

# **Anticipated merger between SSE Retail and Npower**

## **Provisional findings**

## **Appendices and glossary**

Appendix A: Terms of reference and conduct of the inquiry

Appendix B: Customer engagement

Appendix C: Counterfactual – the Parties' alternatives to the Merger

Appendix D: Background on the Default Tariff Cap

Appendix E: Third party views on the counterfactual

Appendix F: Evidence on the default tariff price setting

Appendix G: Tariff analysis

Appendix H: Switching analysis

Appendix I: Press coverage of SVT price announcements

Appendix J: Oxera analysis submitted on behalf of Utility Warehouse

Appendix K: Barrier to entry and expansion

Glossary

# Appendix A: Terms of reference and conduct of the inquiry

## Terms of reference

1. In exercise of its duty under [section 33\(1\)](#) of the Enterprise Act 2002 (the Act) the Competition and Markets Authority (CMA) believes that it is or may be the case that:
  - (a) arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation, in that:
    - (i) enterprises carried on by SSE plc, namely SSE plc's retail business, will cease to be distinct from enterprises carried on by Innogy SE, namely Npower Group plc; and
    - (ii) the condition specified in [section 23\(1\)\(b\)](#) of the Act is satisfied; and
  - (b) the creation of that situation may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom for goods or services, including the supply of electricity to domestic customers in Great Britain and the supply of gas to domestic customers in Great Britain.
2. Therefore, in exercise of its duty under [section 33\(1\)](#) of the Act, the CMA hereby makes a reference to its chair for the constitution of a group under [Schedule 4](#) to the Enterprise and Regulatory Reform Act 2013 in order that the group may investigate and report, within a period ending on 22 October 2018, on the following questions in accordance with [section 36\(1\)](#) of the Act:
  - (a) whether arrangements are in progress or contemplation which, if carried into effect, will result in the creation of a relevant merger situation; and
  - (b) if so, whether the creation of that situation may be expected to result, in a substantial lessening of competition within any market or markets in the United Kingdom for goods or services.

**Rachel Merelie**  
**Senior Director, Delivery and Sector Regulation**  
**Competition and Markets Authority**  
**8 May 2018**

## Interim measures

3. At the beginning of the phase 2 inquiry, the inquiry group considered whether it was appropriate to require interim measures to prevent pre-emptive action by the Parties which might prejudice possible remedial action if we were to conclude that there was an SLC.
4. The Parties told us that they had put in place safeguards to ensure that commercially and competitively sensitive information is not exchanged between them while preparatory activities for the completion of the Merger and integration planning are carried out, prior to the conclusion of the phase 2 inquiry.
5. For these preparatory activities the Parties set up and allocated responsibility to a 'clean team' through a 'Clean Team Deed', which governs the way the team operates. The 'clean team' comprises individuals from each of the Parties with no current decision-making responsibilities in their respective retail businesses for pricing and any other competitive and sensitive information. Clean team members are prohibited from sharing any sensitive and competitive information from the other Party with his/her respective retail business.
6. Given these safeguards, we did not consider it proportionate and necessary to impose interim measures to prevent pre-emptive action by the Parties which might prejudice possible remedial action if we were to conclude that there was an SLC. We considered that these safeguards were sufficient to ensure the separate and independent operation of each of the Parties during the course of the inquiry.

## Conduct of the inquiry

7. Following the reference to phase 2, we published the biographies of the members of the inquiry group on the inquiry [webpage](#) on 9 May 2018 and the administrative timetable for the inquiry was published on the inquiry [webpage](#) on 14 May 2018.
8. We invited a wide range of interested parties to comment on the Merger. These included the remaining four competing SLEFs, a number of competing SAMS (including Utility Warehouse in its capacity as a customer of Npower), parliamentary committees, the Scottish and Welsh governments, PCWs, Ofgem and consumer groups representing the interests of energy customers. We issued questionnaires to these various parties and a number of them provided us with further information at hearings. We held a number of these hearings in Scotland where we were interested in attaining information in

relation to Scottish energy customers and the Scottish energy market. Summaries of third party hearings have been published on the inquiry [webpage](#). We also used evidence from the CMA's phase 1 inquiry into the Merger, and the EMI.

9. We received written evidence from the Parties in the form of submissions and responses to information requests. The Parties response to the phase 1 decision was published on the inquiry [webpage](#) on 5 June 2018. We also held separate hearings with the Parties on 17 July 2018.
10. Members of the inquiry group, accompanied by CMA staff, visited SSE's facility in Perth, Scotland on 14 June 2018 and Npower's facility in Solihull, England on 21 June 2018.
11. On 29 May 2018, we published an [issues statement](#) on the inquiry [webpage](#) setting out the areas of concern on which the inquiry would focus. [The Parties' response and third parties' responses to our issues statement](#) have been published on the inquiry [webpage](#).
12. During our inquiry, we sent the Parties a number of working papers for comment. We also provided the Parties and third parties with extracts from our working papers for comments on accuracy and confidentiality. The Parties were also sent an annotated issues statement, which outlined our thinking prior to their respective hearings on 17 July 2018.
13. We would like to thank all those who have assisted us in our inquiry so far.

# Appendix B: Customer engagement

## Introduction

1. This appendix summarises the available evidence regarding customer engagement considering: (i) levels of engagement and how engagement has been changing; (ii) stages of customer engagement; and (iii) Ofgem's trials. The evidence we have reviewed includes:
  - (a) The EMI survey of 6,999 energy customers conducted in 2015 by GfK on the CMA's behalf.<sup>1</sup> Although there have been a number of changes to the industry since that time, we consider this survey to be a highly relevant starting point and we have considered it carefully alongside the other evidence we have received.
  - (b) Ofgem's 2017 consumer engagement survey of 4,001 energy customers.<sup>2</sup>
  - (c) Citizens Advice's 2017 Energy360 survey of 8,200 customers focussing on customer satisfaction and switching behaviour.
  - (d) Citizens Advice Scotland's tracker survey of 3,501 customers.
  - (e) Which?'s energy satisfaction survey of September 2017 which was an online survey of 8,397 customers.
  - (f) A range of evidence from the Parties and third parties' internal documents, including leavers surveys and qualitative research.
2. This evidence demonstrates that:
  - (a) **Levels of engagement:** Engagement in the energy market has increased steadily over recent years. Current levels of engagement are highest for customers of the SAMS, while there is a wide range in levels of engagement for customers of different SLEFs.
  - (b) **Reasons for customer disengagement:** Some customers do not engage with the market because of a perception that promised savings will not materialise. Others do not engage because of a negative perception around the switching process, and concerns that the decision will be overly complex. Some customers do not consider engaging with

---

<sup>1</sup> GfK NOP customer survey report, CMA (EMI) (February 2015).

<sup>2</sup> GfK NOP consumer engagement in the energy market 2017 report, Ofgem (21 September 2017).

the energy market to be a priority, and consider their tariff or supplier to be 'good enough'.

(c) **Specific triggers of engagement:** Ofgem's 2017 consumer engagement survey shows that supplier communications are the key trigger of engagement; more so than other factors such as media reporting. Npower's 2017 Customer Exit Survey shows that perceived [✂] can be a significant driver of customer losses.

(d) **Drivers of choice once a customer has decided to engage with the market:** Price is the key driver of choice. Quality of service is also important for many customers, but appears to be less of a driver than price-related factors. There is some evidence that some customers have a preference for SLEFs or suppliers with established brand names.

3. In this appendix we have also summarised the results of Ofgem's recent trials relating to customer engagement.

## Levels of engagement

4. In this section we set out the available evidence on the current levels of engagement in the industry, and how this has changed over recent years.

5. The EMI survey provided evidence of a lack of understanding of and engagement among customers. For example:<sup>3</sup>

(a) 36% of respondents either did not think it was possible or did not know if it was possible to change one or more of the following: tariff; payment method or supplier.

(b) 34% of respondents said they had never considered switching supplier.

(c) 56% of respondents said they had never switched supplier, did not know it was possible or did not know if they had done so; and

(d) 72% said they had never switched tariff with an existing supplier, did not know it was possible, or did not know if they had done so.

6. Evidence indicates that customer engagement has increased since the end of the EMI. This is apparent from:

(a) The increase in the number of customers switching supplier each month. For example, Ofgem's 2017 'State of the energy market' report found that

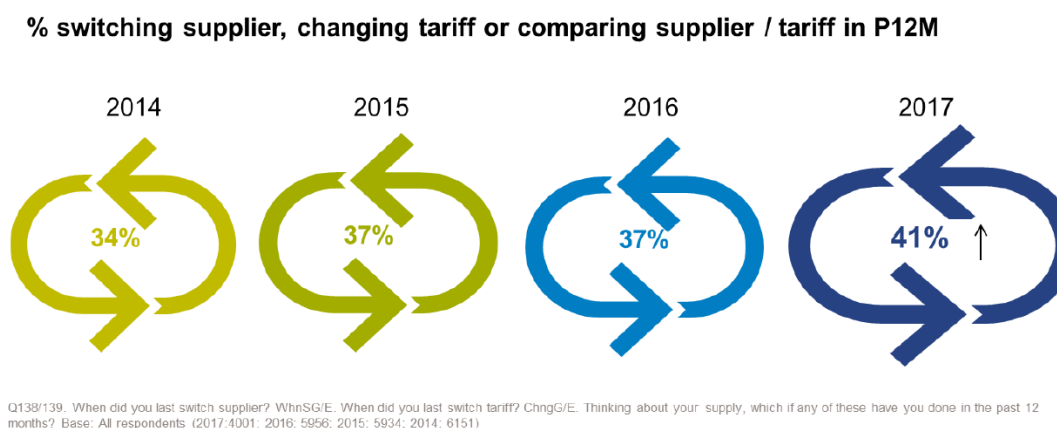
---

<sup>3</sup> [EMI final report](#) (24 June 2016), paragraph 8.104.

in June 2017 almost 17% of customers had switched supplier in the previous 12 months, an increase from 11% in 2015 and the highest level of customer switching since August 2011.<sup>4</sup>

(b) As Figure 1 illustrates, Ofgem’s 2017 consumer engagement survey found that 41% of respondents had switched supplier, changed tariff or had compared suppliers or tariffs in the past 12 months. This compares to 37% of respondents in the 2016 survey, and 34% in 2014.<sup>5</sup>

**Figure 1: Evidence of increasing customer engagement**



Source: [GfK NOP consumer engagement in the energy market \(2017\) report](#), Ofgem (21 September 2017), page 9.

7. The 41% level of engagement cited above relates to customers across all suppliers, including those of the SAMS who are more likely to have switched recently. We have also examined the level of engagement among the customers of the SLEFs. Table 1 below shows the results.

**Table 1: Levels of engagement in the past 12 months by supplier**

<i>Supplier</i>	<i>% of gas customers engaged in past 12 months</i>	<i>% of electricity customers engaged in past 12 months</i>
British Gas	[30-40]	[20-30]
E.ON	[40-50]	[30-40]
EDF	[40-50]	[30-40]
Npower	[40-50]	[40-50]
SSE	[20-30]	[20-30]
ScottishPower	[40-50]	[40-50]
Others	[40-50]	[50-60]
<b>Total</b>	<b>41%</b>	<b>41%</b>

Source: CMA analysis of data from the [GfK NOP consumer engagement in the energy market \(2017\) report](#), Ofgem (21 September 2017).

8. This shows that engagement is highest among customers supplied by SAMS, with approximately [40-50]% of gas customers and [50-60]% of electricity customers having engaged in the past 12 months. Engagement for customers

<sup>4</sup> [State of the energy market 2017 report](#), Ofgem (31 October 2017), page 25.

<sup>5</sup> [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 9.

supplied by each of the SLEFs varies considerably, with only [20-30]% of SSE's gas and electricity customers having engaged in the past 12 months, compared to around [40-50]% of Npower and ScottishPowers' gas and electricity customers.

9. Customer engagement also differs depending on demographic and household characteristics. The EMI reported that customers were less likely to have switched supplier in the last three years if they:<sup>6,7</sup>
  - (a) Had household incomes under £18,000 a year.
  - (b) Were living in rented social housing.
  - (c) Did not have a qualification.
  - (d) Were aged 65+.
  - (e) Had a disability or were registered on the Priority Services Register (PSR).<sup>8</sup>
10. Ofgem's more recent consumer engagement survey indicates that customer engagement appears to have increased irrespective of demographic and household characteristics. For example, Ofgem's 2017 consumer engagement survey found that increases in the level of supplier switching was evident across all groups, although there were notable increases among:
  - (i) Social Grades ABC1 and (ii) higher income households.<sup>9</sup> However, it continues to be the case that engagement differs with income, whether an individual rents or owns their property and age.<sup>10</sup>

## Stages of customer engagement

11. In this section, we consider the following stages that previously disengaged customers undergo when engaging with the market, and consider each one in turn:
  - (a) customers' awareness of their ability to switch tariff or supplier;

---

<sup>6</sup> [EMI final report](#) (24 June 2016), paragraph 9.10.

<sup>7</sup> The CMA noted in the EMI ([EMI final report, Appendix 8.7](#) (24 June 2016), paragraph 9), that these demographic characteristics are not necessarily drivers of engagement, and that 'the associations [the CMA] identified may or may not be due to direct relationships between the variables'.

<sup>8</sup> A condition of Ofgem's supplier licences is that suppliers maintain a PSR which identifies customers from certain eligible groups. These groups include people of pensionable age, disabled people and those chronically ill.

<sup>9</sup> [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 10.

<sup>10</sup> [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), section 3.



- (b) reasons for customer disengagement;
- (c) specific triggers of engagement; and
- (d) drivers of choice once a customer has decided to engage with the market.

### ***Customers' awareness of their ability to switch tariff or supplier***

#### *Ofgem's 2017 consumer engagement survey*

12. Ofgem's 2017 consumer engagement survey indicated that the vast majority of customers are aware that they can switch supplier. For example, seven in ten of respondents who had never switched were aware of their ability to switch supplier, tariff or payment method.<sup>11</sup> Overall 86% of respondents were aware of their ability to switch supplier.<sup>12</sup> This is broadly consistent with the results in the EMI survey, where 89% of respondents were aware that they could switch supplier.<sup>13</sup>
13. There therefore appears to be widespread awareness that it is possible to switch supplier, and it does not appear that a lack of awareness of the ability to switch is a significant barrier to engagement, even for those who have never switched. However, Ofgem's 2017 consumer engagement survey does suggest that one barrier to customer engagement is a lack of awareness of the savings which can be made by switching supplier.<sup>14</sup>

### ***Reasons for customer disengagement***

#### *Summary of findings on reasons for customer disengagement*

14. Overall, the evidence demonstrates that there are a number of reasons why customers may not engage with their choice of energy tariff or supplier. It is evident that some customers are unaware of the savings which could be made by switching tariff or would require significant savings in order to switch and do not see savings from switching as being guaranteed, while others perceive that the switching process could be a lot of hassle, and things can go wrong (eg billing error). More generally, disengaged customers report a more negative perception of the switching process, which may serve as a barrier to engagement. Some customers feel overwhelmed by the complexity of switching.

---

<sup>11</sup> [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 2.

<sup>12</sup> [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 46.

<sup>13</sup> [GfK NOP customer survey report](#), CMA (EMI) (February 2015), page 39.

<sup>14</sup> For example, [Cheaper Market Offers Letter Trial](#), Ofgem (summer 2017), paragraph 1.4.

15. Finally, for some groups of customers, switching energy provider is simply a low priority, despite being aware they could save money; some customers consider their supplier and tariff to be 'good enough', as reflected by an 'if it's not broken, don't fix it' mentality.

### *EMI survey*

16. The EMI survey asked respondents how much money they would have to save in order to encourage them to switch energy supplier. The results indicated that respondents required substantial savings in order to switch, with a mean annual saving required of £158 and a median annual saving of £114.<sup>15</sup>

### *Ofgem's 2017 consumer engagement survey*

17. Ofgem's 2017 consumer engagement survey explored the perceived risks associated with switching. The most common concerns were that costs might increase (cited by 28% of respondents) or that customers might not save as much as they anticipated (cited by 20% of respondents).<sup>16,17</sup>
18. Other notable risks cited were the possibility of being billed twice (cited by 14% of respondents) and that something might go wrong leading the customer to be cut-off (cited by 10% of respondents). Only 4% of respondents perceived the possibility of the 'supplier going bust' as a risk of switching supplier.<sup>18</sup>
19. Ofgem also asked respondents how much they agreed or disagreed with a number of statements relating to their perceptions of the switching process. Figure 2 below shows the results of these questions, broken down by three categories: those who had switched supplier or tariff in the past 12 months; those who had switched in the past four years, but not in the past 12 months; and those who had not switched for the past four years or more (the 'CMA Database group').

---

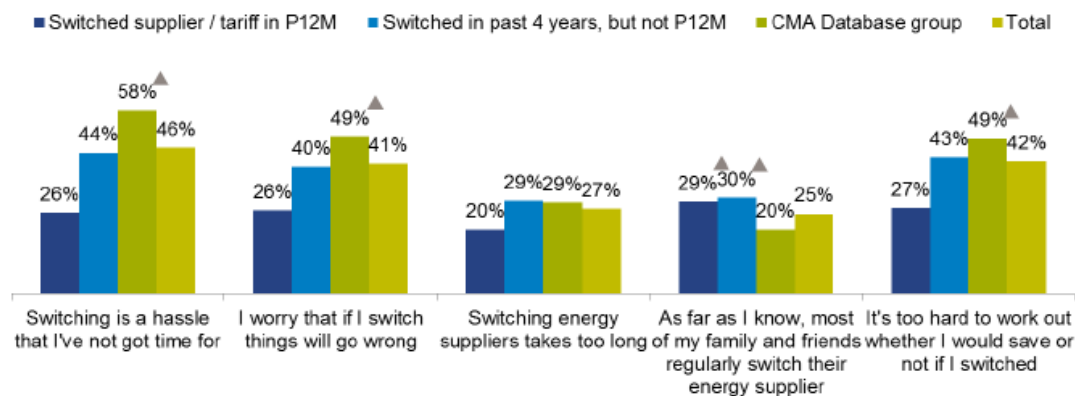
<sup>15</sup> [GfK NOP customer survey report](#), CMA (EMI) (February 2015), Figure 70.

<sup>16</sup> [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 52.

<sup>17</sup> We note a number of suppliers have been fined by Ofgem for overstating potential savings to customers in the past.

<sup>18</sup> [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 52.

**Figure 2: Perceptions of the switching process**



Q121. How much do you agree or disagree. 7 Base: Total sample: 4001; Switched supplier / tariff P12M: 1016; Switched in past 4 years, but not P12M: 1063; CMA database group: 1921;

Source: [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 51.

20. It is interesting to note that those in the CMA Database group (ie the most disengaged customers) had significantly more negative perceptions around the switching process. They were more likely to think that:

- (a) switching is a hassle;
- (b) things could go wrong if they switch;
- (c) switching takes too long;
- (d) their friends and family do not switch regularly; and
- (e) it is too hard to work out if they would save money by switching.

21. Ofgem’s 2017 consumer engagement survey also asked respondents whether they had received any recommendations to switch in the past 12 months (from parties other than representatives of energy companies). The vast majority of respondents (83%) stated that they had not received any such recommendations.<sup>19</sup> This may suggest that word-of-mouth does not currently trigger significant engagement in the energy market.

22. Ofgem’s 2017 consumer engagement survey asked respondents who had either not engaged or who had compared suppliers or tariffs but not switched, why they had not engaged or switched. The most common response was that their supplier or tariff is satisfactory (33%). 23% of respondents stated that engaging was too much hassle, and 21% stated reasons relating to price

<sup>19</sup> [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 57.

(eg that they would not save enough to make switching worthwhile, or that they are already on the best deal).<sup>20</sup>

#### *Citizens Advice Scotland's tracker survey*

23. In its tracker survey, Citizens Advice Scotland asked respondents who had considered switching but had not done so why they had not switched. Citizens Advice Scotland noted that 32% of respondents cited a 'lack of time', and 28% of respondents stated that they thought the savings from doing so would be minimal.

#### *Evidence from the SLEFs' internal documents*

24. The evidence from the SLEFs' internal documents relating to barriers to engagement is set out in more detail in Annex 1. The main findings are summarised below.
25. Npower undertook a piece of qualitative research to explore the drivers of disengagement in SVT customers. It identified [redacted]. Another piece of research by Npower into its high value SVT customers found [redacted].
26. British Gas undertook a survey following a campaign to get people on SVTs to switch to FTCs. It found that the most common reasons given for not switching were that customers were happy on their SVT, saw no reason to switch, or thought the process would be a hassle.

#### *Ofgem's Database trial*

27. Ofgem undertook qualitative research as part of its 'Database trial' (described in detail below at paragraphs 72 to 76) to understand why some customers did not engage following prompts from Ofgem or their supplier. Ofgem found that commonly reported barriers included:
- (a) Not recognising the suppliers listed on the letters (although not for everyone);
  - (b) Not having the time to research further;
  - (c) Not having internet access to be able to research deals;
  - (d) Not wanting to have to negotiate with suppliers; and

---

<sup>20</sup> GfK NOP consumer engagement in the energy market 2017 report, Ofgem (21 September 2017), page 58.

- (e) Perceptions that suppliers are untrustworthy, and that prices may increase anyway.

### ***Specific triggers of engagement***

28. We note that significant savings have been available to SVT customers if they switch for an extended period of time, but many of them do not engage with their choice of energy supplier.<sup>21</sup> We are therefore also interested in understanding the specific factors or events that trigger customers to engage.
29. For example, once customers are considering their choice of supplier or tariff their choices may be driven by the possibility of saving money. However, the specific trigger of engagement could be one of a series of events, such as a supplier notifying them of an increase to their tariff, a direct debit reassessment, or media coverage of price changes.
30. We have therefore tried to identify from the available evidence what specific factors or events are common triggers for customers to engage in the market.

### ***Summary of findings on specific triggers of engagement***

31. The available survey evidence suggests that communication from suppliers is a significant trigger of customer engagement, with media and other prompts playing less of a role. Price-related triggers appear to be the most significant drivers of engagement, although there is evidence that when customers experience poor service quality, it can also play a major role in triggering engagement.

### ***Ofgem's 2017 consumer engagement survey***

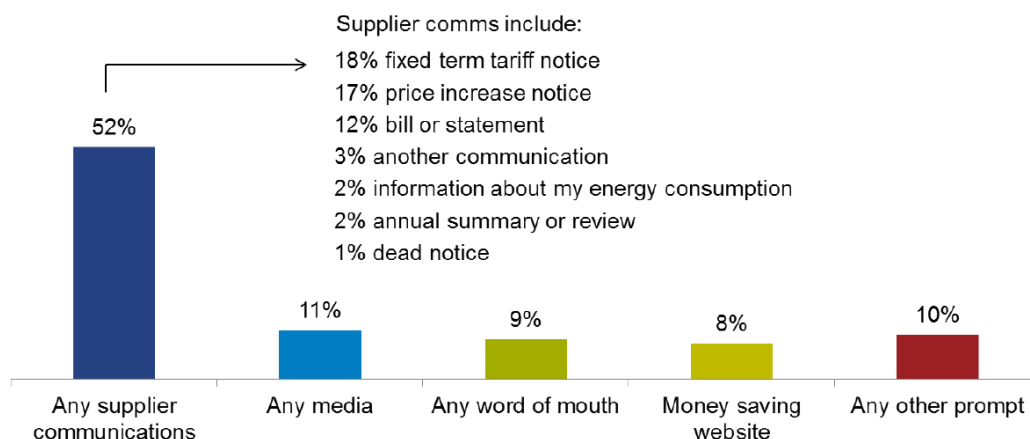
32. Ofgem's 2017 consumer engagement survey asked those who had engaged in the market what had prompted them to do so. As shown in Figure 3 below, the most commonly cited prompt was some form of supplier communication, in particular fixed term tariff notices, price increase notices and receipt of a bill or statement.

