastructure in order to make it cost effective.

We do not believe that the creation of this database would lead to any significant increase in switching by PPM customers.

(b) Are there additional legal considerations that are relevant to this remedy (eg under the Data Protection Act 1998 or the Privacy and Electronic Communications (EC Directive) Regulations 2003)?

One of the issues with the PPM market is that PPMs tend to be most prevalent in the high churn rental market. It is not unusual for new tenants to continue to use the PPM charging device (card or key) without informing the supplier of the change of tenant. This would create a problem with an opt out approach as the supplier cannot be sure the occupiers' details are correct. Accordingly, a supplier cannot be sure that it has received informed consent and "no response" could not be deemed to constitute deemed consent for details to be shared. Add this to the EU rules on electronic communication and we believe the legal requirement would be for the process to follow an "opt in" approach, which is unlikely to engage the disengaged.

(c) Is Ofgem the right party to have oversight of this process?

We would support Ofgem having oversight but believe it should put the database creation and management out to competitive tender.

(d) What limitations would need to be imposed to ensure that the data was disclosed and used appropriately?

Suppliers would need to ensure that employees accessing the data have appropriate data protection awareness and controls in place especially around access to names and phone numbers. We think it would be important that the database can be accessed in relation to an individual customer, but not downloaded in totality by suppliers or otherwise interrogated on a "bulk" basis.

(e) When should the continued need for this remedy be reviewed?

We believe there should be an early review to establish whether the initiative has been successful, and future reviews triggered as the number of non-smart PPMs reduces below a predetermined level. We would propose an initial review after 6 months to understand directionality with a full review at the end of the first year. Depending on the result of those intervals reviews, subsequent reviews should take place at intervals no longer than 6 months.

(f) What might be a suitable frequency with which to share customer data?

Data would need to be updated daily to correct change of tenancies, change of supplier and change in metering from traditional PPM to Smart or credit. This being the case we are concerned that the cost

implications would be significant and disproportionate to the realistic benefit that could be delivered through the adoption of this approach.

(g) Should this remedy apply to prepayment meter customers with smart meters?

No. We believe that Smart metering opens up other opportunities which are likely to be far more engaging to customers and so they should be excluded.

Remedy 20a prohibit the charging of a security deposit in circumstances when a customer is not in debt and has not incurred any fines, charges or interest for late payment in the last six months.

(a) Would this remedy be effective and proportionate in removing the barrier to switching that security deposits can pose?

Although Good Energy does not request security deposits at present, we believe they are an important aspect of mitigating the impact of customer default on other customers who pay their bills diligently. This impact occurs because writing-off debts incurred by customers who don't pay is a real cost to suppliers. This must be factored in to operating costs which in turn influences the price the supplier can offer its customers as a whole. For larger suppliers, the effect of this calculation is less pronounced because the cost of the write-off can be smeared across a large number of customers. For independent suppliers with fewer customers, the impact of debt on pricing can be significant.

We believe that suppliers should be entitled to request a security deposit where circumstances merit one, but that suppliers should be required to assess each customer individually according to their personal circumstances, perhaps by credit score rather than any blanket requirement for a security deposit on moving from PPM to Credit.

(b) Are these the right criteria to apply in determining circumstances in which suppliers can charge a security deposit?

We believe the criteria are too inflexible and open to abuse. Suppliers need to consider the customer's individual circumstances, such as whether they are in employment, the customers' propensity to default on energy bills and whether the customer has had previous convictions for energy theft.

(c) What are the potential unintended consequences of being explicit about when customers can be charged a security deposit?

The unintended consequences are that "won't pay" customers (as opposed to "can't pay" customers) learn they can come off PPM without a security deposit after 6 months out of debt. This will result in an increased risk of future defaults for which no security or collateral will be in place. That would increase suppliers' exposure to writing off bad debt, which all customers have to fund through higher bills.

If supplier cannot ask for a security deposits in circumstances which would otherwise consider to be high risk (i.e. high propensity for customer default), suppliers may also start to consider risk-based pricing at an individual customer level as a mechanism to protect other customers and manage overall risk. If introduced, this would make it very difficult for customers to accurately compare and assess prices which might in turn discourage switching and compound inertia.

(d) Is there a preferable alternative way of mitigating detriment arising from the impediments to switching posed by the potential need to pay a security deposit?

We believe that a more flexible approach should be taken where a supplier must demonstrate why they believe the installation of a credit meter could result in the customer falling into debt again. Customers for whom a security deposit is requested should also be informed of a right of appeal against the decision perhaps via the Citizen's Advice extra help unit.

(e) Should the CMA implement this remedy itself, or should the CMA make a recommendation to Ofgem to do so?