---

<sup>21</sup> Indeed, Ofgem has noted that many customers do not appear to be aware of the savings which are available (see, [Cheaper Market Offers Letter Trial](#), Ofgem (summer 2017), paragraph 1.4).

**Figure 3: Prompts to customer engagement**

**Chart 25 Prompts to engagement**



Q101. And thinking about the last time you (answer from Dumm1), what were the main reasons that caused you to do that? Base: Switched gas or electricity supplier or tariff, or compared suppliers or tariffs in the past 12 months: 1558

Source: [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 56.

33. However, we are particularly interested in factors that prompt previously disengaged customers to engage. We note that Figure 3 does not distinguish between factors that trigger engagement in previously disengaged customers, and factors that prompt engagement in customers who are already (at least somewhat) engaged. This limits the conclusions which can be drawn from this specific piece of analysis regarding what prompts default tariff customers in particular to engage with their choice of energy supplier.
34. The Parties submitted that analysis of the respondents who had switched for the first time in the last 12 months could be used to understand the relative importance of different factors in prompting SVT customer engagement. However, we have some doubts about the ability of respondents to accurately recall precisely what prompted them to engage with the energy market at such a fine level of detail. For example, a fixed term tariff notice was a commonly cited prompt by customers who had switched for the first time in the last 12 months but this is not a prompt which is received by SVT customers.<sup>22</sup>
35. We analysed the raw data for this question, to try and identify the specific triggers that cause previously disengaged (eg long-term default tariff customers) to engage in the market. However, Ofgem's 2017 consumer engagement survey did not record which customers recently switched away

<sup>22</sup> And so was irrelevant to default tariff customers at the time of the survey.

from SLEFs' SVTs, and we were unable to identify this group satisfactorily from the available variables.<sup>23</sup>

#### *Which? energy satisfaction survey*

36. Which?'s energy satisfaction survey asked customers who had actively switched supplier why they had left their previous supplier. Respondents were asked to pick up to three from a list of factors and rank them in order of importance in their decision. Factors that were ranked in the top three by at least 10% of respondents included:
- (a) Bills were too high (48%).
  - (b) The fixed deal/special rate tariff with their previous supplier ended (32%).
  - (c) Poor customer service (17%).
  - (d) Issues with billing (11%).
  - (e) They are fed up with the 'Big Six' energy suppliers dominating the market (10%).

#### *Evidence from internal documents for those SLEFs who could provide relevant analysis*

37. Annex 1 gives a more detailed summary of the evidence on triggers of engagement from internal documents for those SLEFs who could provide relevant analysis. The main findings are summarised below.
38. Npower's internal documents show that a number of factors can trigger previously disengaged customers to engage. Npower's 2017 Customer Exit Survey shows that customers mentioned [redacted] as reasons for leaving Npower [redacted]. Npower's in depth qualitative study of reasons for leaving show that a number of events can drive customers to leave, [redacted].
39. SSE's 2017 Leavers Research showed that [redacted] were the key driver for customers to leave. It found that '[redacted] was not a primary motivation to leave' SSE. British Gas undertook a survey following a campaign to get people on

---

<sup>23</sup> We examined the responses to this question (Q161 of Ofgem's 2017 consumer engagement survey) for two groups of respondents: those who reported having switched from a variable to a fixed tariff in the last 12 months, and those who had switched only once. However, in both cases, the answer 'I received an end of fixed term tariff notice from my supplier' received a significant number of responses. Since this response is inconsistent with customers having only recently become engaged (since those coming to the end of a fixed tariff are likely to have engaged in the market recently), we concluded that these categories did not capture the customer group in which we were interested – those who were previously disengaged but had recently become engaged.

SVTs to switch to FTCs. It found that the primary motivation of those customers who took up the offer to switch to an FTC was financial.

40. This gives a somewhat different picture to [REDACTED], which showed that quality of service was a major trigger of switching. This is somewhat unsurprising, given that SSE has typically received higher customer satisfaction scores than Npower.<sup>24</sup> Overall, the evidence from SLEFs' internal documents indicates that poor customer service is likely to be a significant driver of engagement.

#### *Evidence from the response to an SVT price increase*

41. Following an SVT price increase customers may receive a number of prompts which will trigger them to engage and to consider switching energy supplier. These prompts include: (i) press coverage of the price announcement and (ii) communications from their supplier in the form of a price change notification letter or bill. The Parties' submitted that, of these two factors, the latter was the more important.
42. We have received evidence that both factors are important to varying degrees and in our view the evidence does not allow a conclusion to be made regarding precisely which of these two factors prompts more customer engagement.
43. Npower provided data on changes in its customer call volumes following its 2018 SVT price change announcement. This provided some evidence that customer calls to Npower's call centres increased a few days after its price announcement. This is consistent with customer engagement increasing as a result of customers receiving price change notification letters rather than because of press coverage of the price announcement itself.
44. [REDACTED]<sup>25</sup>
45. [REDACTED]<sup>26,27</sup>

---

<sup>24</sup> For example, the EMI ([EMI final report](#) (24 June 2016), Figure 9.5) found that Npower experienced significantly lower Net Promoter Scores than the other SLEFs over the period 2012-2015.

<sup>25</sup> [REDACTED]

<sup>26</sup> [REDACTED]

<sup>27</sup> [REDACTED]



*Evidence on the role of differences between acquisition tariff and default tariff prices in driving customer engagement*

46. The Parties have submitted that ‘a larger proportion of customers are willing to switch to acquisition tariffs when the potential savings from doing so are larger’.
47. To support this submission the Parties have referred to evidence from a number of customer surveys, Ofgem’s Cheaper Market Offers Letter Trial and evidence reviewed by Ofgem as it designs the Default Tariff Cap.
48. Regarding the customer survey evidence referred to by the Parties, we note that similar evidence was reviewed during the EMI when the CMA expressed concerns about the reliability of responses to such hypothetical questions.<sup>28</sup>
49. More generally, we note that we would expect that once customers begin to consider switching supplier, they would be more likely to actually do so the larger the potential savings. This is illustrated by the evidence provided by the Parties.
50. However, we also note that there is evidence that a significant barrier to customer engagement is a lack of awareness of the potential savings which can be made by switching tariff.<sup>29</sup> This is reflected in the fact that despite large and persistent potential savings which many customers can make by switching tariff, many customers continue to be on SVTs. Where customers are unaware of the potential saving to be made by switching, changes in the precise level of those customer savings are less likely to lead to changes in customer engagement.

***Drivers of choice once a customer has decided to engage with the market***

*Summary of findings on drivers of choice*

51. It is clear from the EMI, Ofgem, Which? and Citizens Advice Scotland surveys that price is the main driver of choice and engagement for customers. Quality of service (in various dimensions) is important to some customers, although it appears to be significantly less important than price as a driver of choice.

---

<sup>28</sup> [EMI final report](#) (24 June 2016), paragraph 9.115.

<sup>29</sup> For example, this has been noted by Ofgem (see [Cheaper Market Offers Letter Trial](#), Ofgem (summer 2017), paragraph 1.4).

52. It is clear from the evidence that some customers have a preference for the SLEFs or for a recognised brand. However, there is a mixed picture regarding the importance of supplier brand in driving customer choice
53. The EMI survey identified a stronger preference for SLEFs than the more recent Citizens Advice Scotland tracker survey. This may suggest that any preference for SLEFs (or reluctance to choose one of the SAMS) may have reduced since the EMI. This is consistent with the expanding market share of the SAMS since the EMI.

#### *EMI survey*

54. The EMI survey found that price is by far the most important driver of choice of supplier. For example, 81% of respondents identified factors relating to 'cost/tariff/price/rate' as important to them.<sup>30</sup>
55. The EMI also identified three non-price factors which, although generally less important than price, were of importance to some customers. These factors were:<sup>31</sup>
  - (a) Convenience – for example the option of paying by direct debit or of purchasing bundled products (such as dual fuel tariffs).
  - (b) Quality – in particular accurate billing and appropriate complaints handling. The EMI described this as a 'hygiene factor' whereby customers required a minimum quality of service beyond which service ceases to become a relevant factor in the choice of supplier.
  - (c) Value-added or bundled services – for example energy efficiency advice, albeit only 4% of respondents reported taking these factors into account when choosing a supplier.

#### *Ofgem's 2017 consumer engagement survey*

56. In its 2017 consumer engagement survey, Ofgem asked customers who had switched tariff or supplier in the last 12 months what their priorities had been when doing so. It asked a similar question to those who had not engaged, asking what their priorities would be when choosing a new deal.

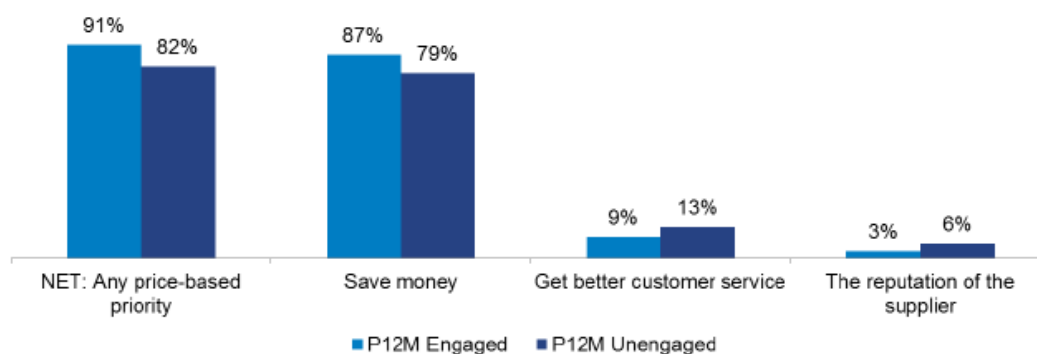
---

<sup>30</sup> [EMI final report](#) (24 June 2016), paragraph 8.12.

<sup>31</sup> [EMI final report](#) (24 June 2016), paragraphs 8.15–8.18.

57. Ofgem’s 2017 consumer engagement survey found that, when choosing a new deal, price was overwhelmingly the factor that received the most mentions (see Figure 4 below).

**Figure 4: Motivations for engagement**



Q122. If you were to switch supplier or tariff, what would be your priorities when choosing a new deal? Base : NOT Switched gas or electricity supplier or tariff, or compared suppliers or tariffs in the past 12 months: 2443; Q160. Thinking of the last time you compared supplier or tariff, what were your priorities? Base: Switched supplier / Compared supplier or tariff P12M: 1558

Source: [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 56.

58. Of those respondents who had engaged in the energy market in the past 12 months, 91% stated that price (in some form) was a priority.<sup>32</sup> This was slightly lower (82%) when the similar (albeit hypothetical) question was asked to customers who had not engaged in the past 12 months.

59. The next most important factor for those who had engaged in the past 12 months was the possibility of getting better customer service which was a priority for only 9% of respondents.<sup>33</sup> The figure was slightly higher (13%) for those who had not engaged in the market in the past 12 months.<sup>34</sup>

### *Which? energy satisfaction survey*

60. As part of its energy satisfaction survey, Which? asked respondents who had actively switched supplier to pick up to three factors they considered when choosing the specific supplier they did, and to rank the importance of these factors. Factors that featured in at least 10% of respondents’ top three responses included:

- (a) They were offered a lower price than their previous supplier (77%).
- (b) They believed they would receive a better service (30%).
- (c) Their supplier was recommended by energy experts (22%).

<sup>32</sup> [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 55.

<sup>33</sup> [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 55.

<sup>34</sup> [GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 56.

- (d) Good reputation of supplier (21%).
- (e) To have the same supplier for gas and electricity (19%).
- (f) Their supplier offered something for free/an incentive/special offer (12%).

#### *Citizens Advice Scotland's tracker survey*

61. Citizens Advice Scotland submitted the results of its tracker survey, which concluded that price is the main driver of switching, with 78% of respondents in its survey mentioning this as a reason. This figure increased to 84% for customers who had switched to one of the SAMS.

#### *Importance of brand*

62. We have received evidence that being served by a large supplier, or one with a recognised brand name, appears to be important to a significant minority of customers.

#### *EMI survey*

63. The EMI survey found that of those customers who had shopped around in the last three years, 66% of customers had looked at both SLEFs and smaller suppliers. However, 27% of respondents had looked only at the SLEFs. This figure was slightly higher than average (32%) for customers on an SVT.<sup>35</sup>
64. In addition, 30% of respondents considered it either essential or very important that their supplier is a large or established brand. The equivalent figure was 19% for those who had switched supplier in the last three years, and 34% for those who had not.<sup>36</sup>

#### *Citizens Advice's survey*

65. Citizens Advice's survey asked customers to which set of suppliers they would consider switching. Figure 5 below shows the results broken down into three categories:
- (a) Supplier switchers: someone who has switched supplier.
  - (b) Supplier considerer: someone who has seriously considered switching supplier, but did not and remained with their existing supplier (this

---

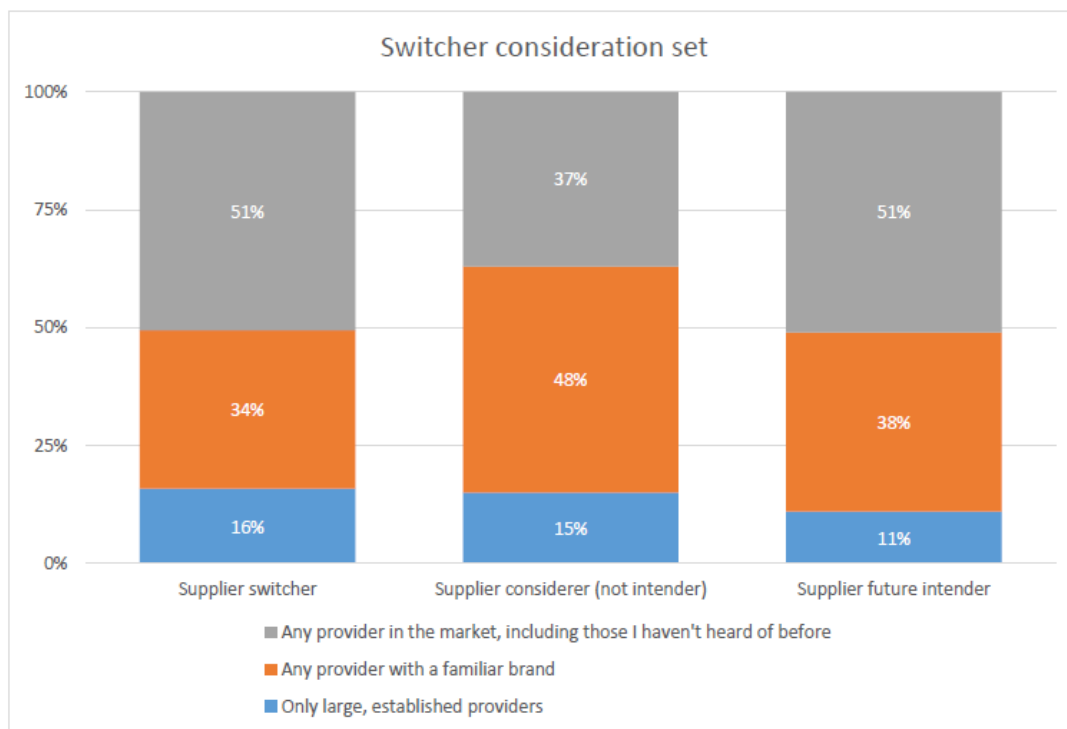
<sup>35</sup> GfK NOP customer survey report, CMA (EMI) (February 2015), paragraph 135.

<sup>36</sup> GfK NOP customer survey report, CMA (EMI) (February 2015), paragraph 90.

includes customers who have switched tariff or have remained with their existing tariff).

- (c) Supplier future intender: someone who intends to switch supplier in the future but has taken no action as of yet.

**Figure 5: Customers' switcher consideration set**



n= Q4 2017 2019, 1502, 3437

Source: Citizens Advice.

- 66. The results show that across the three categories, between 11% and 16% of customers would consider only large, established providers. In addition, between 34% and 48% of customers would consider switching only to a provider with a familiar brand.

### *Ofgem's Cheaper Market Offers Letter Trial*

- 67. In its Cheaper Market Offers Letter Trial (described in detail below at paragraphs 77 to 82), participants received a letter from either their energy supplier or Ofgem, notifying them of cheaper deals available. Ofgem noted that having an offer on the letter from one of the SLEFs was not correlated with customers' propensity to switch.
- 68. However, in the same trial, while only 7% of the tariffs on the letters were from the SLEFs, the SLEFs gained 38% of switchers. This means that a disproportionately high number of customers switched to the SLEFs, based on their price relative to the other cheapest offers listed.

## *Phase 1*

69. In phase 1, the Parties submitted evidence showing that very few customers (fewer than 2%) have a preference for the larger suppliers. We note, however, that this was based on the question in Ofgem's 2017 consumer engagement survey that asked 'Thinking of the last time you switched supplier, what were your priorities?'. Respondents' top three factors were recorded, and fewer than 2% of respondents listed a preference for larger suppliers as one of their top priorities.
70. The fact that not many respondents listed this as one of their top priorities may suggest that any preference that customers have for SLEFs is relatively weak. It is possible that customers have a preference for the SLEFs, but it did not feature in their (unprompted) list of most important characteristics of an energy supplier.

## **Ofgem trials**

71. In this section, we outline the recent trials that Ofgem has undertaken, which aim to drive engagement in the energy sector. We note that some or all of the policy options explored may come into place in the near future, and they have the potential to affect levels of engagement in the sector.

## ***Database Trial***

72. In late 2016 and early 2017, Ofgem undertook a randomised controlled trial to test the effectiveness of two potential interventions aimed at increasing customer engagement:
  - (a) The CMA's proposed 'Database Remedy' from EMI, whereby rival suppliers were able to send six marketing letters to customers who had been on a default tariff for three or more years.
  - (b) The 'Best Offers Letter', whereby Ofgem wrote to customers, presenting three cheaper tariffs to them.
73. The trial involved 2,400 [redacted] and [redacted] customers who had been on default tariffs for at least three years, and lasted 12 weeks. Each customer was sent one of the following:
  - (a) up to six marketing letters from other suppliers (under the 'Database Remedy');
  - (b) one Best Offers Letter; or

- (c) no letter (the control group).
74. The trial resulted in an increase in engagement for customers receiving marketing or Best Offers Letters. Over the 12 week period, 6.8% of the control group switched supplier or tariff. In contrast, 13.4% of customers receiving marketing letters from rival suppliers (under the 'Database Remedy') switched (supplier or tariff), and 12.1% of customers receiving a Best Offers Letter switched. Ofgem noted that in this trial switching internally (ie to a new tariff with the same supplier) was more common than external switching. It also noted that one of the participating suppliers ([redacted]) increased its prices during the trial period, which may have affected results.
75. Ofgem undertook qualitative research to explore customers' experience of the two options. It found that the letters prompted some customers to look on PCWs or call their supplier to negotiate a cheaper tariff. As set out above, Ofgem noted a number of barriers to engagement reported by customers who did not switch during the trial (see paragraph 20 above).
76. Ofgem indicated that responses to the Best Offers Letter were generally positive.

### ***Cheaper Market Offers Letter Trial***

77. Ofgem undertook a randomised controlled trial with [redacted] in 2017, to explore whether sending customers a 'Cheaper Market Offers Letter' increased customers' engagement with the domestic energy markets.
78. As part of the trial, approximately 150,000 customers (75,000 for each supplier) were sent one of the following:
- (a) a letter branded from their supplier;
  - (b) a letter branded from Ofgem; or
  - (c) no letter (the control group).
79. Those receiving the letter received three offers from rival suppliers who were offering the cheapest tariffs in the market at the time (and that matched customers' preferences around payment method and how they receive their bills).
80. Over the 30-day period of the trial, rates of switching significantly increased for customers receiving one of the Cheaper Market Offers Letters. During the trial, only 1% of the control group switched. In contrast, 2.9% of customers

receiving a letter switched (with the highest rate of switching (3.4%) coming from those who received a supplier branded letter).

81. Ofgem noted that while only 7% of the tariffs on the letters were from the SLEFs, the SLEFs gained 38% of switchers in the trial. This suggests that SLEFs received a disproportionately high number of switchers given their prices, and may indicate some preference for the SLEFs among customers. However, we note that SLEFs receiving 38% of switchers is broadly consistent with the more general evidence we have received on customer switching patterns (see Appendix H).
82. Ofgem noted that having an offer from a SLEF on the letter was not correlated with customers' propensity to switch, although it noted that some customers value switching to a brand they recognise. It noted that a lack of brand awareness was a barrier to switching to small suppliers for some customers.

### ***Check Your Energy Deal trial***

83. In this trial, just over 10,000 [redacted] customers in Northampton who had been on a default tariff for three or more years were invited to use the 'Check Your Energy Deal' digital service. The service told these customers they were on an expensive tariff, and showed them cheaper deals and routes through which they could switch to these deals. [redacted] also monitored the switching rates of a control group of 80,000 customers across the UK, who did not receive an invitation to use the service.
84. Switching rates were monitored between August and December 2017, and showed that the group of customers who were invited to use the service [redacted].
85. Qualitative research suggested that customers' experience of using the service was positive, but that the number of customers who switched through the service was low.

### ***Active Choice Collective Switch Trial***

86. This trial was run during early 2018 and involved 55,000 [redacted] customers who had been on default tariffs for three years or more (5,000 of whom formed the control group).
87. Energy Helpline acted as a partner in the trial, and negotiated a collective switch tariff, calculated projected savings, sent projected savings and reminder letters, developed a website for customers to use, and ran a phone switching service during the trial.
88. Customers received three letters over the seven weeks of the trial:



- (a) Letter 1: an announcement of the forthcoming exclusive tariff plus the opportunity to opt out of data being shared.
- (b) Letter 2: the projected savings with the exclusive tariff, and instructions to contact Energy Helpline for full results.
- (c) Letter 3: a reminder letter with the projected savings, emphasising the closing date.

89. [✂]

90. [✂]

## **Annex 1: Additional evidence from internal documents for those SLEFs who could provide relevant analysis**

1. This annex sets out in more detail the evidence on engagement from internal documents for those SLEFs who could provide relevant analysis. This evidence relates specifically to:
  - (a) reasons for customer disengagement; and
  - (b) specific triggers of engagement.

### ***Reasons for customer disengagement***

#### *Npower Qualitative Research – Disengaged customers*

2. In 2017, Npower commissioned a piece of qualitative research to explore the causes of disengagement in SVT customers. [REDACTED].
3. The report [REDACTED]:
  - (a) [REDACTED]
  - (b) [REDACTED]
  - (c) [REDACTED]

#### *Npower 2016 High Value Customers research*

4. Npower’s research into High Value Customers also examined factors that limit the likelihood of high value SVT customers to engage. The report noted [REDACTED]:
  - (a) [REDACTED]
  - (b) [REDACTED]
  - (c) [REDACTED]

#### *British Gas 2017 SVT Communications Engagement Research*

5. British Gas undertook a survey of [REDACTED] of its SVT customers following a campaign in which it offered these customers an FTC. Its research showed that most customers who opted not to switch to this improved offer ([REDACTED]%) did so because they were happy on their current tariff. Figure 6 below gives a summary of their results.

**Figure 6: Reasons for not switching**

[✂]

Source: British Gas.

6. Consistent with the evidence summarised above, perceptions of hassle, lack of financial benefit, and lack of available time were also important drivers of customers not switching.

***Specific triggers of engagement***

*Npower's 2017 Customer Exit Survey*

7. Npower undertakes regular surveys of customers who switch away, and monitors the key factors that result in these customers leaving.
8. Npower's research indicates that [✂]. Figure 7 below shows the percentage of customers surveyed who mentioned different factors in Npower's 2017 Customer Exit Survey, and how this has changed over time

**Figure 7: Factors mentioned by customers leaving Npower**

[✂]

Source: Npower.

9. Figure 7 shows that [✂].
10. This demonstrates [✂].

*Npower 2015 Customer Leavers Research*

11. Npower submitted a summary of qualitative research it commissioned in 2015 (involving [✂] in-depth interviews) to examine the reasons why some of its former customers decided to switch away. The report cites [✂]:
  - (a) [✂]
  - (b) [✂]
  - (c) [✂]
  - (d) [✂]
  - (e) [✂]
  - (f) [✂]

### *Npower 2016 High Value Customers research*

12. In 2016, Npower commissioned a piece of qualitative research relating to its High Value Customers (the top 20% of Npower customers, who account for [REDACTED]% of customer value). The report identified some of the triggers for these customers to switch away from Npower. It also noted [REDACTED]:
  - (a) [REDACTED]
  - (b) [REDACTED]
  - (c) [REDACTED]

### *SSE's 2017 Leavers Research*

13. SSE also undertakes surveys of customers who switch away from it. The results of its March 2017 research set out that '[REDACTED] is the key driver for customers to leave' SSE. Its research shows [REDACTED].
14. For its customers on SVT, [REDACTED].
15. SSE's research also noted that '[REDACTED] was not a primary motivation to leave'. It noted [REDACTED].

### *British Gas 2017 SVT Communications Engagement Research*

16. British Gas undertook a survey of [REDACTED] of its SVT customers following a campaign in which it offered these customers an FTC. Its research indicated that financial reasons were the key driver of customers switching tariff, with [REDACTED]% of customers citing financial reasons.

# Appendix C: Counterfactual – the Parties’ alternatives to the Merger

## Introduction

1. This appendix sets out the evidence we reviewed in relation to any alternative options (to the Merger) which may have been available to each of the Parties.

### *innogy's alternative options*

2. Our review of innogy’s internal documents showed that between May and September 2017, it had considered a number of different strategic options in response to what it described as the ‘generally challenging competitive landscape in the domestic energy market in GB’, including [REDACTED].
3. innogy told us [REDACTED]
  - (a) [REDACTED]
  - (b) [REDACTED]
  - (c) [REDACTED]
4. In another internal innogy document [REDACTED], the innogy Executive Board was presented with [REDACTED]
  - (a) [REDACTED]
  - (b) [REDACTED]
5. As late as September 2017, when its negotiations with SSE in relation to the Merger were fairly advanced, the innogy board was presented with [REDACTED].
6. [REDACTED]

### *SSE's alternative options*

7. SSE told us that in [REDACTED], it sought [REDACTED] to evaluate potential mergers and acquisitions opportunities (including the acquisition of Npower), [REDACTED].
8. SSE also told us [REDACTED].
9. SSE told us that it arranged a preliminary discussion with the innogy CEO on 3 April 2017 to discuss the potential merger of SSE Retail and Npower, which eventually resulted in the Merger.

10. We also noted that based on SSE's internal documents, [REDACTED], SSE's [REDACTED] options in relation to the current structure that was finally agreed in relation to the Merger were: [REDACTED].

# Appendix D: Background on the Default Tariff Cap

## Introduction

1. This appendix sets out background information on:
  - (a) the requirements on GEMA<sup>1</sup> under the Default Tariff Cap Act; and
  - (b) the actions taken to date by Ofgem to implement the Default Tariff Cap.

## ***Requirements on GEMA under the Default Tariff Cap Act***

2. Under the Default Tariff Cap Act, GEMA is required to:<sup>2</sup>
  - (a) modify the ‘standard supply licence conditions’, as soon as practicable after the Default Tariff Cap Act is passed, to include conditions that impose a price cap on all ‘standard variable rates’ and ‘default rates’ for the supply of energy under domestic supply contracts, where:
    - (i) ‘standard variable rate’ means a rate or amount charged for the supply of energy under the contract that is not fixed for a period specified in the contract; and
    - (ii) ‘default rate’ means a rate or amount charged for the supply of energy under the contract that applies if the customer under the contract fails to choose an alternative rate;
  - (b) protect existing and future domestic customers who pay standard variable and default rates by means of the Default Tariff Cap. In so doing, it must have regard to:
    - (i) the need to create incentives for suppliers to improve their efficiency;
    - (ii) the need to set the cap at a level that enables suppliers to compete effectively for domestic supply contracts;
    - (iii) the need to maintain incentives for domestic customers to switch to different domestic supply contracts; and
    - (iv) the need to ensure that suppliers who operate efficiently are able to finance activities authorised by the licence;

---

<sup>1</sup> Ofgem’s governing body is GEMA.

<sup>2</sup> Default Tariff Cap Act, sections 1(1), 1(4),1(6), 6(1), 7(1), 7(2) and 7(3).

- (c) review the level at which the Default Tariff Cap is set, at least every six months; and
  - (d) carry out a review (with the first review to take place in 2020, and then for each year the Default Tariff Cap period is extended) into whether conditions are in place for effective competition for domestic supply contracts, as part of which, it must consider the extent to which progress has been made in installing smart meters (for use by domestic customers).
- 3. In relation to exemptions from the Default Tariff Cap, the Default Tariff Cap Act states that:<sup>3</sup>
  - (a) the Default Tariff Cap would not apply to domestic customers who benefit from the PPM Price Cap (under the EMI remedies);
  - (b) the Default Tariff Cap ‘may’ not apply to:
    - (i) vulnerable domestic customers who benefit from another price cap imposed by GEMA; or
    - (ii) SVTs which apply only if they are chosen by domestic customers if, or to the extent that, the SVTs support the production of gas or the generation of electricity from renewable sources.
- 4. Under the Default Tariff Cap Act, the Default Tariff Cap expires on 31 December 2020, unless on recommendations from Ofgem, the Secretary of State publishes a statement to the effect that the conditions are not yet in place for effective competition for domestic supply contracts. In which case, the Default Tariff Cap can be extended for a further year (up to three times), until 31 December 2023 (at the latest).<sup>4</sup>
- 5. In addition, before the Default Tariff Cap expires (and afterwards at intervals to be determined by GEMA), the Default Tariff Cap Act requires GEMA to carry out a review into:<sup>5</sup>
  - (a) the pricing practices of holders of supply licences for the supply of gas and electricity under domestic supply contracts; and

---

<sup>3</sup> Default Tariff Cap Act, [section 3](#).

<sup>4</sup> Default Tariff Cap Act, [section 8](#).

<sup>5</sup> Default Tariff Cap Act, [section 9\(1\)](#).



- (b) whether there are categories of domestic customers paying, or who may in the future pay, standard variable and default rates for whom protection against excessive charges should be provided.
- 6. The Default Tariff Cap Act states that such a review must consider (among others) whether:<sup>6</sup>
  - (a) there are domestic customers who GEMA considers will suffer an excessive tariff differential when moving from FTCs to default tariffs; and
  - (b) customers who appear to GEMA to be vulnerable by reason of their financial or other circumstances are in need of protection.
- 7. Finally, if GEMA's review concludes that protection should be provided, then GEMA is required under the Default Tariff Cap Act to 'take such steps as it considers appropriate' by the exercise of its statutory functions.<sup>7</sup>

### ***Ofgem's actions to implement the Default Tariff Cap***

- 8. On 25 May 2018, Ofgem published its policy consultation on how it might design and implement the Default Tariff Cap, including how it could set the initial level of the Default Tariff Cap, and how it might periodically adjust the Default Tariff Cap up or down to reflect underlying cost changes. The consultation had a deadline for responses of 25 June 2018.<sup>8</sup>
- 9. On 16 August 2018, Ofgem published an open letter stating that it expected to publish its policy decision, with a statutory consultation on the associated licence conditions, in early September 2018. Ofgem's open letter also stated that the documents it would publish would consist of its 'minded to positions on policy', and its 'proposed modifications to the licence conditions'. Ofgem's open letter also stated that it was 'still aiming to have the Default Tariff Cap in force by the end of 2018', and that further information on its timetable would be included in its statutory consultation.<sup>9,10</sup>
- 10. Ofgem has not yet published its statutory consultation which outlines its latest thinking on the design of the Default Tariff Cap, and therefore we set out

---

<sup>6</sup> Default Tariff Cap Act, [section 9\(2\)](#).

<sup>7</sup> Default Tariff Cap Act, [section 9\(3\)](#).

<sup>8</sup> [Default Tariff Cap: Policy Consultation Overview document](#), Ofgem (25 May 2018).

<sup>9</sup> [Open letter to stakeholders 'Update on retail price protection'](#), Ofgem (16 August 2018).

<sup>10</sup> On 20 July 2018, Ofgem had published an open letter stating that it expected to publish its policy decision, with a statutory consultation on the associated licence conditions on 23 August 2018 (see [Open letter to stakeholders 'Update on retail price protection'](#), Ofgem (20 July 2018)), but changed this to early September 2018 to enable it to 'fully review and consider the responses' it had received during its May/June 2018 consultation, and 'prepare full materials for the statutory consultation, to help stakeholders to provide further well-informed responses' (see [Open letter to stakeholders 'Update on retail price protection'](#), Ofgem (16 August 2018)).

below Ofgem's policy intentions set out in its May 2018 consultation document in relation to:

- (a) the methodology for setting the level of the Default Tariff Cap;
- (b) the possible effects of the Default Tariff Cap; and
- (c) competition considerations on whether to extend the Default Tariff Cap beyond 2020.

#### *Methodology for setting the level of the Default Tariff Cap*

11. While Ofgem's May 2018 consultation document did not propose what level the Default Tariff Cap should be set at, it did propose its 'broad methodology' for how the level of the Default Tariff Cap might be set:<sup>11</sup>
  - (a) *Allowance for efficient costs*: firstly, Ofgem stated that it would 'judge what level of costs an efficient supplier should incur' and consulted on three possible methodologies for its determination; and
  - (b) *Headroom*: secondly, it proposed to assess whether any additional amount would be required above the allowance for efficient costs to account for any remaining uncertainty and risk in its 'efficient benchmark'. In this regard, Ofgem stated that it was considering a headroom range of between nil and £70 for an average customer.
12. While a level for the Default Tariff Cap has yet to be announced, the Ofgem May 2018 consultation document suggests that the Default Tariff Cap would be set at a level below prevailing SVT levels, but high enough to ensure cheaper deals could still be offered to 'engaged customers', for example:<sup>12</sup>
  - (a) Ofgem recognised that the objective of the Default Tariff Cap would be to protect current and future consumers on SVTs or other default tariffs, and therefore, expected that consumers on default tariffs paying the highest prices would make 'significant savings' under the Default Tariff Cap; and
  - (b) in order to have regard to enabling suppliers to compete effectively and maintain incentives for customers to switch, Ofgem stated that the Default Tariff Cap was 'not intended to replace competition', and that it 'should ensure sufficient cheaper tariffs are offered to engaged consumers, while protecting consumers not on those deals'.

---

<sup>11</sup> [Default Tariff Cap: Policy Consultation Overview document](#), Ofgem (25 May 2018), page 8 and paragraphs 2.51 and 2.52.

<sup>12</sup> [Default Tariff Cap: Policy Consultation Overview document](#), Ofgem (25 May 2018), page 7.

13. In relation to the form of the Default Tariff Cap, Ofgem's May 2018 consultation document stated that the Default Tariff Cap would set an upper limit on the amount customers on default tariffs paid, which would increase in proportion to the amount of energy that they used, and include an allowance at nil consumption. For any particular customer the exact level of the cap would vary depending on some of their circumstances, eg to reflect differences in the costs of transporting energy in different locations and to reflect differences in the cost of serving people with different consumption habits or payment types.<sup>13</sup>
14. Ofgem's May 2018 consultation document also proposed updating the Default Tariff Cap every six months, and consulted on three methodologies for updating the Default Tariff Cap: (i) adjustments based on trends observed in a basket of market tariff; (ii) adjustments based on a periodic review of realised costs; and (iii) adjustments based on trends on cost data outside of suppliers' control.<sup>14</sup>

#### *Possible effects of the Default Tariff Cap*

15. Ofgem's May 2018 consultation document also set out its initial views on the potential impacts that would arise as a result of the introduction of the Default Tariff Cap, depending on the chosen methodology for determining the Default Tariff Cap.<sup>15</sup> It added that it would publish its draft impact assessment as part of the statutory consultation on its final proposal, and that its final impact assessment would be published alongside its final notice on the level of the Default Tariff Cap.<sup>16</sup>
16. Ofgem's views on the possible dynamic impacts of the Default Tariff Cap on the pricing of default tariffs and FTCs are set out below:<sup>17</sup>
  - (a) *Dynamic impact on default tariff pricing:* Ofgem stated that it was possible that the Default Tariff Cap would be 'used as a focal point at which prices cluster – meaning that for those suppliers with default tariffs currently priced below the cap, prices may rise to the level of the cap', which would 'result in a net price increase for the customers of those suppliers on default tariffs'.

---

<sup>13</sup> [Default Tariff Cap: Policy Consultation Overview document](#), Ofgem (25 May 2018), paragraphs 1.10 and 1.11.

<sup>14</sup> [Default Tariff Cap: Policy Consultation Overview document](#), Ofgem (25 May 2018), pages 34 and 35.

<sup>15</sup> [Default Tariff Cap: Policy Consultation Overview document, Appendix 14 \(Initial view on impact assessment\)](#), Ofgem (25 May 2018).

<sup>16</sup> [Default Tariff Cap: Policy Consultation Overview document, Appendix 14 \(Initial view on impact assessment\)](#), Ofgem (25 May 2018), paragraph 1.8.

<sup>17</sup> [Default Tariff Cap: Policy Consultation Overview document, Appendix 14 \(Initial view on impact assessment\)](#), Ofgem (25 May 2018), paragraphs 4.10, 4.14, 4.16–4.18.

(b) *Dynamic impact on pricing of FTCs*: Ofgem considered two possible scenarios, and stated that:

- (i) where FTCs were priced below the Default Tariff Cap, suppliers might increase FTC prices in order to cover any costs of supplying default tariff customers who were above the Default Tariff Cap, and therefore could not be recovered under the Default Tariff Cap. It added that an increase in the price of FTCs currently below the Default Tariff Cap would reduce the price differential between default tariffs and FTCs, and this reduction in the differential could have an impact on customer switching, both between suppliers and between tariffs with the same supplier; and
- (ii) conversely, it was possible that where prices of FTCs were above the Default Tariff Cap, suppliers might look to decrease these prices, to avoid a negative differential between their default tariffs and FTC offering. It added that under these potential scenarios, FTC prices could be reduced to match the Default Tariff Cap, or reduced below this level possibly to maintain the differential to the default tariff price.

#### *Competition considerations on whether to extend the Default Tariff Cap beyond 2020*

17. Finally, in relation to Ofgem's requirement to review whether the Default Tariff Cap should be extended beyond 2020, Ofgem's May 2018 consultation document stated that it would assess from 2020, whether the 'conditions for effective competition' were sufficient for the government to remove the Default Tariff Cap. It explained that it interpreted the 'conditions for effective competition' as meaning that the 'right market framework' would be in place for competition to be effective for currently disengaged consumers once the Default Tariff Cap was removed. It proposed that it would analyse both the demand and supply side of the market, and consider whether the market structure would 'promote good outcomes for disengaged consumers', and whether there were 'remaining barriers to engagement'.<sup>18</sup>
18. In this regard, Ofgem's May 2018 consultation document set out what it could consider when assessing conditions for competition, and noted that it would not be able to monitor whether competition was effective while the Default Tariff Cap was still in place, but rather, it would consider how progress with technological changes and other initiatives (such as prompts to engage) could

---

<sup>18</sup> [Default Tariff Cap: Policy Consultation Overview document](#), Ofgem (25 May 2018), page 9 and paragraph 5.13.

help customers engage and enable greater innovation once the Default Tariff Cap was removed.<sup>19</sup>

19. We also note that, as set out in paragraphs 5 to 7 above, under the Default Tariff Cap Act,<sup>20</sup> Ofgem is also required to carry out a further review into (and take action if necessary): (a) the 'pricing practices' of domestic energy suppliers; and (b) whether there are any categories of default tariff customers for whom protection against excessive charges should be provided. Ofgem could adopt other measures, subsequent to the end of the Default tariff Cap, to protect consumers facing excessive differentials on moving to a Default Tariff, or who are otherwise, vulnerable. Such measures are beyond the scope of the Default Tariff Cap itself and of this appendix.

---

<sup>19</sup> [Default Tariff Cap: Policy Consultation Overview document](#), Ofgem (25 May 2018), page 9.

<sup>20</sup> Default Tariff Cap Act, [section 9](#).

# Appendix E: Third party views on the counterfactual

## Introduction

1. This appendix sets out the evidence we reviewed from third parties in relation to whether the following market developments should form part of the counterfactual:
  - (a) the Default Tariff Cap;
  - (b) the EMI remedies; and
  - (c) the proposed E.ON/RWE transaction.

## Third party submissions on the Default Tariff Cap

2. Ofgem told us that it expected the Default Tariff Cap to be in place by the end of 2018. It added that the ultimate objective of the Default Tariff Cap, as provided for by the legislation, was to protect current and future customers on SVTs or other default tariffs, and that in complying with this objective, Ofgem must also have regard to the Default Tariff Cap's impact on other 'matters' specified in the legislation. [redacted].
3. In relation to its review in 2020 of whether the Default Tariff Cap should be extended beyond 2020, Ofgem told us that it would probably use its annual 'State of the energy market' report (published every September) as the reporting vehicle, but added that it might look at a number of possible indicators, such as: [redacted].
4. British Gas told us that 'the CMA should include the introduction of a price cap on standard variable or default tariffs as part of a range of counterfactuals when assessing this merger'. It added that while the 'exact form and timing of the price cap remains unclear', there was 'sufficient certainty over the introduction of a cap' for the Default Tariff Cap 'to be included within a range of reasonable counterfactuals alongside no default price cap at all'.<sup>1</sup>
5. E.ON told us that, in its view, it was 'absolutely clear' that by the end of 2018, the Default Tariff Cap would be implemented, and that it would expect the following effects:<sup>2</sup>

---

<sup>1</sup> British Gas response to the Issues Statement, page 1.

<sup>2</sup> Summary of the hearing with E.ON, paragraph 6.

- (a) a convergence in SVT and default tariff pricing, similar to what was seen after the introduction of the prepayment safeguard cap;
- (b) a reduction in switching, the extent of which would depend on Ofgem's final 'headroom' figure built into the Default Tariff Cap level; and
- (c) the effect of the Default Tariff Cap on acquisition tariffs would depend on the level of the Default Tariff Cap.

6. Citizens Advice told us that:

- (a) the Default Tariff Cap bill was expected to be implemented before the end of 2018, and that while its 'exact form remains under consultation', it should be 'finalised before this phase 2 investigation completes'. However, it added that the CMA 'should be mindful that the legislative cap is explicitly time-limited and may fall away as early as 2020',<sup>3</sup> and
- (b) in relation to the effects of the Default Tariff Cap, it explained that when the prepayment cap was introduced in April 2017, while the 'spread of deals' did at first reduce, this spread subsequently returned to levels that were seen prior to the imposition of the prepayment cap. It also added that it did not consider that the Default Tariff Cap would lead to a significant reduction in customer engagement, and explained that past experience of price caps in the early years of market liberalisation showed that switching rates over the price cap period were similar to current levels. It added that given that customer disengagement was 'as embedded as it had been', it was difficult to see why the Default Tariff Cap would reduce customer disengagement further.

### **Third party submissions on the EMI remedies**

7. Ofgem told us that it had 'established a dedicated consumer engagement team to deliver two projects' that aimed to implement two of the EMI remedies:

- (a) *Database project*: Ofgem told us that it was developing a secure database of information of disengaged customers who had been on a default tariff for three years or more, and that this project aimed to develop services to prompt engagement and monitor the effectiveness of those services; and
- (b) *Prompts to engage project*: Ofgem told us that it introduced a licence condition with a power to direct suppliers to test consumer engagement

---

<sup>3</sup> [Citizens Advice response to the Issues Statement](#), page 6.

measures, as part of which, Ofgem had undertaken a programme of research (including trials) to find ‘new and more effective ways to promote consumer engagement across the market’.

8. Ofgem told us that since 2016, it had completed four trials and conducted various quantitative and qualitative consumer research. In relation to its four trials,<sup>4</sup> Ofgem provided evidence in relation to the effectiveness of these trials, and told us that all the intervention measures it had trialled had yielded an increase in switching rates from a baseline control group.
9. However, Ofgem told us that while these trials have had ‘positive effects’ on customer engagement, it added that these were ‘not dramatic’ effects against the baseline control group. It told us however, that the EMI remedies should be taken into account in our assessment of the Merger, in particular, its Database, Cheaper Market Offers Letter Trial and collective switch trials. In relation to the [REDACTED].
10. Ofgem told us that it was aiming to build on its engagement work, as part of which, it would continue to further understand consumers’ behaviour and attitudes towards switching between energy suppliers, and identify ways to engage consumers.
11. [REDACTED]
12. E.ON told us that the market had seen ‘vast changes’ since the EMI, and that it was already seeing the effects of the EMI remedies, eg since January 2017, and also partly as a result of E.ON’s own initiatives, it had seen the proportion of its customer base on SVTs fall by around 21% (from January 2017 to June 2018). It added that the market was ‘intensely competitive’, and that it was competing with both the SLEFs and the SAMS, and that it had seen a ‘greater shift’ in customers going through PCWs.
13. ScottishPower told us that it was ‘starting to see some of the pro-competitive measures that were introduced as part of EMI starting to work’, and that these ‘information remedies’ took time to work. In this regard, it considered that these remedies had not been given enough time to work before the Default Tariff Cap came into effect.

---

<sup>4</sup> For example, in relation to Ofgem’s Database project, in a document (see slides 3, 8 and 9) titled ‘[Small scale Database trial – Summary of findings](#)’, published in November 2017, it stated that it launched a ‘small scale trial to test the CMA database remedy approach’, and in the same trial, it also tested a ‘personalised Best Offer Letter’ approach, which ‘presented three cheaper tariff deals from rival suppliers in one letter, as an alternative approach’. The results of these trials combined with Ofgem’s qualitative study to understand consumers’ experiences, showed that both approaches ‘resulted in an increase in switching (against the control) which was statistically significant’, albeit ‘customers were more likely to switch internally (ie change tariff with their existing supplier) than externally (ie change supplier)’.



## Third party submissions on the proposed E.ON/RWE transaction

14. E.ON told us that in relation to the proposed transaction between E.ON and RWE, it expected to make two separate notifications to the European Commission, one in relation to E.ON's acquisition of innogy, and the other by RWE in relation to the businesses acquired from E.ON. It added that it was currently preparing its filings, and that there were multiple 'elements' to take into account, eg in relation to Germany, the UK and central and eastern Europe.
15. E.ON told us that the pre-notification process could take a long time and that it did not anticipate the relevant notifications to take place before the summer of 2018.<sup>5</sup> It added that it was 'uncertain' how quickly it would be able to notify the European Commission after the summer. In relation to the proposed transaction's other regulatory approvals, E.ON told us that this included approvals from the Dutch, Hungarian, Turkish and the United States of America (USA) energy regulators, as well as foreign investment reviews in the USA, Australia, France and Canada.
16. In relation to the potential effects of the E.ON/RWE transaction on competition, E.ON told us that its 34.4% stake in MergeCo (through innogy) would not affect how E.ON competed in the UK market, as it would not have any information on MergeCo's plans, and E.ON would be acting and competing independently of MergeCo.<sup>6</sup> In relation to E.ON's longer-term intentions regarding its potential 34.4% stake in MergeCo, E.ON told us that this decision would be taken at the parent company level, ie E.ON SE, and that it was not aware if any decision had been taken in this regard.
17. Utility Warehouse told us that the proposed E.ON/RWE transaction should be taken into account in the counterfactual and our competitive assessment given the impact it would have on both SSE and innogy and the UK energy market.
18. Utility Warehouse cited two precedent cases, where a parallel transaction was not taken into account in the counterfactual, and argued that the circumstances which applied to those cases, did not apply to the E.ON/RWE transaction:<sup>7</sup>
  - (a) *NYSE/Euronext (OFT, 2006)*: Utility Warehouse told us that in this case, while the OFT did not take into account Nasdaq potentially launching a

---

<sup>5</sup> [Summary of the hearing with E.ON](#), paragraph 28.