We believe Ofgem is best placed to implement this proposal in consultation with the industry.

Remedy 20b Suppliers are prohibited from charging customers upfront for the cost of a new meter when switching away from prepayment.

(a) What length of time is reasonable and appropriate to allow the recovery of the cost of the meter and installation?

We believe this would depend on the individual customer's circumstances as the last thing a supplier wants to do is put the customer back in debt. We would also need to understand what the implications would be if the customer subsequently chose to change supplier, and whether the "outgoing" supplier could count any unpaid amount as a debt of 28 days outstanding for the purpose of objecting to the request to switch until the costs have been recovered.

(b) Is this a proportionate remedy given the number of cases in which suppliers charge for removal of a prepayment meter?

We believe it is inappropriate to move someone off a PPM in such a way as to immediately create a debt on the customer's credit account. It could also be used by customers who are quite capable of paying (e.g. New tenants/owners of a property) to get a PPM removed at a lower cost. Suppliers should certainly be allowed to offer customers the option of an upfront payment at a lower rate.

(c) Is there an equally or more effective alternative way to reduce the costs of prepayment meter removal and replacement?

We believe this issue will shortly be resolved by smart metering as beyond a certain date any meter change will see the replacement meter being a smart meter.

(d) Should the CMA implement this remedy itself, or should the CMA make a recommendation to Ofgem to do so?

We believe Ofgem is best placed to manage this.

Remedy 20c Require suppliers to provide annual notifications to prepayment meter customers setting out their right to switch and highlighting any potential restriction or charges that may be payable.

(a) Would this be an effective means of facilitating switches away from prepayment meters?

Evidence¹ shows that most customers are aware they can switch supplier so a reminder above and beyond current reminders would probably serve no purpose. We believe the regulator needs to be more

¹ 83% of customers are aware they can switch supplier according to Ofgem's most recent customer engagement survey - https://www.ofgem.gov.uk/sites/default/files/docs/2015/09/customerengagementreport2015_final_for_publication.pdf

forthcoming in addressing the view held by many customers in private rented accommodation that they need their landlord's permission to switch, which is often not forthcoming. Others worry that their new charging device will not arrive in time and there is a risk they will run out of credit and be unable to power or heat their homes. This should be addressed by Citizen's advice and other support agencies.

(b) What would be the most effective means of communicating this information to customers?

The most appropriate messaging would be to look at feasibility of including a simple message on receipts issued when a customer tops up their meter.

(c) What is a suitable frequency with which to contact customers? Would this messaging be more appropriately included alongside other messages or be triggered by particular events (such as outstanding debt being paid off)?

See above

(d) Should a prompting remedy such as this be introduced directly by the CMA or should this be an area that Ofgem considers running randomised controlled trials to assess its effectiveness?

We believe Ofgem should run trials to prove which method, if any, results in higher engagement before any final decision is made on a mandated roll-out.

Remedy 21 Reform the protocol for assignment of debt on prepayment meters.

(a) Would a remedy recommending Ofgem to address the above-mentioned issues be effective in ensuring that adequate changes to the DAP are implemented promptly? Or should the CMA instead use its order-making power to support Ofgem's ongoing work?

We understand that Ofgem, Energy UK and the larger suppliers are already working on improving the DAP process, although we are not yet convinced that PPM customers will switch in greater numbers if allowed to take their debt with them.

As an independent supplier we are concerned that allowing PPM customer to transfer with debt increases the debt risk to suppliers and as such increases the cost of delivering a competitive PPM tariff. We believe this will have a disproportionate, adverse impact on the ability of independent suppliers to compete effectively.

(b) What is the most efficient way for Ofgem and the industry to improve the DAP process in relation to the above-mentioned areas identified by Ofgem in order to increase the switching rates of indebted PPM customers?

We believe the changes should be made via the normal change processes.

(c) How would this remedy interact with the other remedies to address the Domestic AEC and/or detriment?

We do not believe there will be any impact.

(d) Are there other impediments to switching for indebted PPM customers – other than those identified by Ofgem – that need to be addressed? If so, what are these and how should Ofgem or the industry address them?

As stated above, more work needs to be done to address the issue in the private rental market where customers are deterred by their landlords or letting agents from switching supplier, or replacing PPMs with

credit meters. Whilst suppliers can inform customers that they are entitled to switch supplier, if customers believe their landlord is against such action then they are unlikely to switch.

Remedy 22 A transitional 'safeguard price cap' for domestic prepayment customers

(a) If the transitional safeguard price cap for PPM customers were set relative to other prices in the domestic retail energy markets, how should we identify an appropriate level of prices and how can we ensure the level of the cap remains appropriate for the duration of the period it is in effect?