<sup>6</sup> [Summary of the hearing with E.ON](#), paragraphs 26 and 27.

<sup>7</sup> See [BT/EE final report](#) and [NYSE/Euronext decision document](#).

bid for the LSE, given that no bid was on the table at the time of the decision (and any previous bids had been rejected by the LSE), this was not the case for the E.ON/RWE transaction, which had been formally announced as an agreed merger; and

- (b) *Fox/Sky (CMA, 2018)*: Utility Warehouse told us that while the CMA did not take into account Disney's acquisition of Fox's assets (including Sky), given the conditionality of the two transactions, this was not the case for the E.ON/RWE transaction, where such conditionality did not exist.

# Appendix F: Evidence on default tariff price setting

## Introduction

1. This appendix discusses the evidence we have received from the Parties and from third parties concerning default tariff price setting.
2. Default tariffs are the tariffs customers are placed on when they have not made an active choice regarding their tariff. Since 2013 default tariffs have predominately been SVTs. Therefore, much of the evidence we have received focusses on SVTs. However, a number of suppliers have recently introduced fixed term default tariffs and we have also considered the possible implications of this change.
3. Table 1 shows data collected by Ofgem which illustrates that a significant number of each of the SLEFs customers are on a SVT and that a substantial proportion of these customers have been on a SVT for a significant period of time.

**Table 1: SLEFs SVT customer numbers**

<i>Supplier</i>	<i>Number of customers</i>	<i>Number of customers on SVT</i>	<i>Proportion of SVT customers</i>	<i>Proportion of customers on SVT for 3 or more years</i>
British Gas	6,203,913	3,908,957	63%	42%
SSE	3,363,123	2,144,726	69%	46%
E.ON	3,287,002	1,799,917	55%	34%
EDF	2,675,662	1,362,940	51%	25%
ScottishPower	2,543,172	898,758	38%	21%
Npower	2,308,737	1,011,603	44%	27%

Source: [Number of non-price protected domestic customer accounts by supplier: standard variable, fixed and other tariffs \(GB\)](#), Ofgem (July 2018).

Note: Data shows number of non-prepayment meter customers in each category. (We note that prepayment tariffs are subject to a price cap, so different considerations apply compared to setting non-prepayment tariff prices.) SVT customer numbers do not include customers on 'other standard variable tariffs'.

4. This appendix begins by providing some background on the general process followed by suppliers when setting their SVT prices. It then considers the evidence received from the Parties and third parties regarding the factors which influence SVT price setting. The final section considers how the introduction of fixed term default tariffs and the Default Tariff Cap may affect default tariff price setting.
5. While there are differences between the SLEFs in how they determine their pricing, there are some aspects which are widespread among all of the SLEFs. This evidence shows that:
  - (a) The prompt for a supplier to consider an SVT price change is a change in costs. This is illustrated consistently throughout the evidence received from the Parties and from the other large energy firms.

- (b) The constraint suppliers face when adjusting their SVT prices is the risk that customers will switch supplier and/or tariff in response to a price change. The evidence from the Parties' and third parties' internal documents indicates that the extent of customer switching following a price announcement is determined by a number of factors including:
- (i) the magnitude of the proposed price change;
  - (ii) general trends in consumer engagement;
  - (iii) the time of year at which the price change will be made; and
  - (iv) the perception of the supplier's price announcement within the wider market context, for example as communicated to customers via the media.
- (c) One of the factors used by the Parties, and the other large energy firms, to consider the wider market context is the positioning of their price announcement relative to those of other suppliers. The evidence indicates that suppliers consider both the magnitude and timing of their SVT price changes relative to other suppliers. In particular:
- (i) Each of the SLEFs prefers not to be the first of the SLEFs to announce a price change. This is because of the increased attention which accompanies being the first to announce and the increases in customer switching which this prompts.
  - (ii) When deciding the magnitude of their price change each of the SLEFs considers their likely positioning of their SVT price relative to the other large energy firms. Each supplier seeks to avoid being an outlier relative to the other large energy firms.
  - (iii) The SLEFs do consider (to varying degrees) the SVT price changes of some of the SAMS when considering the magnitude of their price changes. However, we have not received evidence of any of the SLEFs seeking to adopt a specific pricing position relative to the SAMS or seeking to analyse the likely pricing position of any of the SAMS.
- (d) Although a number of suppliers have introduced fixed term default tariffs, they have generally done so in limited circumstances and the evidence indicates that despite this change a significant number of customers will continue to be on SVTs for the foreseeable future.

- (e) The evidence indicates that whilst the Default Tariff Cap is in place it is likely that SVTs will be priced at or near to the level of the price cap and will adjust when Ofgem announces changes to the level of the cap.

## Background: the process of adjusting SVT prices

6. This section describes the general process suppliers follow when adjusting their SVT prices.
7. Suppliers monitor their costs on an ongoing basis to understand whether they have moved in a way such that an SVT price change is necessary if target profit margins are to be met. The main categories of costs considered by suppliers are:
- (a) wholesale energy costs – which depend on both wholesale gas and electricity prices and a suppliers hedging strategy;
  - (b) network costs;
  - (c) operating costs; and
  - (d) policy costs – in particular environmental and social obligation costs.
8. Once it is deemed that a SVT price change is likely to be necessary, suppliers determine the desired level and timing of the price change.<sup>1</sup>
- (a) [REDACTED]
  - (b) [REDACTED]
9. For both Parties and a number of other suppliers, a headline SVT price change is agreed and then internal models are used to adjust prices across fuels, tariff structures and geographic regions to deliver the desired headline price change.<sup>2</sup> [REDACTED].
10. When the details of an SVT price change have been finalised suppliers typically publicly announce the price change. These announcements include details of the price change (including the size of the price change, the fuels concerned and the tariffs involved) and the effective date of the price change.<sup>3</sup>

---

<sup>1</sup> In announcing SVT price changes, suppliers typically announce an average price change across all regions for a direct debit, dual fuel customer based on Ofgem's typical consumption profile.

<sup>2</sup> This also applies for [REDACTED] and [REDACTED].

<sup>3</sup> For example, see the following articles: '[SSE price change](#)' and '[Npower increases domestic standard energy prices](#)'.

11. Ofgem's Standard Licence Conditions<sup>4</sup> require that suppliers notify domestic customers in writing of any increase in electricity or gas prices.<sup>5</sup> This notification must be given at least 30 days prior to the price increase taking effect.<sup>6</sup> There is no requirement for a customer to be notified in advance of a price decrease, which can take effect immediately.
12. Therefore, ahead of a price increase, suppliers send price change notification letters to customers. Ofgem's licence conditions require that a price change notification letter includes (among other things):<sup>7</sup>
  - (a) the changes in each component of the tariff price;
  - (b) the date on which the change comes into effect;
  - (c) a comparison of current tariff prices and the new tariff prices;
  - (d) the customer's estimated annual costs using the current tariff prices, the new tariff prices and the difference between the two;
  - (e) information on the main reasons for the price change;
  - (f) a reminder that the customer can switch suppliers and a statement that if the customer does not deem the increase in prices to be acceptable, they may change supplier or enter into a new contract with the current supplier; and
  - (g) details of the cheapest similar tariff available<sup>8</sup> to the customer from that supplier and the supplier's cheapest overall tariff<sup>9</sup> including the estimated annual savings should the customer switch to each tariff.

We have reviewed examples of the price change notification letters for each of the SLEFs and the information within them is substantively the same.

13. Suppliers also consider how best to mitigate potential customer losses following an SVT price increase. These measures typically consist of simultaneously launching fixed term tariffs intended to encourage customers

---

<sup>4</sup> Condition 23 of Ofgem's standard conditions of gas supply licence and Condition 23 of Ofgem's standard conditions of electricity supply licence.

<sup>5</sup> Or any other 'Disadvantageous Unilateral Variations'.

<sup>6</sup> Standard Conditions of Electricity Supply Licence, Condition 23.4(a) and Standard Conditions of Gas Supply Licence, Condition 23.4(a).

<sup>7</sup> [Electricity Act 1989](#), Standard Conditions of Electricity Supply Licence, Condition 23.4, pages 185–186.

<sup>8</sup> This is based on the customer's estimated annual usage and is confined to the tariffs with the same characteristics (ie payment method, account management arrangements, fixed or variable term).

<sup>9</sup> This is based on the customer's estimated annual usage and is the cheapest tariff offered by the supplier for that customer's meter type.

to remain with the supplier and other measures intended to mitigate the adverse effects of a price increase. For example:<sup>10</sup>

(a) [✂]

(b) [✂]

(c) [✂]

(d) [✂]

(e) [✂]

## Factors considered when setting SVT prices

### Summary

14. It is clear that changes in costs prompt the Parties to consider changing their SVT prices. Both Parties' monitor their costs on an ongoing basis, considering which components of costs are changing and considering the subsequent implications for their SVT prices. When considering an SVT price change, suppliers consider a number of possibilities which differ both in the level and the timing of the proposed price increase.
15. The main constraint that suppliers face when adjusting SVT prices is the risk that customers will decide to switch to another supplier or tariff. The evidence we have received indicates that the Parties consider a number of factors when assessing the level of probable customer switching in response to a price change. These factors include:
  - (a) the magnitude of the proposed price change;
  - (b) general trends in customer engagement;
  - (c) the time of year at which the price change will be made;
  - (d) whether they are the first of the SLEFs to announce a price change; and
  - (e) whether they announce a price change which is out of line with the price changes of other suppliers.
16. The Parties consider how any price change will be perceived in the wider market context, for example as communicated to customers via the media.

---

<sup>10</sup> [✂]

The evidence we have received indicates that this leads suppliers to consider how their proposed price changes compare to the likely changes of other suppliers. Consequently the SVT prices of other suppliers are a relevant consideration for the Parties when setting their own SVT prices.

17. First, each of the Parties aims to adopt a particular SVT pricing position relative to the other large energy firms. For example, when considering its 2017 price change SSE estimated that [REDACTED] could lead to [REDACTED] additional customer account losses. This equates to a [REDACTED]% increase in the customer account losses SSE was estimating at that time. We have also received evidence of both of the Parties seeking to predict the likely cost changes experienced by the other large energy firms and consequently the likely magnitude of the price changes those suppliers will make. We have also observed examples of the Parties considering the implications of the other large energy firms' announcements for their own decisions. In particular, both Parties considered the implications of EDF's low price announcement in December 2016 on their proposed changes.
18. Second, both Parties prefer not to be the first of the SLEFs to announce a price increase, given the increase in customer switching which is likely to result. For example, at the time of its 2017 price announcement SSE estimated that being the first to announce could lead to [REDACTED]. Similarly, in 2018 Npower assumed that being the first to announce would increase customer account losses by between [REDACTED].
19. Although the Parties also consider the SVT prices of the SAMS to some extent, we have not received evidence of the Parties seeking to adopt a particular price position relative to any of the SAMS. We have not received any evidence that the SAMS are a relevant consideration for the timing of the Parties' price announcements.
20. We have also received evidence from the other large energy firms regarding the factors they consider when setting their SVT price. While there are some differences across suppliers, the general approach adopted by each of the SLEFs is broadly similar.

## ***Evidence from SSE***

### *Overview*

21. In this section we summarise SSE's submissions before reviewing the evidence from SSE's internal documents. In our view this evidence shows that:



- (a) Changes in costs prompt SSE to consider changing its prices and SSE considers which categories of cost are causing cost changes.
- (b) SSE considers a number of factors when assessing the likely effect of a price change on customer switching. These factors include the magnitude of the price change, general trends in customer switching, the time of year and any mitigation strategies SSE has in place.
- (c) The likely timing and magnitude of price changes by other suppliers also influence the customer switching SSE expects to experience following a SVT price increase. Particular risks which are highlighted are that SSE could end up '[REDACTED]' and that the '[REDACTED]'. As described above, these risks were identified as having the potential to increase SSE's customer losses as a result of its 2017 price announcement by around [REDACTED]% and [REDACTED]% respectively.
- (d) Although the SVT price changes of the SAMS are considered, in our view the focus, especially regarding timing, is on the potential price changes of the other large energy firms.

#### *SSE's submissions*

- 22. [REDACTED]
- 23. [REDACTED]
- 24. [REDACTED]
- 25. [REDACTED]
- 26. [REDACTED]

#### *Evidence from SSE's internal documents*

##### *The role of cost changes*

- 27. [REDACTED]
- 28. [REDACTED]
- 29. [REDACTED]
- 30. [REDACTED]

*Factors affecting the constraint from customer switching*

- 31. [REDACTED]
- 32. [REDACTED]
- 33. [REDACTED]
- 34. [REDACTED]
- 35. [REDACTED]
- 36. In our view, it is this desire to ensure that any price change is communicated appropriately, in particular that it is interpreted as reflecting '[REDACTED]', which leads SSE to consider the magnitude of price changes of other suppliers when making its own decisions. This is consistent with SSE's concern that it wishes to avoid its price being identified as [REDACTED] since this would lead to additional customer switching.

- *The role of other suppliers' SVT price changes*

- 37. [REDACTED]
- 38. [REDACTED]
- 39. [REDACTED].<sup>11</sup> [REDACTED].<sup>12,13</sup>
- 40. [REDACTED]
- 41. [REDACTED]

- *The timing of SVT price changes*

- 42. [REDACTED]
- 43. [REDACTED]
- 44. [REDACTED].<sup>14</sup>
- 45. [REDACTED].<sup>15</sup> [REDACTED]

---

<sup>11</sup> [REDACTED]  
<sup>12</sup> [REDACTED]  
<sup>13</sup> [REDACTED]  
<sup>14</sup> [REDACTED]  
<sup>15</sup> [REDACTED]

46. [✂]

47. [✂]

### *Role of acquisition tariffs in SSE's SVT price setting*

48. [✂]

49. [✂].<sup>16</sup> [✂]

50. [✂]

51. [✂]

### **Evidence from Npower**

#### *Overview*

52. In this section we summarise Npower's submissions before reviewing the evidence from Npower's internal documents. In our view this evidence shows that:
- (a) Changes in costs prompt Npower to consider changing its prices and Npower considers which categories of cost are causing cost changes.
  - (b) Npower considers a number of factors when assessing the likely effect of a price change on customer switching. These factors include the magnitude of the price change, the time of year, the number of customers reaching the end of an FTC and any mitigation strategies Npower has in place.
  - (c) Npower's internal documents discuss the likely timing and magnitude of other suppliers' SVT price changes. This analysis is used to inform Npower's own SVT pricing decisions, helping to assess how Npower's SVT price change 'will be seen in the broader market context'.<sup>17</sup> The prices of the SAMS are considered. However, Npower's internal documents focus on the SLEFs, for example Npower discusses its [✂].
  - (d) Npower's internal documents also discuss how its proposed price change compared to changes in Ofgem's Supplier Cost Index and changes in the PPM Price Cap.

---

<sup>16</sup> [✂]

<sup>17</sup> Npower clarified that the reference to the 'broader market context' is used to assess the likelihood that its SVT price change is seen as cost reflective.

*Npower's submissions*

53. [REDACTED]

54. [REDACTED]

55. [REDACTED]

56. [REDACTED]

57. [REDACTED]

*Evidence from Npower's internal document*

*The role of cost changes*

58. [REDACTED]

59. [REDACTED]

60. [REDACTED]

61. [REDACTED]

62. [REDACTED]

63. [REDACTED]

*Factors affecting the constraint from customer switching*

64. [REDACTED]

65. [REDACTED]

66. [REDACTED]

• *Comparisons to competitors' SVT prices*

67. [REDACTED]

68. [REDACTED].<sup>18</sup> [REDACTED].<sup>19</sup>

69. [REDACTED].<sup>20</sup> [REDACTED]

---

<sup>18</sup> [REDACTED]

<sup>19</sup> [REDACTED]

<sup>20</sup> [REDACTED]

70. [REDACTED]

71. [REDACTED]

- *Other benchmarks for price changes*

72. [REDACTED]

- *Timing of SVT price announcements*

73. [REDACTED]

74. [REDACTED]

75. [REDACTED].<sup>21</sup> [REDACTED]

76. [REDACTED]

#### *Role of acquisition tariffs in Npower's SVT price setting*

77. [REDACTED]

78. [REDACTED]

79. [REDACTED]

#### *Wholesale Agreement*

80. [REDACTED].<sup>22</sup> [REDACTED].<sup>23</sup>

#### ***Evidence from the other large energy firms***

81. We have also reviewed the written and oral evidence (including internal documents) we have received from the other large energy firms. This evidence indicates that the other large energy firms set SVT prices in a similar way to the Parties, albeit that the precise factors and the importance of those factors do vary across suppliers. In particular:

- (a) Changes in costs prompt suppliers to consider changing their SVT prices.
- (b) Each supplier recognises that the first supplier to announce a price increase will experience significantly greater customer losses than would

---

<sup>21</sup> [REDACTED]

<sup>22</sup> [REDACTED]

<sup>23</sup> [REDACTED]

otherwise have been the case. Therefore, each supplier prefers not to be the first supplier to announce a price increase.

- (c) Each supplier also considers the SVT prices of other suppliers, including the SAMS when setting their own SVT price. However, there is a particular emphasis on the other large energy firms and each supplier has a desire to either not price out of line with the other large energy firms or to adopt a specific price position relative to the other large energy firms.

*British Gas*

82. [REDACTED]

83. [REDACTED]

84. [REDACTED]

85. [REDACTED]

86. [REDACTED]

87. [REDACTED].<sup>24</sup> [REDACTED]

88. [REDACTED]

89. [REDACTED]

90. [REDACTED]

91. [REDACTED]

92. [REDACTED]

*EDF*

93. [REDACTED]

94. [REDACTED]

95. [REDACTED].<sup>25</sup> [REDACTED]

96. [REDACTED]

---

<sup>24</sup> [REDACTED]

<sup>25</sup> [REDACTED]

*E.ON*

97. [✂]

98. [✂]

99. [✂]

100. [✂]

101. [✂]

102. [✂]

103. [✂].<sup>26</sup> [✂]

104. [✂]

105. [✂]

106. [✂]

107. [✂]

108. [✂]

*ScottishPower*

109. [✂]

110. [✂]

111. [✂]

112. [✂].<sup>27</sup>

113. [✂]

114. [✂]

115. [✂]

116. [✂]

---

<sup>26</sup> [✂]

<sup>27</sup> [✂]

## Potential developments in default tariff price setting

117. The evidence reviewed above focussed on the setting of SVT prices. We have also considered the evidence regarding two potential changes in the industry, (i) the use of fixed term default tariffs and (ii) the Default Tariff Cap, and their implications.

### **Fixed term default tariffs**

118. In September 2017 Ofgem announced that suppliers would be able to transfer customers to a fixed term default tariff at the end of an existing fixed term acquisition tariff as an alternative to an SVT. This is provided that the fixed term default tariff:

- 'does not have any penalties for terminating early;
- is the same price or cheaper than the variable tariff that the consumer would otherwise have been rolled on to;
- is similar in nature to the customer's current tariff, taking into account their characteristics and preferences (eg tariff type, online account management, meter type and payment method)'.

119. Since Ofgem's announcement:

- (a) E.ON announced in September 2017 that it would replace its SVT with a fixed term tariff for any customer having a smart meter installed and would make the same offer to any existing SVT customer who already has a smart meter.<sup>28</sup>
- (b) ScottishPower followed in October 2017 indicating that customers coming to the end of a fixed term tariff would be moved to a fixed term default tariff rather than to ScottishPower's SVT.<sup>29</sup>
- (c) British Gas announced that customers will be placed on to a new 12-month fixed term default tariff when coming to the end of a previous fixed term tariff instead of moving onto the SVT.<sup>30</sup>
- (d) SSE launched a fixed term default tariff on 26 July 2018 [redacted]. [redacted]<sup>31</sup>

---

<sup>28</sup> See 'E.ON acts to begin replacing standard variable tariffs for its customers' (21 September 2017).

<sup>29</sup> See 'ScottishPower - Our Customer Engagement Plan' (February 2018).

<sup>30</sup> See 'Centrica sets out proposals to deliver a fairer and sustainable energy deal for customers' (20 November 2017).

<sup>31</sup> [redacted]



(e) Npower [REDACTED]

(f) EDF has not announced any plans to introduce a fixed term default tariff.

120. These changes have been prompted by a range of considerations and particularly adverse publicity, including political and regulatory pressure surrounding SVTs. For example, [REDACTED] (see Figure 1) [REDACTED]

**Figure 1:** [REDACTED]

[REDACTED]

Source: [REDACTED].

121. [REDACTED]

122. Given these developments we have considered the potential consequences of the introduction of fixed term default tariffs.

123. First, fixed term default tariffs are likely to have important implications for suppliers, for example because they will likely require suppliers to alter their hedging strategies to account for the fixed price nature of the contract and because of the logistics of possibly managing multiple default tariffs simultaneously.

124. Second, this change may also result in relatively more engaged customers who have at least switched tariff or supplier at some stage being placed on fixed term default tariffs while the least engaged customers (eg those who have never switched) will remain on the SVT.

125. Third, we have considered whether the movement towards fixed term default tariffs is likely to materially increase consumer engagement. In particular, the Parties have submitted that:<sup>32</sup>

‘the position of SVTs is diminishing in importance, with suppliers considering a range of ‘default tariff’ options, for example SSE has already announced that it will no longer automatically roll customers onto SVTs at the end of the FTC term – customers on a default tariff cannot be assumed to behave the same as SVT customers...’

126. [REDACTED]. Similarly [REDACTED]. [REDACTED].

127. In our view the change from an SVT to fixed term default tariff is unlikely, in itself, to lead to a material increase in customer engagement.

---

<sup>32</sup> [Parties response to the Issues Statement](#), paragraph 3.5(ii).

128. We note that customer churn is high at the end of the fixed term for current FTC customers as these customers generally either switch to a new acquisition tariff or to a new supplier and that customers often cite the end of a fixed term tariff as the reason why they switched supplier.<sup>33</sup> However, this observation is based on the behaviour of customers on acquisition tariffs. These are customers who have recently engaged with their choice of energy supplier. In contrast, default tariff customers are more likely to have not recently engaged with their choice of energy supplier. Therefore, in our view evidence regarding the behaviour of existing fixed term tariff customers is unlikely to be informative of the future behaviour of fixed term default tariff customers since the behaviour of these two customer groups is likely to be very different.<sup>34</sup>
129. Default tariff customers already receive frequent communication from their suppliers, such as bills and price change notification letters.<sup>35</sup> These communications already include information on the options available to customers and include measures intended to increase customer engagement. We have not received evidence which explains why default tariff customers will be materially more likely to begin to engage with their choice of energy supplier simply because there is a definite point in time (the end of the FTC) when they will receive information from their supplier and at which point the customer could choose to change supplier.<sup>36</sup>
130. A change in the structure of the default tariff is also unlikely to affect the ability or incentives of third parties (such as consumer groups, price comparison websites, the media or other suppliers) to increase consumer engagement.
131. [REDACTED].<sup>37</sup> [REDACTED]
132. [REDACTED]
133. [REDACTED]
134. Fourth, fixed term default tariffs could be priced differently to SVTs. However, the evidence we have received suggests that the fixed term default tariffs will

---

<sup>33</sup> For example, evidence from Npower indicates that, for its current conventional meter acquisition tariffs, Npower assumes that only [REDACTED]% of customers will transition to a default tariff at the end of the contract's fixed term. Similarly, ScottishPower has submitted that the average default rate for tariffs which matured in 2017 was [REDACTED]%.  
<sup>34</sup> We note that Npower's recent fixed term default tariff trial found [REDACTED]

<sup>35</sup> [REDACTED]

<sup>36</sup> We note that fixed term default tariff customers are likely to receive roughly the same amount of communication from their supplier as SVT customers. As SVT price changes occur approximately once a year, these customers receive a price change letter roughly once a year (since suppliers often notify customers of SVT price decreases as well as increases), the same frequency as fixed term default tariff customers will receive notice of their contract ending.

<sup>37</sup> SSE submitted that [REDACTED]

generally be priced either at the same level as the SVT or at a small discount to a supplier's SVT price.

135. For example:

(a) [REDACTED]

(b) [REDACTED]

(c) [REDACTED]

136. Finally, a movement towards fixed term default tariffs would likely lead to each supplier having multiple default tariffs as different customers are placed on different default tariffs at different points in time by the same supplier.<sup>38</sup> Such an increase in the number of default tariffs may reduce the public visibility of default tariffs and the publicity which results from default tariff price changes. The effect of this may be in fact to reduce customer awareness of default price changes, thereby reducing customer switching in response to these price changes, although we note that the SAMS and PCWs would continue to have an incentive to raise awareness of default tariff price changes.

137. However, the evidence we have received indicates that any movement away from an SVT as the main default tariff is likely to take place slowly and that significant numbers of customers are likely to be on SVTs in the foreseeable future. For example:

(a) [REDACTED]

(b) [REDACTED]

138. [REDACTED] As of 30 April 2018 data collected from the suppliers by Ofgem indicates that EDF and SSE did not have any customers on fixed term default tariffs, less than 1% of British Gas', E.ON's and Npower's customers were on a fixed term default tariff and only ScottishPower had a sizeable number of customers (10%) on fixed term default tariffs.<sup>39</sup>

139. Additionally, we have not received any evidence which indicates that the movement towards fixed term default tariffs will materially change the factors considered by suppliers when setting their SVT prices.

---

<sup>38</sup> For example, [REDACTED]

<sup>39</sup> [Number of non-price protected domestic customer accounts by supplier: Standard variable, fixed and other tariffs \(GB\)](#), Ofgem.

## **Default Tariff Cap**

140. The Default Tariff Cap Act gives Ofgem the power to design and to implement a price cap on default tariffs. It is not currently known what the level of the price cap will be. Therefore, although the price cap is considered in the Parties' internal documents, these considerations take place without knowledge of the precise details of the price cap.
141. It is clear that the Parties expect the price to lead to reductions in default tariff prices and that this will put pressure on their margins. For example:
- (a) [REDACTED]
  - (b) [REDACTED]
  - (c) [REDACTED]
142. The effect of the price cap will also vary across suppliers. [REDACTED]
143. The Parties have also considered how they might adapt their strategies once the Default Tariff Cap is imposed. For example, suppliers could begin to compete with one another through their quality of service and brand awareness. [REDACTED]. However, [REDACTED].
144. The Parties' internal documents indicate an expectation that SVT price dispersion below the cap is very likely to be considerably smaller than it is currently. For example:
- (a) [REDACTED]
  - (b) [REDACTED]
  - (c) [REDACTED]
145. We also received evidence on expected SVT pricing following imposition of the cap from other large energy firms. For example:
- (a) [REDACTED]
  - (b) [REDACTED] told us that it believes that there may be convergence towards the price cap, 'because [of] what we have seen in prepayment is prices converging around the prepayment tariff cap prices'.
  - (c) [REDACTED] stated that 'overall, the likelihood is a narrowing of prices in with the price cap [sic]'.

146. We note that this is consistent with the experience of the PPM Price Cap where the prices of the main suppliers have converged on the level of the cap and have only changed as the price cap has been adjusted as illustrated by Figure.<sup>40,41</sup>

**Figure 2: Prepayment meter tariff prices**

[]

Source: Parties

---

<sup>40</sup> Citizens Advice submitted that there was evidence that prices had not in fact converged around the price cap. We note that this appears to be confined to smaller suppliers with relatively few prepayment customers whilst the prices of the SLEFs have converged around the cap.

<sup>41</sup> []

# Appendix G: Tariff analysis

## Introduction

1. This appendix provides an overview of the Parties' tariffs and their positioning over time vis-à-vis their competitors, and updates the EMI SVT price announcement analysis to include more recent SVT price announcements.
2. This analysis illustrates that:
  - (a) Until December 2016 Npower regularly priced its acquisition tariffs close to the cheapest fixed priced tariff but since then has generally priced its acquisition tariff further above the cheapest available acquisition tariffs. Since 2014 Npower has generally had one of the highest SVT prices and since 2017 has consistently maintained the highest priced SVT of the SLEFs.
  - (b) SSE has offered acquisition tariffs priced at the level of the cheapest available fixed term tariffs for short periods. SSE's SVT price has generally been around the lower end of the SLEFs' SVT prices.
  - (c) Our analysis of SVT price announcements has confirmed the results of the EMI analysis. Specifically, there is no evidence of any particular supplier (in particular either of the Parties) leading announcements (either in terms of timing or the size of announcements) or of announcements being made in a particular order. The timing between announcements also varies significantly across 'price change rounds'.

## Tariff structures, tariff types and customer numbers

3. Energy tariff prices consist of two components:
  - (a) Standing charge – a fixed charge paid for each day regardless of use; and
  - (b) Unit rate – a charge per kWh of energy used.
4. This pricing structure means that it is not always possible to say that one tariff is categorically lower cost than another.<sup>1</sup> A tariff with a higher standing charge but lower unit rate may be preferable to another tariff with a lower standing charge and higher unit rate for an individual with high energy consumption while the opposite will be true for an individual with low energy consumption. Therefore, where tariff prices and movements in those prices are shown, this

---

<sup>1</sup> The exception is if one tariff has a lower standing charge and unit rate than another tariff.

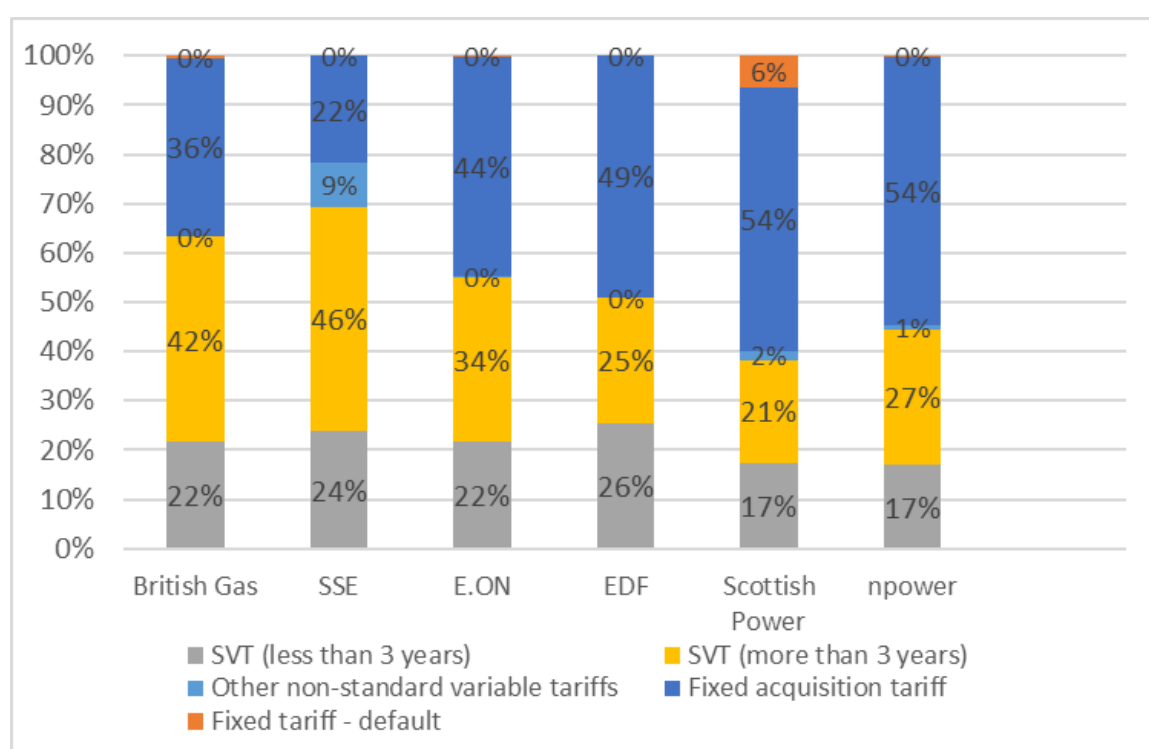
analysis should be seen as indicative of the general competitiveness of those tariffs over time rather than as an absolute indicator of the relative ranking of tariffs over time. Where total tariff prices are shown this is done on the basis of Ofgem’s typical daily consumption values.

5. Figure 1 shows the proportion of customers on each type of tariff for each of the SLEFs as of October 2017. This data illustrates that:

(a) SSE has the highest proportion of its customers on SVTs (69%) and the highest proportion of customers who have been on an SVT for three or more years (46%).

(b) Npower has the second lowest proportion of customers on SVTs (44%).

**Figure 1: Proportion of non-prepayment meter customers on different accounts**



Source: [Number of non-price protected domestic customer accounts by supplier: Standard variable, fixed and other tariffs \(GB\)](#), Ofgem (April 2018).

Note: ‘Other non-standard variable tariff’ supply contracts with an indefinite length that does not have a fixed-term applying to the terms and conditions and has also associated rewards schemes, bundles or added services.

6. Table 1 shows the shares of supply for the 10 largest suppliers of non-prepayment SVT customers as of October 2017.<sup>2</sup> This shows that amongst these suppliers:

(a) Cumulatively the SLEFs account for 95% of SVT customers.

<sup>2</sup> Ofgem only collects information on the number of SVT accounts for the 10 largest suppliers.

(b) SSE accounts for 18% of SVT customers.

(c) Npower accounts for 9% of SVT customers.

**Table 1: Shares of supply in SVT customers (10 largest suppliers)**

<i>Supplier</i>	<i>Number of SVT customers</i>	<i>%</i>
Npower	1,011,603	9
SSE	2,144,726	18
British Gas	3,908,957	33
E.ON	1,799,917	15
EDF	1,362,940	12
Scottish Power	898,758	8
Co-Op Energy	124,233	1
First Utility	153,743	1
Utility Warehouse	230,263	2
Ovo	64,798	1

Source: [Number of non-price protected domestic customer accounts by supplier: Standard variable, fixed and other tariffs \(GB\)](#), Ofgem (April 2018).

Note: Table 1 only refers to the 10 largest suppliers and therefore overstates the overall shares of supply of SVT customers for these suppliers (for example by excluding Bulb). However, Table 1 does cover the largest suppliers who account for the majority of SVT customers and the majority of the cases where the supplier's SVT acts as a default rather than an acquisition tariff.

## The Parties' tariffs

7. Figure 2 and Figure 3 show Npower's and SSE's FTC pricing relative to the cheapest available tariffs. Each figure compares the cheapest FTC available from the Parties at each point in time compared to the cheapest available FTC from any supplier at each point in time.<sup>3</sup> This analysis indicates the relative price competitiveness of the Parties' FTC pricing strategies over time.<sup>4</sup>
8. Npower's data shows that:<sup>5</sup>
  - (a) Between late 2015 and mid 2017 Npower's cheapest FTCs followed the general pattern of the cheapest FTC available. On occasions, particularly in early 2016, Npower's cheapest FTC was priced close to the lowest priced tariffs available.
  - (b) More recently, Npower's lowest priced FTCs have been less comparable to the cheapest tariffs available.

---

<sup>3</sup> This comparison is based on Ofgem's Typical Domestic Consumption Values.

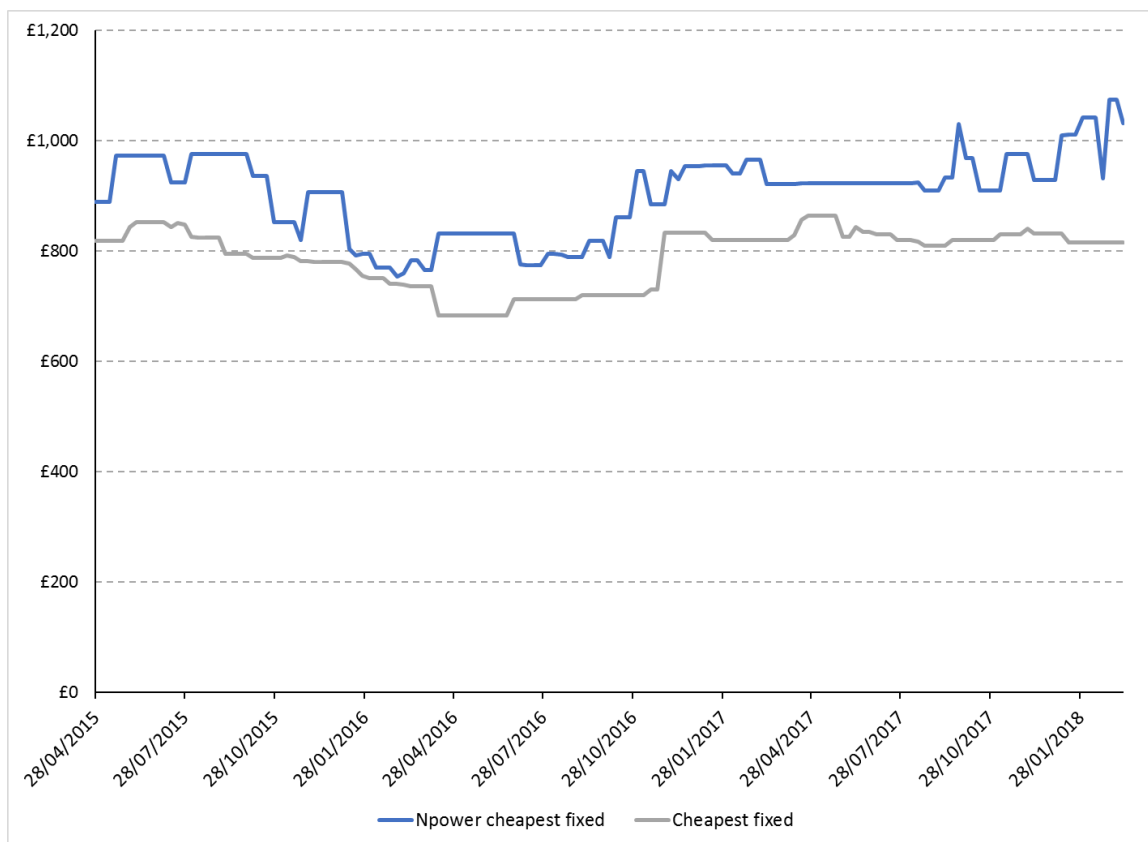
<sup>4</sup> This analysis should only be viewed as providing a general indication since (i) the price competitiveness of a tariff will depend on an individual's consumption and (ii) this analysis focusses only on price whilst tariffs can also vary by duration. Regarding (ii) whilst the cheapest tariffs in the market will tend to be one-year tariffs, any individual supplier may not always offer a one-year tariff. Therefore, the comparison may not necessarily be like-for-like.

<sup>5</sup> This general pattern of Npower's pricing strategy is consistent with the evidence from [§] and [§].



(c) Compared to SSE, Npower has adopted a more consistent FTC pricing strategy over time.

**Figure 2: Npower fixed term tariff pricing strategy**

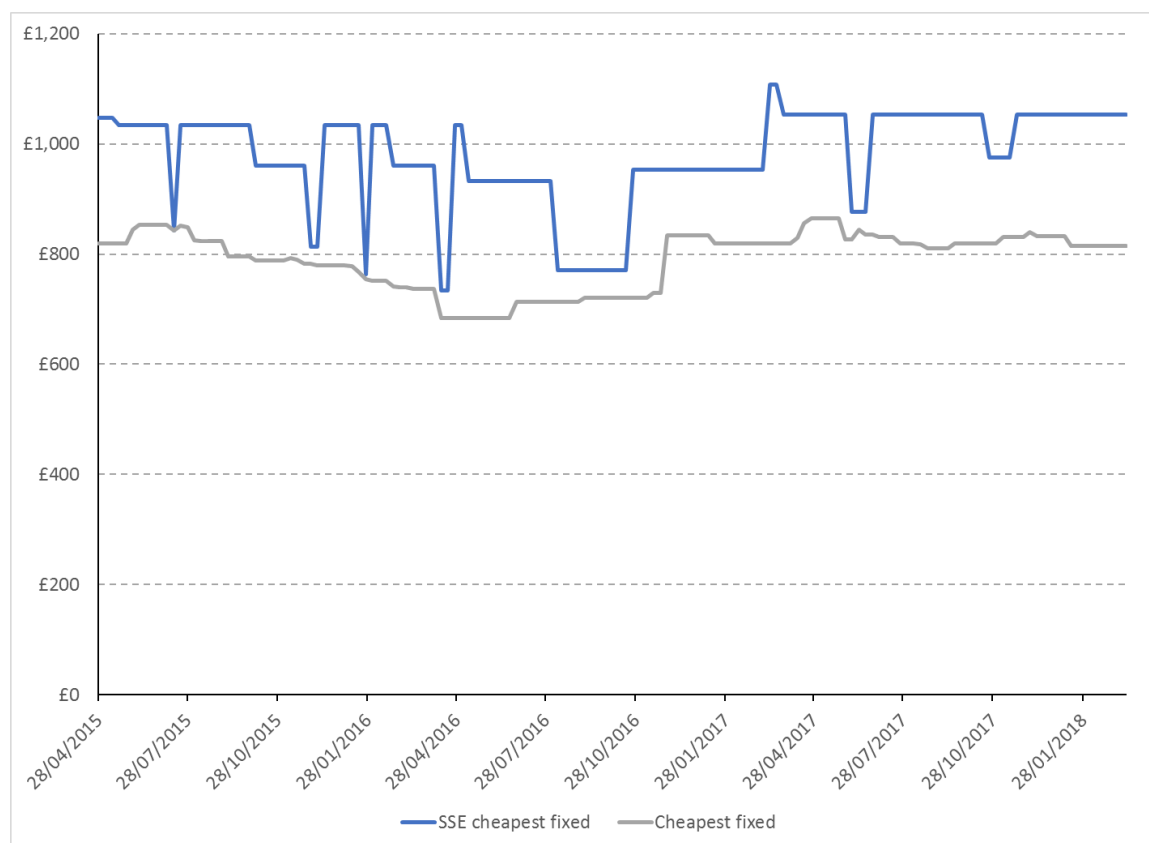


Source: CMA analysis.

9. SSE's data is shown in Figure 3. This illustrates that SSE's recent FTC pricing strategy has involved offering tariffs priced at the level of the cheapest available FTC for relatively short periods while offering tariffs at considerably higher prices outside of these periods.<sup>6</sup>

<sup>6</sup> This general pattern of SSE's pricing strategy is also consistent with the evidence from [redacted] and [redacted].

**Figure 3: SSE fixed term tariff pricing strategy**



Source: CMA analysis.

10. Figure 4 shows the evolution of the SLEFs' SVT prices over time. This data illustrates that:

- (a) The SLEFs generally adjust their SVT prices at the same time. The clearest exception to this is the price change which occurred in 2017. On this occasion British Gas unexpectedly announced an extension of its price freeze until August and thus announced its price increase several months after the other large energy firms,<sup>7</sup> and the other large energy firms did not follow with further price increases of their own.
- (b) Since January 2012 there have been three SVT price decreases and four SVT price increases.<sup>8</sup> British Gas, ScottishPower and SSE all announced price increases at the end of 2013 which were closely followed by a reduction in prices. The EMI noted that this followed a Department of Energy & Climate Change (DECC) announcement on 2 December 2013 that was expected to reduce costs.<sup>9</sup> Those suppliers who had not yet made their announcements were then able to factor DECC's

<sup>7</sup> See [British Gas freezing its energy prices until August](#), 10 February 2017.

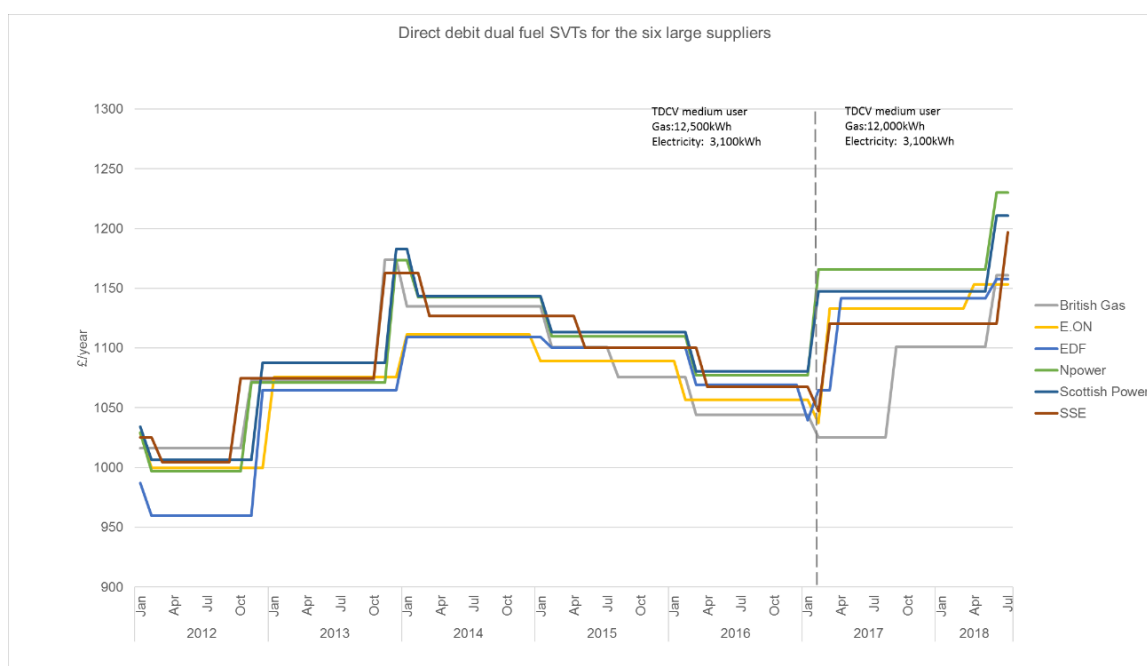
<sup>8</sup> The apparent drop in prices for certain suppliers in 2017 is not due to any actual price change but reflects a lowering of the Typical Domestic Consumption Values used by Ofgem.

<sup>9</sup> [EMI final report, Appendix 9.4](#) (24 June 2016), paragraph 73.

announcement into their pricing decisions. Therefore, we have treated this as a single round of price increases.

- (c) Since 2014 Npower has generally had one of the highest SVT prices and since 2017 has consistently maintained the highest priced SVT.
- (d) SSE's SVT price has generally been around the average of the SLEFs' SVT prices.

**Figure 4: SVT prices of the SLEFs**



Source: Energylinx (until January 2017) and Energy Helpline (February 2017 onwards).

11. The EMI highlighted that default tariff prices were significantly higher than acquisition tariff prices. For example, the EMI estimated that the average gains to the SLEFs' dual fuel SVT customers from switching supplier, tariff and payment method between 2012 and 2015 was £164.<sup>10</sup>
12. Ofgem's 2017 'State of the energy market' report noted that since the EMI 'price differences between variable tariffs and fixed tariffs have widened'.<sup>11</sup> This is illustrated by Figure 5 which shows that the difference between the average SVT price of the SLEFs and the cheapest acquisition tariffs:<sup>12,13</sup>

<sup>10</sup> EMI final report (24 June 2016), Table 1 and paragraph 128.