We believe that any cap would provide false comfort to PPM customers that they are being protected by regulation and thus do not need to switch, or that switching provides minimal saving. We would also distinguish that the cost of PPM provision varies across suppliers depending on their size, how active they are in the PPM market and whether they control the infrastructure supporting PPM.

(b) Could the imposition of a transitional safeguard price cap for PPM customers result in energy suppliers reducing the quality of service offered to customers on these tariffs? Is this risk reduced by prepayment customers' ability to choose alternative, unregulated tariffs or changing to a smart prepayment meter?

If a safeguard tariff is introduced that made PPM customers loss making then suppliers are likely to offer minimal services and seek to avoid the PPM market whilst meeting their licence obligations. We believe that PPM customers would be best served by removing the obligation to provide PPM as a payment method from most suppliers thus creating an opportunity for new entrants to develop quality solutions to encourage switching amongst PPM providers.

(c) How should the headroom be calculated to provide the right level of customer protection while not unnecessarily reducing healthy competition?

Given all suppliers will have different costs associated with PPM provision, we believe there is a danger that in setting it high enough for smaller suppliers to make a return will allow larger suppliers to charge high prices, but setting it low enough to protect customers would mean some suppliers would have to provide PPM services at a loss. We do not see an obvious way to implement this proposal without introducing further disparity in the competitive landscape and either harming consumers or disadvantaging independent suppliers.

(d) What regulatory information would be required to set the transitional safeguard price cap?

Suppliers would have to provide the regulator cost information to supplying PPM customers including both fixed and variable costs.

(e) How long should the transitional safeguard price cap be kept in place? Is it appropriate to include a specific sunset provision, or should there be a commitment to review the need for and level of the safeguard price cap after a certain period of time?

We are not supportive of such price controls in a competitive market, but if implemented then they should be reviewed on a quarterly basis. Firstly to see if the remedy is being effective, and secondly to reflect any change in costs requiring a change in the cap.

(f) Should the termination date of a transitional safeguard price cap remedy be linked to the roll-out of smart meters? If so then should this be done explicitly, in aggregate or on a customer-by-customer basis?

We do not believe that customers on smart PPM should be covered by the cap, and thus any customer switching from traditional to smart PPM should fall out of any cap regime. Equally, once the number of smart PPM is equal to or exceeds traditional PPM, then the cap should be removed.

(g) How frequently – if at all – would the level of the cap need to be reassessed?

The level of the cap should be assessed quarterly, unless it is set linked to suppliers' SVT. It is important that any cap reflects any changes in wholesale costs or other costs such as government obligations.

(h) Which prepayment customers should this remedy apply to?

We are not supportive of PPM price controls in a competitive market, but if implemented they should apply only to customers of incumbent suppliers who have never switched since market opening.

(i) Which energy suppliers should be subject to the transitional safeguard price cap, and why? Should it be restricted to the Six Large Energy Firms, or should all retail energy suppliers be covered?

We believe the cap should apply only to the incumbent suppliers as this could encourage independent suppliers to come up with innovative solutions. Also, the costs of operating PPM are higher for independents as they are reliant on the PPM infrastructure managed by the incumbents, or alternatively, they need to set up their own infrastructure without the benefit of the same economies of scale.

(j) How should the transition from the current arrangements be managed? Should there be a period over which the transitional safeguard price cap is phased in? If so, how long should this period be and how should the transition work?

Given our view that smart PPM should be excluded, then any phased transition is likely to be superseded by the transition to smart. We therefore believe that, if implemented at all, the cap should only be implemented once Ofgem has sufficient information to do so effectively and efficiently.

(k) Would energy suppliers have the ability to circumvent the remedy, for example, by encouraging domestic prepayment customers to switch on to less favourable, unregulated tariffs, and how could such risks be mitigated?

Given the issue is about customers who fail to switch to better PPM tariffs offered by suppliers, we feel the likelihood of these customers being persuaded onto less favourable, unregulated tariffs is remote.

(l) Should the CMA set the level of the transitional safeguard price caps itself, or should the CMA make a recommendation to Ofgem to do so?

We believe Ofgem is better placed to set a cap in consultation with suppliers. A detailed impact assessment would be required before any decision is made.

(m) Are there any potential unintended consequences of setting a transitional safeguard price cap, for example, in terms of their potential impact on the level of other, unregulated tariffs?

We believe that if a cap is set it will provide false comfort to customers that they are on the best tariff, or not unduly overpaying. In all likelihood this will harm competition because PPM customers would be more likely to remain with their existing PPM supplier rather than seeking a better deal with another supplier.

I hope you find this response useful. Should you have any queries on the above, please do not hesitate to contact me.

Kind regards,

Chris Welby

Policy & Regulatory Affairs Director