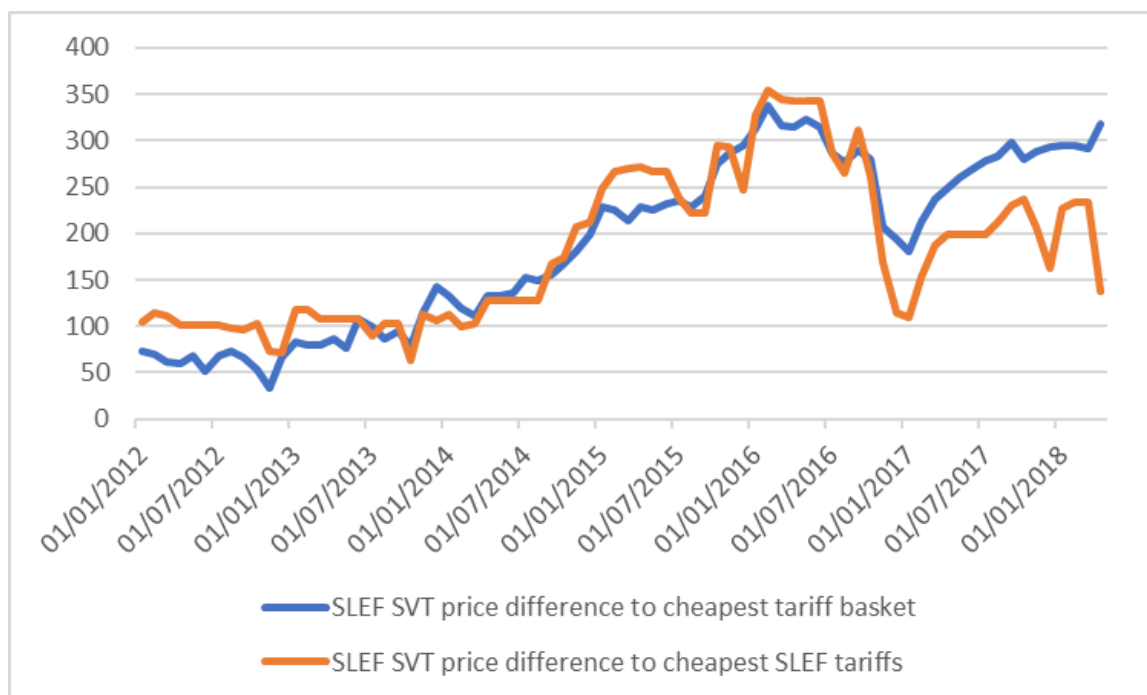
<sup>11</sup> State of the energy market 2017 report, Ofgem (31 October 2017), page 6.

<sup>12</sup> The connection to movements in wholesale prices reflects the fact that SVTs are hedged over a longer period which reduces the volatility of wholesale prices associated with these tariffs.

<sup>13</sup> This is also consistent with analysis in one of [redacted] internal documents which shows the gap between the SVT and the cheapest available acquisition tariff price increasing over time.

- (a) Increased to over £300 in late 2016. This coincided with a period of decreasing wholesale prices.
- (b) Decreased significantly in late 2016/early 2017 to around £200 as wholesale prices increased. Since then, the difference to the cheapest available tariffs has increased to around £300 again whilst the difference to the cheapest of the SLEFs tariffs has remained between £150 and £250.

**Figure 5: SVT price differences to cheapest tariffs**



Source: [Retail price comparison by company and tariff type: Domestic \(GB\)](#), Ofgem (July 2018).

## Analysis of SVT price announcements

13. The EMI analysed the SVT price announcements of the SLEFs.<sup>14</sup> This analysis focussed on the timing, direction and size of SVT price announcements by the SLEFs between 2003 and 2014 and concluded that:
- (a) Within ‘rounds of price changes’ there are differences between suppliers in the size of announced price changes.<sup>15</sup>

<sup>14</sup> EMI final report, Appendix 9.4 (24 June 2016).

<sup>15</sup> EMI final report, Appendix 9.4 (24 June 2016), paragraph 54.

- (b) In each round of price changes the timing between the first and subsequent announcements varies with rounds generally lasting more than 40 to 50 days.<sup>16</sup>
  - (c) No one supplier tended to lead price announcements.<sup>17</sup>
  - (d) Once a supplier had announced a price change, there was no evidence that they subsequently adjusted their plans in response to the announcements of other suppliers. This was because modifying a price change decision would be costly in management time, reputationally and commercially.<sup>18</sup>
14. We have updated this analysis to incorporate more recent SVT price changes. Figure 6 and Figure 7 show, for the period 2004 to 2018,<sup>19</sup> the timing of the announcement of changes to gas and electricity prices, the direction of the announced changes (pink denotes an increase and white a reduction), and their size (the larger the diameter of the circle the larger the increase relative to other announcements within that round of price announcements). The diagrams show gas and electricity price changes separately. This explains why, for example, there is no gas price change in 2017 for SSE or British Gas or 2018 for EDF since on these occasions the relevant suppliers only adjusted their electricity prices.
15. The analysis shows that there is some variation in price changes across suppliers within 'price change rounds'. This is most notable where one supplier makes no gas or electricity price adjustment at all whilst other suppliers do.

---

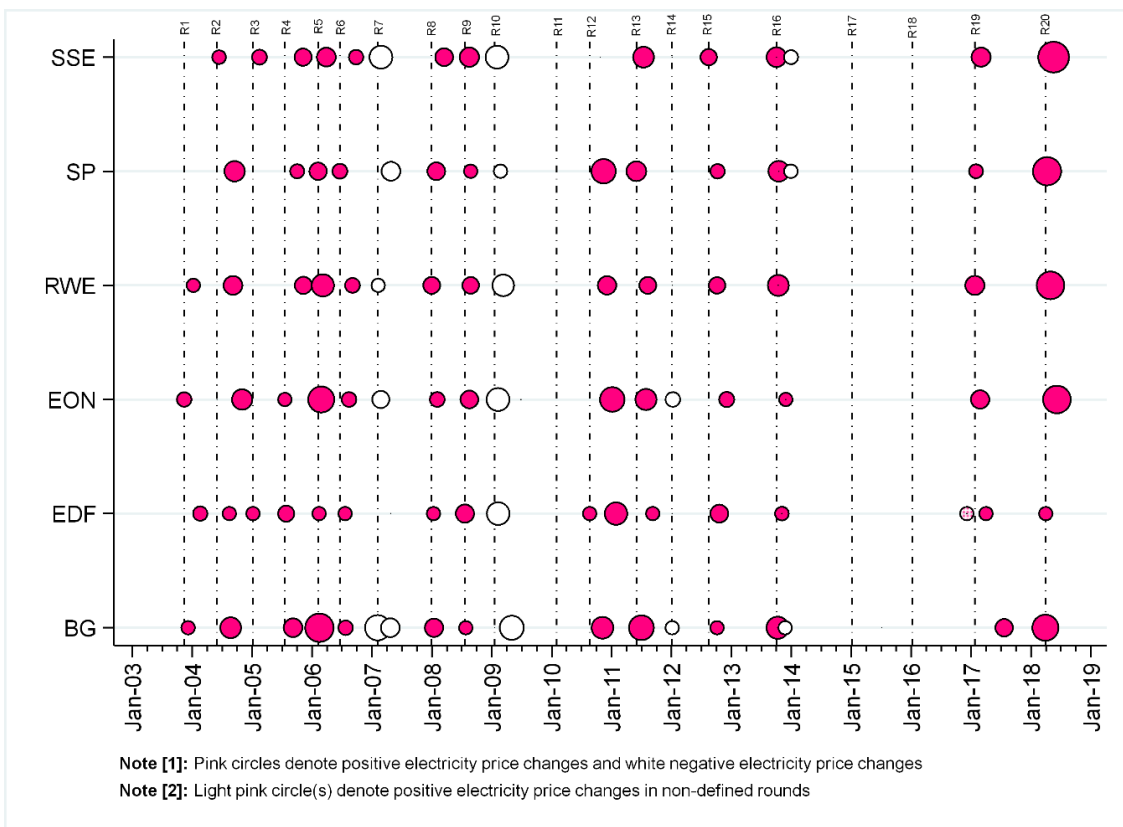
<sup>16</sup> [EMI final report, Appendix 9.4](#) (24 June 2016), paragraph 55.

<sup>17</sup> [EMI final report, Appendix 9.4](#) (24 June 2016), paragraph 56.

<sup>18</sup> [EMI final report, Appendix 9.4](#) (24 June 2016), paragraphs 70 and 80.

<sup>19</sup> This analysis does not include more recent SVT price changes which have taken place since 19 June 2018.

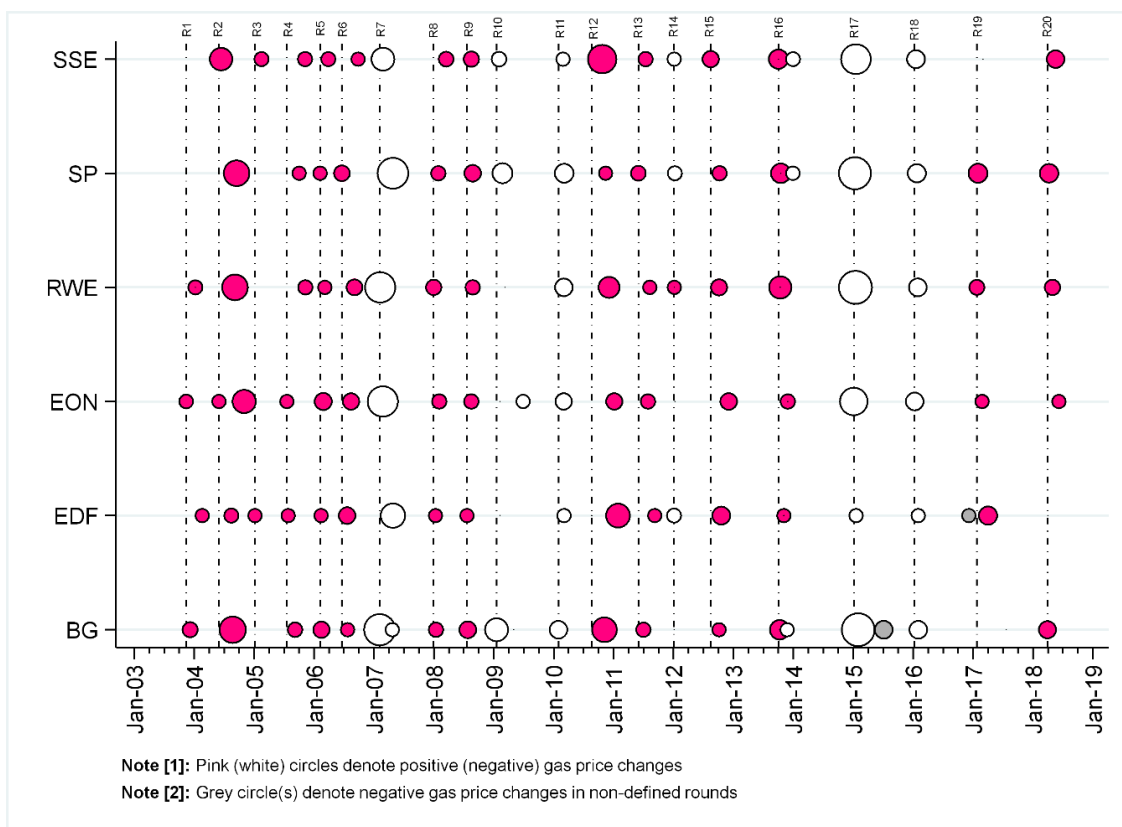
**Figure 6: Electricity price changes over time**



Source: CMA analysis.

Note: Pink circles denote an increase and white circles denote a reduction. The larger the diameter of the circle the larger the increase relative to other announcements within that round of price announcements.

**Figure 7: Gas price changes over time**



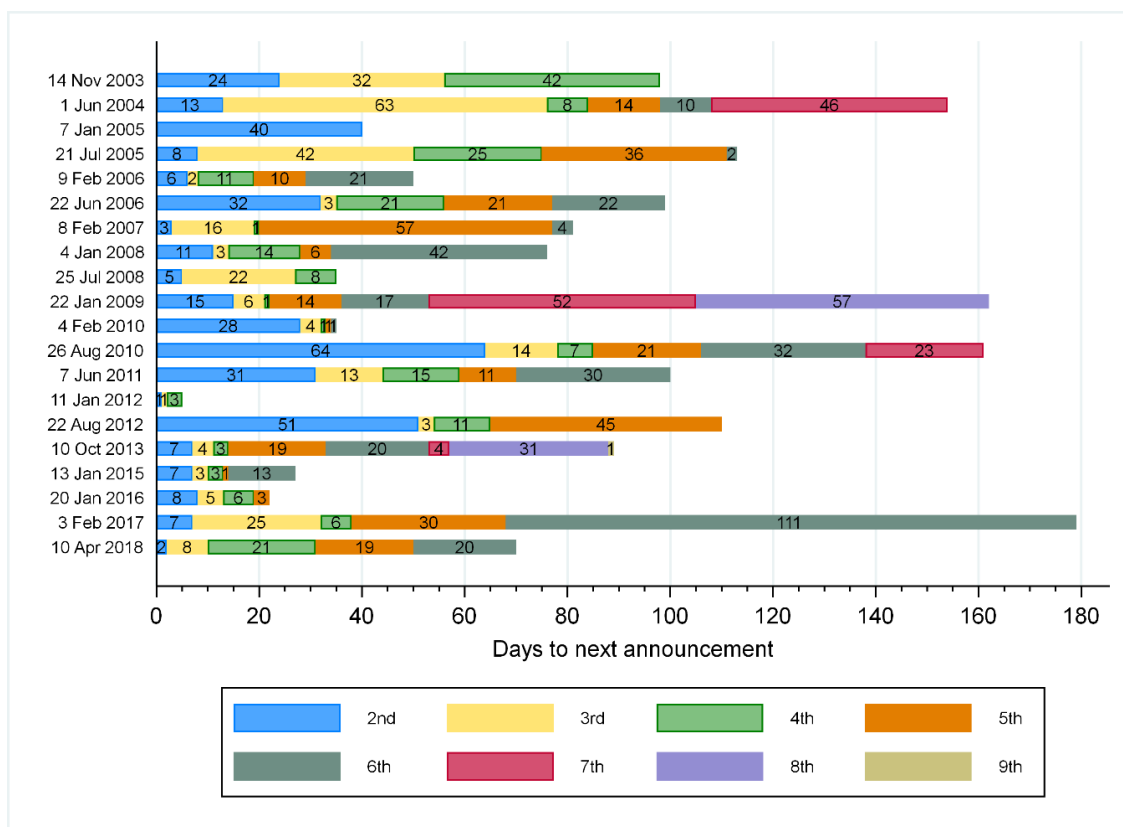
Source: CMA analysis.

Note: Pink circles denote an increase and white circles denote a reduction. The larger the diameter of the circle the larger the increase relative to other announcements within that round of price announcements.

16. Figure 8 provides further information on the timing of the first price announcement and then the elapsed time to and between subsequent announcements.<sup>20</sup> This shows that there can be very significant differences in the timing between announcements across 'price change rounds'. For example, while the 2017 and 2018 'price change rounds' (both increases) took place over more than 60 days, the 2015 and 2016 'price change rounds' (both decreases) took place over less than 30 days.

<sup>20</sup> To identify which price changes to include in a 'price change round' since 2015 we have considered whether the announcements of suppliers were similar in size, nature (eg the direction of the price change for individual fuels) and timing. For example, we did not include EDF's December 2016 price announcement as part of the 2017 price change round because it involved a small overall price increase consisting of a gas price decrease and an electricity price increase. This change was different nature to the substantial increases of other suppliers (including EDF) in early 2017.

**Figure 8: Timing and days prior to subsequent price announcements**



Source: CMA analysis.

17. We have also considered the order in which the SLEFs announce price changes in each round. Table 2 presents results for the entire period 2003-2018 while Table 3 presents results for the period 2014-2018. These results do not appear to indicate any specific pattern regarding which supplier makes the first announcement or the order of the announcements. For example, three different suppliers have been the first to announce between 2015 and 2018 and only one supplier has been the first to announce twice. In particular, we note that:

- (a) British Gas, as the largest supplier, does not appear to be acting as a price leader – over November 2003 to April 2018 it announced first in approximately 20% of the price rounds.
- (b) There is no evidence of either of the Parties’ leading price change rounds.



**Table 2: Frequency of leader and follower position within rounds of price changes, November 2003 to April 2018**

<i>Company</i>	<i>Leader</i>	<i>First follower</i>	<i>Second follower</i>	<i>Third follower</i>	<i>Fourth follower</i>	<i>Fifth follower</i>
<i>E.ON</i>	5	0	5	4	2	3
<i>British Gas</i>	4	6	5	1	1	2
<i>EDF</i>	4	5	1	3	5	2
<i>Scottish Power</i>	3	2	3	6	1	3
<i>Npower</i>	2	2	4	4	5	2
<i>SSE</i>	2	7	2	3	2	3

Source: CMA analysis.

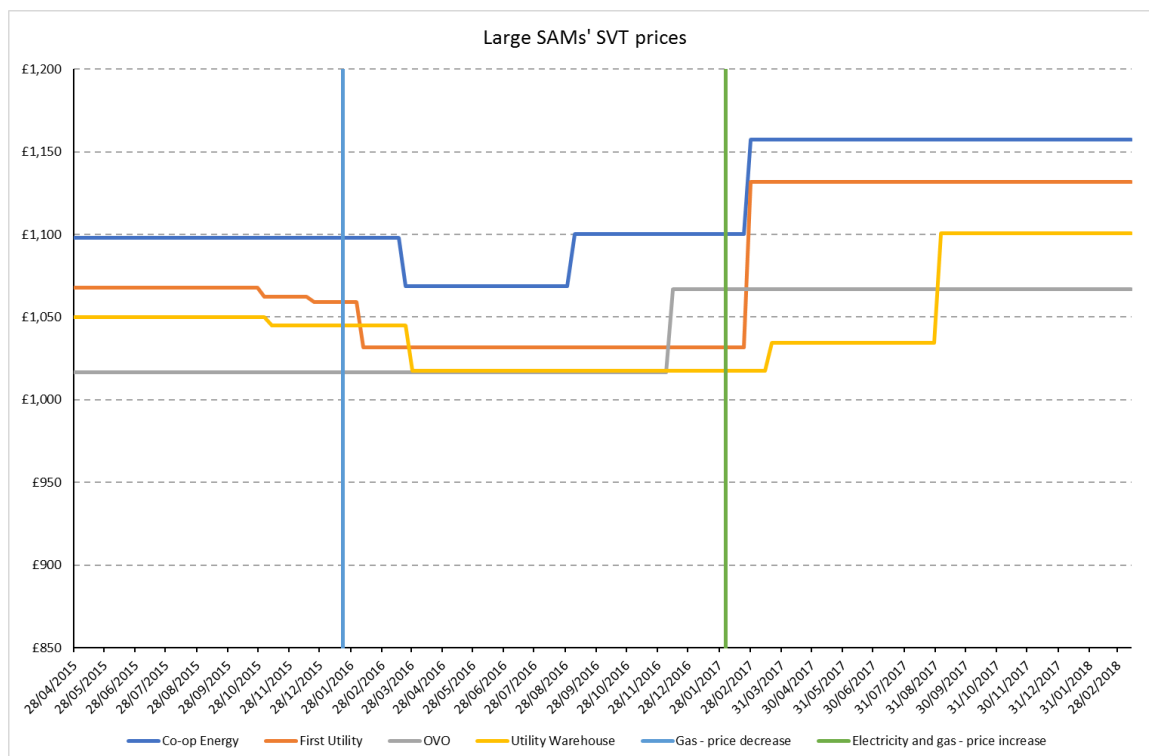
**Table 3: Frequency of leader and follower position within rounds of price changes, January 2015 to April 2018**

<i>Company</i>	<i>Leader</i>	<i>First follower</i>	<i>Second follower</i>	<i>Third follower</i>	<i>Fourth follower</i>	<i>Fifth follower</i>
<i>E.ON</i>	2	0	1	0	0	1
<i>British Gas</i>	1	0	0	0	1	2
<i>Npower</i>	1	0	1	2	0	0
<i>EDF</i>	0	1	0	0	3	0
<i>Scottish Power</i>	0	2	2	0	0	0
<i>SSE</i>	0	1	0	2	1	0

Source: CMA analysis.

18. We also note that there is no evidence that either of the Parties' persistently announce the largest price change. For example, between November 2003 and June 2018 Npower announced the largest gas price change on 20% of occasions while SSE announced the largest gas price change on 10% of occasions.
19. Finally, we have also considered how the timing of the SLEFs' price announcements compared to those of the largest SAMS. Figure 9 shows the evolution of Co-Op Energy, First Utility, Ovo Energy and Utility Warehouse's SVT prices over time and indicates the first price announcement of each of the SLEFs in each 'price round'.
20. This illustrates that when the SLEFs adjust SVT prices (blue and green vertical lines), the SAMS tend to do likewise. However, the SAMS also appear to have more flexibility regarding adjustments to SVT prices. For example, First Utility adjusted its prices in stages during 2015 and 2016 while Co-Op Energy increased its prices several times, rather than once, in late 2016 and early 2017.

**Figure 9: Co-Op Energy, First Utility, Ovo Energy and Utility Warehouse SVT prices**



Source: CMA analysis of uSwitch data.

### Price freezes

21. In addition to price change announcements a number of suppliers have announced price freezes. For example:
  - (a) SSE initially announced a price freeze in March 2014 which was extended until 2016.
  - (b) In February 2017 British Gas announced that it would be extending its price freeze until August 2017.
22. Focussing on these two examples:
  - (a) Following SSE’s announcement of a price freeze there were two rounds of SVT price cuts as each of the SLEFs cut their prices.
  - (b) British Gas’ extension of its price freeze occurred at a time after Npower had announced a price increase, on the same day that ScottishPower increased its prices and shortly before the remaining SLEFs increased their prices. Meanwhile, British Gas eventually announced a price increase in August 2017, several months after the other suppliers.

23. We note that both of these events are inconsistent with the presence of tacit coordination between suppliers. If such coordination were occurring then one would have expected:
- (a) SSE's price freeze to have been an attempt to signal to other suppliers not to cut prices. However, this did not prevent the other SLEFs from subsequently cutting prices.
  - (b) British Gas would not have announced a price freeze at a time when other suppliers were announcing price increases and one SLEF had already announced a price increase.

## Appendix H: Switching analysis

### Introduction

1. This appendix provides an overview of the available customer switching data. It first considers general trends in customer switching and changes in customer switching rates over time. It then considers the evidence regarding the effects of price announcements on customer switching. Finally, it considers the Parties' switching data and the switching patterns of the Parties' customers.
2. This data illustrates that:
  - (a) Since 2014 there has been an increase in customer switching and customer engagement. As a result, customer switching rates have increased to the levels which prevailed prior to 2011.
  - (b) There is evidence that this increase in customer switching has applied equally to customers on default tariffs and other types of tariff.
  - (c) Customers generally switch to acquisition tariffs and there is limited switching to default tariffs, especially in circumstances where customers have made an active choice.
  - (d) Default tariff price announcements prompt material increases in customer switching and engagement. However, this effect is relatively short-lived with customer switching rates returning, within a [X] post-announcement, to the level prevailing prior to the price announcement.
  - (e) Overall levels of customer switching between the Parties are fairly low with less than 10% of customers who switch away from one Party switching to the other Party. Between [X]% and [X]% of the customers switching away from the Parties switch to one of the other SLEFs. The majority of the Parties' customers who switch externally switch to one of the SAMS and this proportion has been increasing over time. This pattern is consistent across geographic regions.
  - (f) A significant proportion, from [X]% to [X]%, of the Parties' SVT customers who switch, switch internally (ie transfer onto an acquisition tariff with the same supplier).
  - (g) Switching patterns for the Parties' SVT customers are consistent with the switching patterns of the Parties' customers more generally.

## Changes in customer switching over time

3. Figure 1 shows the total number of gas and electricity customers switching between suppliers in each month between January 2010 and May 2018. This data illustrates that there was:
- (a) A gradual decline in customer switching rates between 2010 and late 2014. The EMI identified a number of potential reasons for this decline including the prohibition of regional price discrimination, the end of door step selling and a number of Ofgem's Retail Market Review.<sup>1</sup>
  - (b) A notable spike in customer switching in November 2013. This followed four of the SLEFs making price increase announcements in October 2013 within 14 days of each other.
  - (c) A gradual increase in customer switching since late 2014 such that customer switching has now returned to the level seen prior to 2011.<sup>2</sup> For example, Ofgem's 2017 'State of the energy market' report found that in June 2017 16% of customers had switched supplier in the previous 12 months, an increase from 11% in 2015 and the highest level of customer switching since August 2011.<sup>3</sup>

Therefore, it is apparent that customer switching has increased over recent years and is continuing to increase.

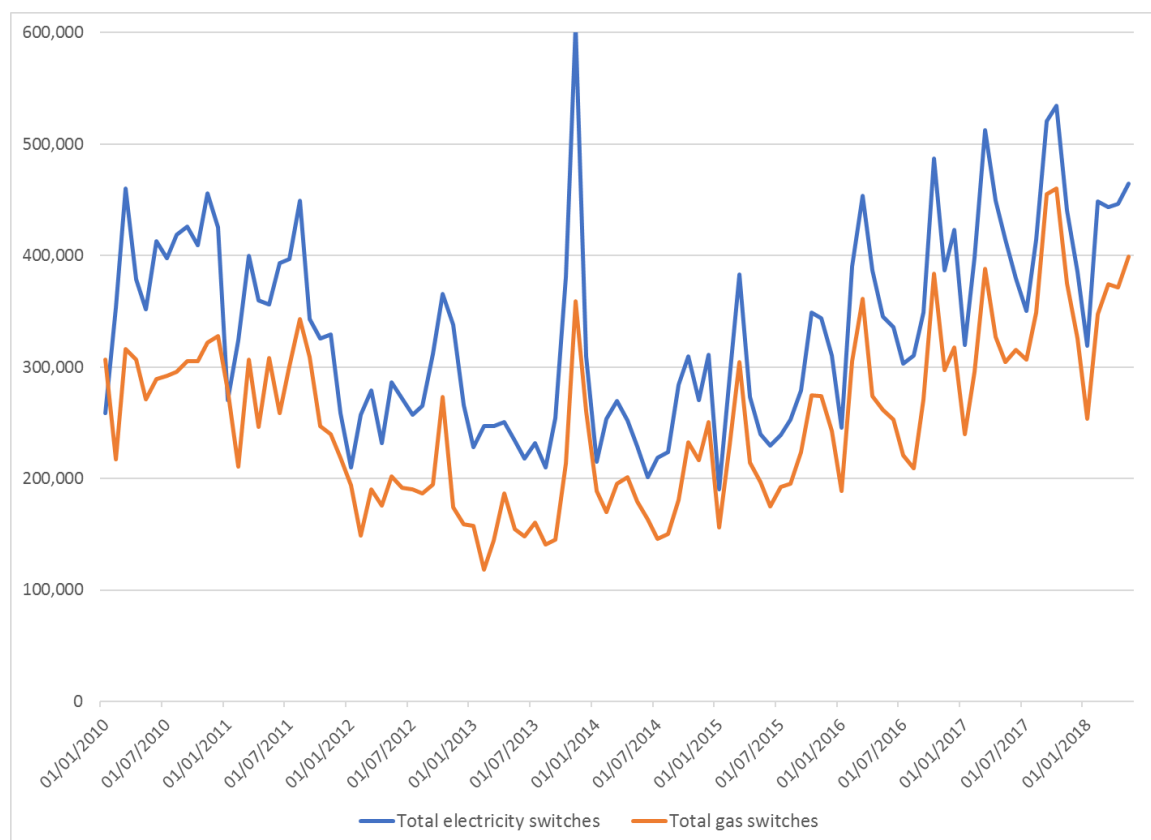
---

<sup>1</sup> [EMI final report](#) (24 June 2016), paragraphs 8.142 and 11.139.

<sup>2</sup> This is consistent with Ofgem's 2017 consumer engagement survey. As noted above, 41% of respondents had switched supplier, changed tariff or had compared suppliers or tariffs in the past 12 months. This compares to 37% of respondents in the 2016 survey and 34% in 2014 ([GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017), page 9).

<sup>3</sup> [State of the energy market 2017 report](#), Ofgem (31 October 2017), page 25.

**Figure 1: Number of customers switching supplier per month, Q1 2010 – Q2 2018**



Source: [Number of domestic customers switching supplier by fuel type \(GB\)](#), Ofgem (July 2018).

4. The increase in the proportion of customers switching supplier has assisted the growth of the SAMS, who have increased their market share from around 5% in 2013 to over 20% in Q1 2018.
5. The general increase in customer switching over time also applies to the Parties’ customers and to their SVT customers. This is illustrated by Table 1 which shows the number of customers switching away from each of the Parties increasing in each year. Likewise, Figure 2 and Figure 3 illustrate the trend of gradually increasing customer switching amongst the Parties’ SVT customers

**Table 1: Number of customers switching away from each Party, 2015–2017**

Year	Npower		SSE	
	Electricity	Gas	Electricity	Gas
2015	[X]	[X]	[X]	[X]
2016	[X]	[X]	[X]	[X]
2017	[X]	[X]	[X]	[X]

Source: CMA analysis of the Parties data.

## Figure 2: Proportion of Npower variable tariff customers switching externally per month

[✂]

Source: CMA analysis of data provided by Npower.

Note: [✂]

## Figure 3: Proportion of SSE variable tariff customers switching externally per month

[✂]

Source: CMA analysis of data provided by SSE.

Note: [✂]

6. Once customers decide to switch supplier, they generally switch to an acquisition tariff.<sup>4</sup> This is illustrated by Figure 4 and Figure 5 which show that the majority of customers (over [✂]% for both Parties) of customer gains in 2017 were associated with fixed term acquisition tariffs.

## Figure 4: Analysis of SSE external customer gains (2017)

[✂]

Source: SSE.

Note: [✂]

## Figure 5: Analysis of Npower external customer gains (2017)

[✂]

Source: Npower.

## Impact of SVT price changes on customer switching

7. The Parties have stated that 'SVT price rises are infrequent because of their significant impact on customer switching'.<sup>5</sup> This is clear from a wide range of evidence which is briefly summarised below.

### *Parties' internal documents*

8. The Parties' internal documents pay particular attention to customer switching when discussing potential SVT price changes. For example:
  - (a) When considering a potential price change in early 2017 an Npower internal document states:

[✂]

---

<sup>4</sup> This has also been noted by EDF and E.ON.

<sup>5</sup> [Parties Initial Submission \(response to CMA phase 1 decision\)](#) (30 May 2018), paragraph 5.9.

(b) Similarly, an Npower document [REDACTED].

(c) When planning for the 2017 price increase one SSE document projected customer losses of around [REDACTED] which was then later revised to [REDACTED].

(d) [REDACTED]

9. The Parties' internal documents also comment on the effects of SVT price changes of other suppliers on switching rates. For example, following [REDACTED] and [REDACTED].

### ***Parties' switching data***

10. The increase in switching rates following price announcements is also clear from the Parties' switching data. As Figure 6 and Figure 7 show, there is an underlying level of switching by SVT customers and both Parties experience material increases above this underlying level of switching following a price announcement. Whilst the effects are particularly noticeable following a price increase (green lines), there is also some evidence of a small increase in customer switching following price decreases (blue lines).<sup>6</sup>

#### **Figure 6: Proportion of Npower variable tariff customers lost externally per month**

[REDACTED]

Source: CMA analysis of the Parties' data.

#### **Figure 7: Proportion of SSE variable tariff customers lost externally per month**

[REDACTED]

Source: CMA analysis of the Parties' data.

11. Regarding the number of customers who switch in response to an SVT price announcement:
- (a) Npower has submitted that it [REDACTED].<sup>7</sup> For context, in 2017 Npower lost around [REDACTED] SVT gas and electricity accounts.<sup>8</sup> Therefore, switching following price increase announcements account for a material proportion of total SVT customer switching.

---

<sup>6</sup> We have not explored the reasons why customer switching might increase following a price decrease but note that there are a number of possible reasons. For example, suppliers may see customers switch if the price decrease is not as large as expected (eg by reference to other suppliers' prices) or the mere act of adjusting prices may prompt some customers to consider switching.

<sup>7</sup> [REDACTED]

<sup>8</sup> Around [REDACTED] electricity account and [REDACTED] gas accounts. CMA analysis of data provided by Npower, figure is based on number of variable tariff, non-prepayment customers switching away from Npower.



(b) As noted at paragraph 8(c) one SSE document projected gas and electricity customer losses of around [redacted] which was then later revised to [redacted].<sup>9</sup>

(c) Focussing on the Parties' 2017 price announcements:

(i) Npower announced its price increase on 3 February. In January 2017 [redacted] Npower SVT electricity customers switched supplier ([redacted]% of Npower's SVT electricity customers) compared to [redacted] in February 2017 ([redacted]% of Npower's SVT electricity customers) and [redacted] ([redacted]% of Npower's SVT electricity customers) in March 2017.

(ii) SSE announced its price increase on 13 March 2017. In February 2017 [redacted] SSE SVT electricity customers switched supplier ([redacted]% of SSE's SVT electricity customers) compared to [redacted] in April 2017 ([redacted]% of SSE's SVT electricity customers) and [redacted] in May 2017 ([redacted]% of SSE's SVT electricity customers).<sup>10,11</sup>

12. In their submissions the Parties have compared the increase in customer switching following a price announcement to the number of SVT customer accounts lost by each Party from 2015 to 2017. In our view, such comparisons understate the effect of price announcements on customer switching by comparing the effects of a single price increase with customer switching over an extended period of time. In our view it is more appropriate to make a comparison with customer losses over a 12 month period since this is approximately the frequency of SVT price changes (see Appendix F) and therefore, the frequency with which suppliers have been able to adjust SVT prices in order to affect customer switching.

### ***Frontier's analysis of the effects of SVT price announcements on customer engagement***

13. Frontier Economics (Frontier) conducted an analysis considering the effects of SVT price announcements on the number of price comparisons run by SVT customers on uSwitch.<sup>12</sup> The Parties submitted that this analysis indicated that 'the degree of customer switching following a price increase is primarily determined by the absolute size of the price increase, and not the relativity

---

<sup>9</sup> Around [redacted] electricity account and [redacted] gas accounts.

<sup>10</sup> Due the announcement being in mid-March, we have not focussed on the customer losses during March.

<sup>11</sup> [redacted]

<sup>12</sup> [Parties response to the Issues Statement](#), paragraphs 3.31–3.35.

with regards to the other larger suppliers'.<sup>13</sup> In particular, the Parties' submitted that:<sup>14</sup>

- (i) The highest absolute SVT price increases were typically associated with particularly high increases in customer engagement;
- (ii) For each supplier, the higher absolute SVT price increase observed in 2017 was associated with a larger increase in customer engagement than the lower SVT price increase in 2018; and
- (iii) The larger increase in customer engagement in 2017 for each supplier occurred irrespective of whether a supplier's SVT price increase was higher than that of another supplier.

14. This analysis illustrates, consistent with a range of other evidence we have received, that SVT price announcements prompt increased customer engagement. However, we do not consider that this analysis, in and of itself, provides clear insights into precisely what causes increased customer engagement following price announcements (eg whether it is the absolute size of the price announcements or the relative timing).
15. Frontier's analysis is based on a comparison of a relatively small number of price announcements and several of the patterns identified have multiple explanations which cannot be distinguished between using the available data. For example, the Parties have submitted that the highest absolute SVT price increases were typically associated with particularly high increases in customer engagement. However, this appears to be largely based on Npower, British Gas and SSE's 2017 price announcements. As we have noted, Npower was the first of the SLEFs to announce a substantive price increase in 2017<sup>15</sup> and British Gas announced its price increase in isolation, significantly after those of the other suppliers. Consequently, an equally plausible explanation is that the observed increase in customer switching reflects an increase attributable to being the first to announce or from announcing in isolation.

---

<sup>13</sup> [Parties response to the Issues Statement](#), paragraph 3.31.

<sup>14</sup> [Parties response to the Issues Statement](#), paragraph 3.33.

<sup>15</sup> We note that EDF announced a small price increase in December 2016 but that this price announcement was (i) considerably smaller than the subsequent announcements of other suppliers, (ii) was followed by a second EDF announcement later in 2017 and (iii) differed in substance to the other 2017 price announcements since it involved a decrease in gas prices and an increase in electricity prices.

## ***Evidence on the persistence of customer engagement following a price announcement***

16. The above evidence also allows an assessment of the time periods over which customer switching and customer engagement increases following a default tariff price announcement.
17. Figure 6 and Figure 7 illustrate that there is a very clear, immediate and pronounced effect on customer switching immediately following a price announcement. However, whilst customer switching rates may then be elevated for a short period after the initial increase, within [X] customer switching rates return to previously observed levels.
18. A similar pattern can be seen in the evidence from [X]. This is also consistent with evidence provided by [X].

### **Figure 8: Effect of SVT price announcements on [X] deregistration requests**

[X]

Source: [X].

19. Therefore, while it is clear that price announcements prompt significantly increased customer engagement and lead to customer switching it also appears that this effect is short-lived with customer switching reducing to the previously prevailing level shortly following an announcement.

## **The Parties' customer switching data**

20. The Parties have provided data on the number of customers who switched from/to them in each month from January 2015 to December 2017. The data also includes information about the identity of the suppliers these customers switched from/to.
21. In analysing these data we have focussed on external switching. This is because these data best reflect the strength of the competitive constraints that different suppliers impose on the Parties.<sup>16</sup>
22. This section reviews that data by considering (i) the general evidence regarding the switching patterns of the Parties' customers and (ii) evidence regarding switching patterns of the Parties' SVT customers. This analysis illustrates that:

---

<sup>16</sup> In 2017 [X]% of Npower electricity and gas customers on an SVT who subsequently changed either tariff or supplier switched to another supplier (ie switched externally). For SSE the figures were [X]% for electricity and [X]% for gas (CMA analysis of data provided by the Parties).

- (a) Overall levels of customer switching between the Parties are fairly low with less than 10% of customers who switch away from one Party switching to the other Party. The majority of the Parties' customers who switch externally switch to one of the SAMS and this proportion has been increasing over time. This pattern is consistent across geographic regions.
- (b) Switching patterns for the Parties' SVT customers are consistent with the switching patterns of the Parties' customers more generally. It appears that customers who engage with their choice of energy supplier exhibit similar switching patterns regardless of whether it is the first time the customer has considered their choice of energy supplier in a while.

**General switching patterns of the Parties' customers**

23. The Parties' aggregate switching data shows that in 2017 over 50% of customers who switched away from each of the Parties switched to one of the SAMS (Table 2Table 2). By contrast less than 10% of those who switched away from one of the Parties switched to the other party. Between [X] % and [X] % of the customers switching away from the Parties switch to one of the other SLEFs.

**Table 2: Destination of customers lost by the Parties (2017)**

Party	Destination	Fuel type	
		Electricity	Gas
Npower	SSE	[X]	[X]
	Other SLEFs	[X]	[X]
	SAMS	[X]	[X]
SSE	Npower	[X]	[X]
	Other SLEFs	[X]	[X]
	SAMS	[X]	[X]

Source: CMA analysis based on data provided by the Parties.  
 Note: Figures for Npower, SSE and Centrica include figures for their white labels.

24. As Table 3 illustrates, this pattern is consistent across all geographic areas, with over [X] % of customers switching away from the Parties to one of the SAMS in every region for both fuels.

**Table 3: Proportion of Parties' customers switching to SAMS in each former PES region (2017)**

Region	%			
	Npower		SSE	
	Electricity	Gas	Electricity	Gas
East Anglia	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
East Midlands	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
North Scotland	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
London	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Merseyside and North Wales	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Midlands	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
North East	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
North West	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
South East	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Southern	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
South Scotland	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
South Wales	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
South West	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Yorkshire	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CMA analysis based on data sourced from the Parties.

25. The Parties' data illustrates that the proportion of customers switching to the SAMS has increased over time (Figure 9 and Figure 10).

**Figure 9: SSE proportion of customers lost to the SAMS (proportion of external losses) (2015–2017)**

[REDACTED]

Source: SSE.

**Figure 10: Npower proportion of customers lost to the SAMS (proportion of external losses) (2015–2017)**

[REDACTED]

Source: Npower.

### *Switching to Utility Warehouse*

26. In its submission on behalf of Utility Warehouse, Oxera highlighted that following the Merger SSE may have an incentive to increase its prices not only because some of SSE's lost sales will be recovered by Npower but also because some of SSE's lost sales will be recovered by Utility Warehouse. This will mean that MergeCo will recover some of SSE's lost sales following a price increase through increased wholesale profits through the Utility Warehouse supply agreement.

27. Therefore, we have also considered the extent to which SSE's customers switched to Utility Warehouse. The switching data shows that between 2015 and 2017 [REDACTED]% of electricity and gas customers who switched away from SSE, switched to Utility Warehouse.

## **Switching by SVT customers**

28. The Parties have provided submissions which illustrate that the general patterns of customer switching reported above also apply to SVT customers. This analysis indicates that once default tariff customers engage with their choice of supplier their behaviour does not appear to be materially different to that of customers more generally.
29. Figure 11 shows the switching patterns of the Parties' SVT customers who switched during 2017. This data illustrates that:
- (a) The rates of switching between the Parties for SVT customers is similar to the overall rate of customer switching between the Parties. For example, in 2017, [X] % of Npower's electricity SVT customers who switched externally went to SSE which is the same as the proportion of all Npower's electricity customers who switched externally (see Table 2).
  - (b) The Parties' SVT customers are just as likely as the Parties' customers in general to switch to one of the SAMS and SVT customers are no more likely to switch than customers more generally to another one of the SLEFs.
  - (c) A substantial proportion of the Parties' SVT customers who switch, switch internally (ie transfer onto an acquisition tariff with the same supplier). In 2017, [X] % of Npower's SVT customers (both gas and electricity) who switched, switched internally. During the same year, [X] % of SSE's electricity SVT customers and [X] % of SSE's gas SVT customers who switched, switched internally.

**Figure 11: Destination of the Parties' SVT customers when they switch (2017)**

[X]

Source: Parties.

30. Figure 11 is based on an analysis of all SVT customers. Therefore, this analysis includes information on the switching behaviour of customers who may have reverted to the SVT for a short period of time but are otherwise engaging with their choice of energy supplier; for example, when moving home or when an FTC comes to an end. Consequently, it is possible that an analysis of SVT customer switching patterns is not reflective of the switching patterns of longer term SVT customers, whose behaviour is likely to be of most relevance to the Parties' incentives when setting default tariff prices.
31. However, the evidence provided by the Parties suggests that this is not the case and that customer switching patterns are broadly similar both overall and for previously disengaged customers.

32. First, as Table 4 shows, the number of customers leaving the Parties' SVT in each year is significantly higher than the number of customers switching from a fixed term tariff to an SVT. This means that it is less likely that Figure 11 illustrates the switching patterns of customers who have rolled over to an SVT for a short period of time rather than the switching patterns of previously disengaged customers.

**Table 4: Customer switching from fixed term to SVT tariffs**

Party	Fuel	Customers switching from a fixed term to SVT	Customers leaving a SVT
SSE	Electricity	[REDACTED]	[REDACTED]
	Gas	[REDACTED]	[REDACTED]
Npower	Electricity	[REDACTED]	[REDACTED]
	Gas	[REDACTED]	[REDACTED]

Source: Parties.

33. Second, as shown in Figure 12 and Figure 13, the switching patterns of SVT and fixed term tariff customers are very similar. This is consistent with the switching patterns of previously disengaged customers being similar to switching patterns more generally. This is especially the case given that, as Table 4 illustrates, the majority of customers leaving SVTs are not those rolling over from fixed term tariffs.

**Figure 12: SSE external losses by destination – SVT and FTC customers**

[REDACTED]

Source: SSE.

**Figure 13: Npower external losses by destination – SVT and FTC customers**

[REDACTED]

Source: Npower.

34. Third, an SSE leavers survey<sup>17</sup> suggests that [REDACTED].<sup>18</sup> [REDACTED].

**Figure 14: Destination of SSE customer losses by tariff and tenure (from SSE leavers survey)**

[REDACTED]

Source: SSE.

35. Finally, as noted at paragraphs 8 to 19, default tariff price announcements prompt material increases in customer switching and likely lead some customers to engage with their choice of energy supplier for the first time or for the first time in a while. Therefore, it is possible to focus on customer

<sup>17</sup> [REDACTED]

<sup>18</sup> We note that [REDACTED].

switching patterns around the time of price announcements to assess whether customers switching for the first time or for the first time in a while behave materially differently to customers overall. Since it is these customers who switch following a default tariff price announcement, it is the behaviour of this group of customers which is most likely to be relevant to the Parties when setting their default tariff prices.

36. Figure 15 shows customer switching patterns for both of the Parties' in the months immediately following their 2017 price announcements. A comparison of Table 2, Figure 11 and Figure 15 shows that the patterns of customer switching are similar in both cases. Switching to the other Party is fairly low whilst a significant proportion of customers switch to one of the SAMS.

**Figure 15: Destination of Parties' SVT customers when they switch (period of SVT price announcement/introduction)**

[REDACTED]

Source: Parties.

Note: [REDACTED]

### ***Customer acquisition and fixed term acquisition tariffs***

37. Finally, we have also considered the evidence regarding the Parties' customer gains and the behaviour of fixed term tariffs focussing on:
- (a) The source of the Parties' customer gains.
  - (b) The evidence regarding the extent to which customers continue to engage with the market over time rather than engaging at one stage before reverting back to a default tariff.
38. The Parties provided data on the number of customers they acquired on different types of contract between 2015 and 2017 and in particular gains to the Parties' FTCs.
39. Table 5 shows the total number of fixed term contract customers gained by the Parties in 2017. This data illustrates that in 2017 around [REDACTED] of the FTC customers gained, switched internally.



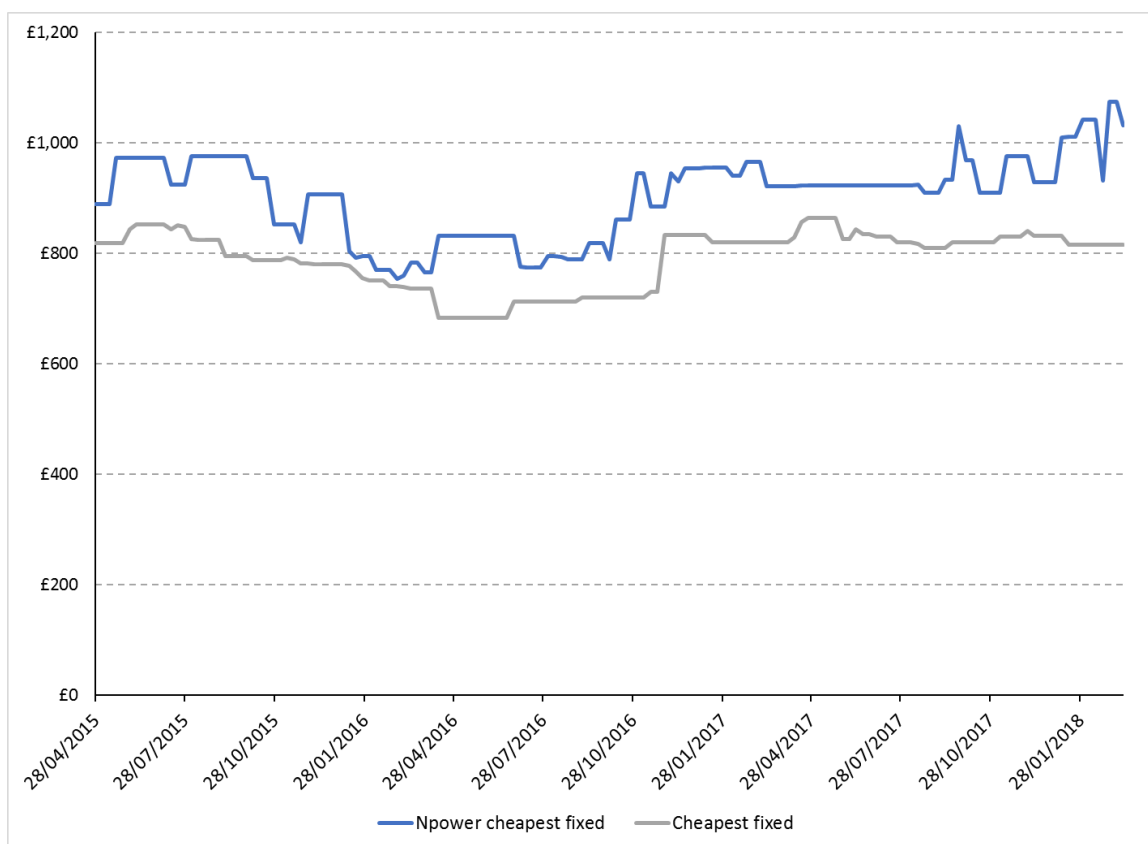
**Table 5: FTC customer gains (2017)**

Party	Fuel type	Internal	External	Proportion of gains which are internal
Npower	Electricity	[X]	[X]	[X]
	Gas	[X]	[X]	[X]
SSE	Electricity	[X]	[X]	[X]
	Gas	[X]	[X]	[X]

Source: CMA analysis of data provided by the Parties.

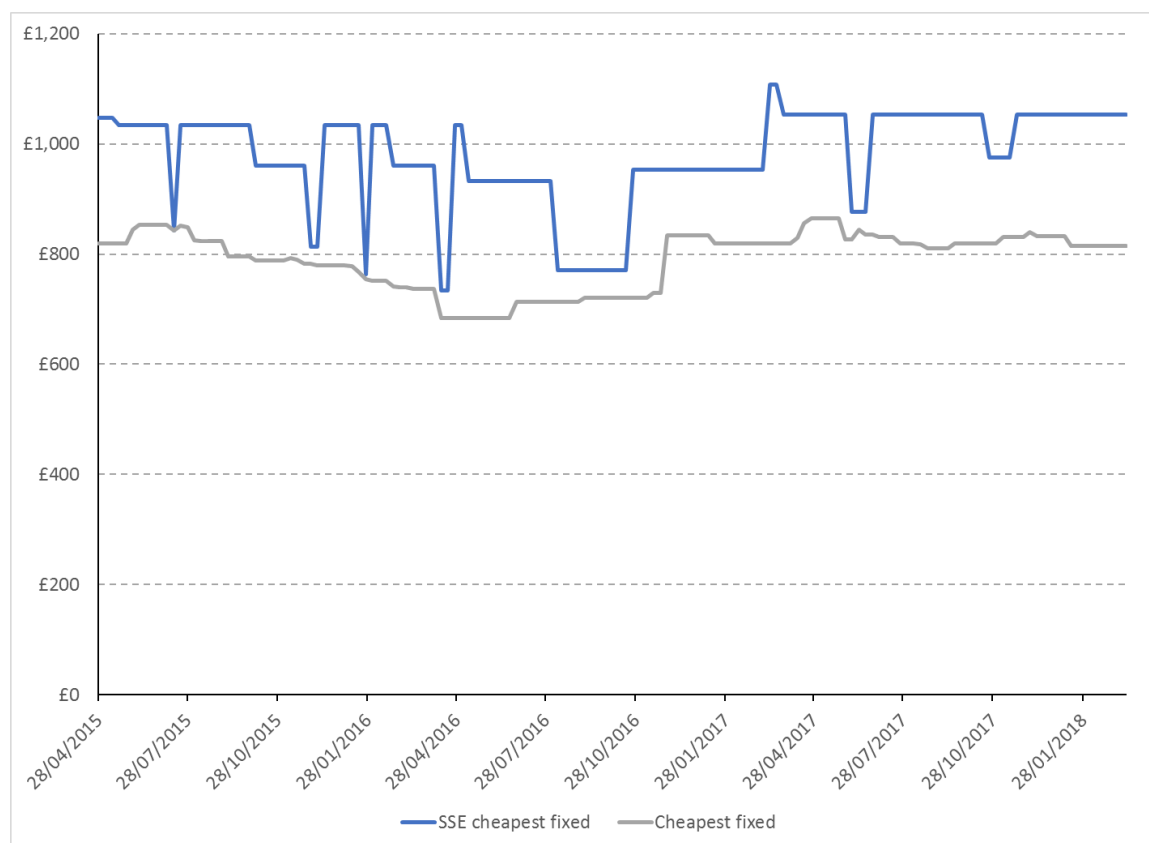
40. We note that both Parties continue to gain a significant number of customers despite the fact that other suppliers frequently offer better priced tariffs (see Figure 16 and Figure 17). This is consistent with brand being a relevant factor in the decisions of at least some customers.

**Figure 16: Npower fixed term tariff pricing strategy**



Source: CMA analysis.

**Figure 17: SSE fixed term tariff pricing strategy**



Source: CMA analysis.

41. Of those switching to the Parties from other suppliers between 2015 and 2017 [X] ([X]%) were previously customers of one of the other SLEFs. We note that this is likely to in part reflect the trend of increasing customer engagement which means that a majority of the customers switching supplier are likely to be former customers of one of the SLEFs.

**Table 6: Sources of the Parties' FTC customer gains (2015-2017)**

		%	
		<i>Sources of gains to fixed tariffs (2015-17)</i>	
		<i>Fuel type</i>	
<i>Party</i>	<i>Source</i>	<i>Electricity</i>	<i>Gas</i>
Npower	SLEFs	[X]	[X]
	Mid-tiers	[X]	[X]
	Other	[X]	[X]
SSE	SLEFs	[X]	[X]
	Mid-tiers	[X]	[X]
	Other	[X]	[X]

Source: CMA analysis based on data sourced from the Parties.

Notes: Figures for Npower, SSE and Centrica include figures for their white labels. Mid-tiers include Co-op Energy, First Utility, Ovo Energy and Utility Warehouse.

42. Finally, the evidence we have received illustrates that in setting acquisition tariff prices, suppliers also consider the likelihood that customers will rollover to the default tariff at the end of the acquisition tariff's fixed term. For example:
- (a) Evidence from Npower indicates that, for its current conventional meter acquisition tariffs, it assumes that between [X]% of customers will transition to a default tariff at the end of the contract's fixed term depending on the fixed term tariff in question.
  - (b) SSE has submitted that at the time of the EMI around [X]% of its FTC customers would transition to SSE's SVT at the end of an FTC. This figure is now at [X]%.
  - (c) ScottishPower has submitted that, at the time of the EMI the average default rates at tariff maturity was around [X]%. However, for contracts which matured in 2017 the equivalent figure was [X]%.
  - (d) E.ON has submitted that for FTCs maturing in 2017 the proportion of customers reverting to E.ON's default SVT was [X]%. However, this has [X] and in Q1 2018 the equivalent figure was [X]%.

## Annex 1: [✂]

1. [✂]

# Appendix I: Press coverage of SVT price announcements

## Introduction

1. As noted in paragraph 8.31, in considering how their price announcement will be perceived within the wider market context, suppliers take account of the likely media reaction. The Parties' internal documents show [REDACTED] and that this is a factor influencing their default tariff pricing strategies. Furthermore, in response to the phase 1 decision, SSE lists '[REDACTED]' as among the main factors taken into account when setting SVT prices.<sup>1</sup>
2. The influence of press coverage on customer engagement is consistent with analysis conducted by [REDACTED]. This analysis show that following a supplier's price announcement, [REDACTED]. The data shown in Figure 1 below [REDACTED].
3. Therefore, we have undertaken a review of media articles covering recent price announcements to identify:
  - (a) the factors which are reported; and
  - (b) the relative prominence of those factors.
4. Our review has focussed on the SLEFs' price announcements from December 2016 to May 2018 analysing 298 articles from the main news providers.

**Figure 1:** [REDACTED]

[REDACTED]

Source: Parties.  
Note: [REDACTED].

5. Our analysis found that:
  - (a) the Parties' price announcements receive no more attention than those of the other large energy firms;
  - (b) the most prominent factor reported is the value of the price change in either absolute or percentage terms. The next most prominent factor is the potential for customers to save money by switching to an acquisition tariff, followed by comparisons with default tariff price changes made by the other large energy firms;

---

<sup>1</sup> Parties Initial Submission (response to CMA phase 1 decision) (30 May 2018), paragraph 5.39(iv).

- (c) the majority of article titles which referred to the price change mentioned the percentage value of the change; and
  - (d) when making comparisons between default tariff price changes, the vast majority of comparisons are to other large energy firms and only a small number of comparisons are made with SAMS.
6. This appendix describes the methodology used to collect, and to analyse, the articles, summarises the results of the analysis and summarises the Parties' submission on our analysis.

## Methodology

7. Our analysis considered the 13 price announcements, listed in Table 1, which took place from December 2016 to May 2018. Therefore, our analysis did not include a number of more recent SVT price announcements (for example E.ON's or EDF's SVT price increase announcements on 19 June 2018 and 5 July 2018 respectively). We also restricted our analysis to the price announcements of the SLEFs since the focus of our inquiry is on the constraints the Parties, and the SLEFs more generally, face when adjusting their SVT prices.

**Table 1: List of SLEFs' SVT price changes by announcement date**

<i>Supplier</i>	<i>Announcement date</i>	<i>Price change (%)*</i>
EDF	16 December 2016	+1.2
Npower	3 February 2017	+9.8
ScottishPower	10 February 2017	+7.8
E.ON	7 March 2017	+8.8
SSE	13 March 2017	+6.9
EDF	12 April 2017	+7.2
British Gas	1 August 2017	+7.3
E.ON†	2 March 2018	+2.6
British Gas	10 April 2018	+5.5
EDF	12 April 2018	+1.4
ScottishPower	20 April 2018	+5.5
Npower	11 May 2018	+5.3
SSE	30 May 2018	+6.7

Source: CMA analysis.

\* Price changes come from the Parties and third-party submissions, if unavailable they have come from news articles.

† E.ON removed the dual fuel and paperless discounts for default tariff customers.

Note: Price changes shown are for a typical dual fuel customer.

8. We used NLA Clipsearch to gather the relevant offline articles printed by selected newspapers<sup>2</sup> on the day of the price announcement<sup>3</sup> and the two following days.

---

<sup>2</sup> Some of the articles are the Scottish version of the newspaper. There were only minor differences between the regional versions, usually small differences in the length of the article.

<sup>3</sup> Only the Evening Standard published articles in print on the same day as the announcement.

9. A list of the newspapers reviewed is shown in Table 2 below. Circulation data from the Audit Bureau of Circulations (ABC)<sup>4</sup> indicates that the selected newspapers covered 73% of average daily sales of national newspapers in April 2018.<sup>5</sup>

**Table 2: List of newspapers used in the offline analysis and their average daily sales in April 2018**

<i>Newspapers</i>	<i>Average daily sales (April 2018)</i>
Daily Express	346,307
Daily Mail	1,288,889
Daily Mirror	567,442
Daily Record	130,488
Daily Star	384,393
Daily Telegraph	377,159
Evening Standard	873,398
I	252,192
Metro	1,475,870
The Guardian	142,318
<b>Total</b>	<b>5,838,456</b>

Source: CMA analysis.

10. The omission of The Sun, The Times and Financial Times is due to these newspapers not being available through NLA Clipsearch.<sup>6</sup> However, these three newspapers are included in the online sample. Furthermore, we have no reason to believe that the nature of the reporting in these three newspapers is likely to be substantively different (in a way which would affect the results of the analysis) to those included in the analysis.
11. Using this methodology, we gathered 163 offline articles covering the 13 SLEF price announcements set out in Table 1 above. Of these articles, 89% (145) were published in the first available print run after the announcement, typically being the day after the announcement.
12. We used Google News search to find the most relevant<sup>7</sup> online news article on each website on the day of each price announcement.<sup>8</sup> The websites chosen for this review were:

---

<sup>4</sup> See the ABC [website](#), accessed on 11 June 2018.

<sup>5</sup> ABC data covers the 13 national newspapers and does not include regional newspaper sales.

<sup>6</sup> Average daily sales in April 2018: The Sun: 1,496,558; The Times: 433,604; and Financial Times: 183,140.

Together they account for the remaining 27% of average daily sales (ABC [website](#), accessed on 11 June 2018).

<sup>7</sup> The most relevant article was identified as the first article returned by Google News which concerned the suppliers' SVT price change. 130 of the 135 online articles were published on the same day as the price announcement. The remaining five online articles were all published by The Times the day or two days following the price announcement.

<sup>8</sup> There are five articles on the [times.co.uk website](#) that were published online the day after the announcement.

(a) the websites of the selected national newspapers, including those unavailable for offline analysis;<sup>9</sup> and

(b) the websites of the major TV news providers.

13. A list of the chosen websites is shown in Table 3 below. Using analysis in the final report on the Fox/Sky merger,<sup>10</sup> we found that this list covered 92% of time spent consuming news online in August 2017.<sup>11</sup> The BBC accounted for 68% of this total time spent consuming news online, followed by 7% on Sky News and 6% on the Mail Online.

**Table 3: List of websites used in the online analysis**

*Website addresses*

bbc.co.uk  
channel4.com  
dailymail.co.uk  
dailyrecord.co.uk  
dailystar.co.uk  
express.co.uk  
ft.com  
independent.co.uk  
itv.com  
metro.co.uk  
mirror.co.uk  
news.sky.com  
standard.co.uk  
telegraph.co.uk  
theguardian.com  
thesun.co.uk  
thetimes.co.uk

Source: CMA analysis.

14. Using this methodology, we gathered 135 online articles covering the 13 SLEF price announcements set out in Table 1.
15. We conducted a review of the online and offline articles distinguishing between three sections: title, strap line and main text, and recording the order in which five factors appeared within each section. This ordering can be used as a proxy for the relative prominence of each factor within a section of the article.<sup>12</sup>
16. The five factors are:

---

<sup>9</sup> As noted in paragraph 10, The Sun, The Times and Financial Times were not included in the offline analysis due to these papers being unavailable to NLA Clipsearch.

<sup>10</sup> Fox/Sky final report, Appendix E, Figure 7.

<sup>11</sup> CMA analysis using comScore data.

<sup>12</sup> We note that this is only one means of measuring prominence. For example, the Parties submitted an analysis which used information contained in 'key message' boxes as a measure of prominence and the Parties noted that prominence can be measured qualitatively by considering the tone of an article. We note that the results of that analysis are broadly consistent with those of our measure of prominence (ie SVT price changes of other SLEFs are less prominent in press coverage than the potential for customers to switch to acquisition tariffs).



- (a) Was the value of the price change mentioned (in either absolute or percentage terms)? (We also reviewed the breakdown of absolute and percentage change mentions in the article titles.)
- (b) Was there a mention of the potential savings associated with switching to an acquisition tariff, but no potential savings value given (ie the potential savings were mentioned but not quantified)?
- (c) Was there a mention of the potential savings associated with switching to an acquisition tariff and were those savings quantified?
- (d) Was there a comparison to changes in the default tariffs of other SLEFs?
- (e) Was there a comparison to changes in the default tariffs of the SAMS?

## Results

17. This section presents the results of the analysis, firstly reviewing the number of articles per announcement and then the findings on the relative prominence of the five factors.

### *Number of articles per announcement*

18. Table 4 below shows that the average number of articles per price announcement is 23. Table 4 also shows that the Parties have close to this number of articles per announcement. This suggests that their price announcements receive no more attention than the price announcements of the other large energy firms.<sup>13</sup>
19. There are two suppliers who are outliers in this analysis:
- (a) British Gas has more articles per announcement than the other suppliers (15 and 11 more than the next closest supplier for its 2017 and 2018 price changes respectively). Two factors may explain this:
    - (i) Timing – British Gas’ 2017 announcement followed some time after those of the other SLEFs and was effectively conducted in isolation. Similarly, British Gas was the first of the SLEFs to announce a price change in 2018.

---

<sup>13</sup> The Daily Record’s online and offline articles were also reviewed for a potential focus on Scottish suppliers (ie British/Scottish Gas, ScottishPower and SSE). No such focus was found. The number of Daily Record articles covering the Scottish suppliers was in line with the number of articles covering the other suppliers.

(ii) Size – British Gas is the largest supplier<sup>14</sup> with the largest number of default tariff customers.<sup>15</sup> This means its price changes affect more people than other suppliers' price changes and therefore are likely to receive increased media coverage.

(b) E.ON's price change in 2018 received five fewer articles than the next closest supplier. This may be explained by the nature of this price increase being the removal of the dual fuel and paperless discounts for default tariff customers, rather than a typical increase in the default tariff rate.

**Table 4: Number of articles per announcement**

<i>Supplier</i>	<i>Date</i>	<i>No. Online</i>	<i>No. Offline</i>	<i>Total</i>	<i>Notes</i>
EDF	16 December 2016	9	7	16	Small dual fuel rise, cut in gas and rise in electricity <b>First announcement</b>
<b>Npower</b>	<b>3 February 2017</b>	<b>11</b>	<b>15</b>	<b>26</b>	
Scottish Power	10 February 2017	8	10	18	
E.ON	7 March 2017	7	9	16	
<b>SSE</b>	<b>13 March 2017</b>	<b>7</b>	<b>11</b>	<b>18</b>	
EDF	12 April 2017	9	14	23	
British Gas	1 August 2017	13	28	41	Isolated announcement
E.ON	2 March 2018	8	3	11	Removal of discounts
British Gas	10 April 2018	15	22	37	First announcement
EDF	12 April 2018	11	14	25	
Scottish Power	20 April 2018	11	6	17	
<b>Npower</b>	<b>11 May 2018</b>	<b>14</b>	<b>11</b>	<b>25</b>	
<b>SSE</b>	<b>30 May 2018</b>	<b>12</b>	<b>13</b>	<b>25</b>	
<b>Total</b>		<b>135</b>	<b>163</b>	<b>298</b>	
			<b>Average</b>	<b>23</b>	

Source: CMA analysis.

### ***Relative prominence of the five factors***

20. Where factors are mentioned in the title and strap line sections of the articles (34% and 25% mentioned at least one factor respectively), the first factor mentioned is almost always the value of the price change. There are only two articles that mentioned any of the other factors first, and both mentioned the other factors first in the strap line section.
21. 102 articles referred to either the absolute or percentage value of the price change in the title. Of these articles:
  - (a) 70% (71) only mentioned the percentage change;
  - (b) 28% (29) only mentioned the absolute value of the change; and

<sup>14</sup> [Market Structure charts](#), Ofgem (accessed on 15 June 2018).

<sup>15</sup> [Number of non-price protected domestic customer accounts by supplier: Standard variable, fixed and other tariffs \(GB\)](#), Ofgem (accessed on 15 June 2018).

- (c) 2% (2) mentioned both the percentage and absolute value of the change.
22. Table 5 presents the results of our analysis on the main text of the articles and illustrates that:
- (a) In the main text of the articles, the value of the change is the most prominent factor being mentioned first in 94% (275) of articles.
  - (b) A mention of savings associated with acquisition tariffs (but not quantified) or a comparison of changes to the default tariffs of other SLEFs appeared second in 28% (83) and 36% (108) of articles respectively.
  - (c) If references to acquisition tariff savings are grouped together (ie regardless of whether those savings were quantified) then this is the second most prominent feature being mentioned in 61% (181) of articles and being mentioned second in 36% (107) of articles.
  - (d) While many articles mention the potential for customers to save money by switching to acquisition tariffs, most articles (71% of articles (211)) did not quantify the amount that could be saved through switching to an acquisition tariff.
  - (e) 53% (159) of articles made a comparison to changes in other SLEFs' default tariffs, compared to 4% (12) that made a comparison to changes in other SAMS default tariffs. This shows that the press coverage of the SLEFs price announcements predominately focusses on the other SLEFs when comparing changes to default tariffs across suppliers.

**Table 5: Ordering of the five factors in the main text section of the articles**

Order	Value of change	Mention of...		Comparison to...	
		Acquisition tariffs	Acquisition tariff savings	SLEFs	SAMS
1	275	5	1	6	0
2	3	83	24	108	1
3	1	51	43	33	5
4	0	8	18	11	6
5	0	0	1	1	0
Total mention	279	147	87	159	12
No mention	19	151	211	139	286
<b>Total</b>	<b>298</b>	<b>298</b>	<b>298</b>	<b>298</b>	<b>298</b>

Source: CMA analysis.

## Parties' submission on this analysis

23. The Parties submitted that they agree that press coverage of price increases mentions the savings associated with switching to an acquisition tariff more frequently and more prominently than changes in the SVTs of the other large

suppliers 'but consider that the CMA's analysis understates the extent to which press coverage focuses on the savings from switching to acquisition tariffs relative to the focus on other suppliers' SVTs'.

24. The Parties provided additional analysis of the data used in this appendix and analysis of an additional sample of online articles.<sup>16</sup> The Parties' analysis:
- (a) proposed alternative measures of prominence (eg whether a factor was highlighted in a 'key message' box or the tone of messaging around different statements);
  - (b) alternative ways (based on key word searches) of identifying whether articles discussed the potential for customers to save money by switching to acquisition tariffs;<sup>17</sup> and
  - (c) measured the extent to which alternative factors (such as costs) were mentioned in press coverage. The Parties' noted that cost changes are mentioned more often than changes in other large suppliers' default tariffs.
25. In general, the results of the Parties' analysis are consistent with the results in this appendix. In particular, that analysis confirms that references to acquisition tariff savings are more prominent than comparisons to changes in other SLEFs' default tariffs.
26. The Parties also submitted that the analysis in this appendix illustrated that there is no clear relationship between the timing of a price increase and the volume of press coverage. We note that this analysis is based on only two price change rounds and therefore, it would be inappropriate to draw strong conclusions on the relationship between the timing of a price announcement and the volume of press coverage based on the analysis in this appendix alone.

---

<sup>16</sup> This included more recent SLEF SVT price announcements and the price announcements of a number of the SAMS. Paragraph 7 explains why we have not analysed the price announcements of the SAMS.

<sup>17</sup> We note that this method incorrectly identified some articles. For example, a number of articles mentioned that customers on FTCs were unaffected by the price change rather than encouraging customers to switch (ie '[SSE price rise 2018 – how much are energy bills going up by and when will the increase start?](#)', The Sun (30 May 2018)).

## Appendix J: Oxera analysis submitted on behalf of Utility Warehouse

1. Utility Warehouse has submitted two pieces of analysis prepared by Oxera. The first piece of analysis uses a GUPPI (gross upward pricing pressure index) framework (incorporating the Wholesale Agreement) to examine the Parties' incentives to increase SVT and acquisition tariff prices following the Merger. The second piece of analysis considers the effect of the Merger on the Parties' incentives to foreclose Utility Warehouse. This appendix reviews these submissions.

### Oxera's GUPPI analysis

2. This submission used the GUPPI framework to consider the effects of the Merger on the Parties' incentives to raise SVT and acquisition tariff prices. Oxera's analysis also considered (i) the implications of the possible E.ON/RWE transaction and (ii) the introduction of fixed term default tariffs.
3. Pricing pressure indices (such as GUPPI) use information on diversion ratios between suppliers and profit margins to provide an approximate measure of the incentives for merging parties to increase prices as a result of a merger.<sup>1</sup> The CMA's Retail Mergers Commentary describes the CMA's approach to the use of pricing pressure indices in its analysis<sup>2</sup> and notes that pricing pressure indices are 'generally used as one input in the decision and are unlikely, on their own, to determine the outcome of a particular case'.<sup>3</sup> In particular, pricing pressure indices do not consider possible supply side responses by competitors and other evidence regarding the competitive constraints the merging parties may continue to face following the merger. Therefore, when making our assessment (see Section 9) we have considered Oxera's analysis alongside the other available evidence.
4. Finally, we note that in previous cases the CMA has taken the approach that a GUPPI of less than 5% indicates that concerns can be ruled out, although occasionally a higher threshold has been used.<sup>4</sup>

---

<sup>1</sup> A GUPPI does this by using estimates of diversion ratios and profit margins to measure the value of sales which would divert to merging party A following a price increase by merging party B relative to the lost revenue for merging party B as a result of the price increase.

<sup>2</sup> [Retail mergers commentary \(CMA62\)](#), paragraphs 5.1–5.16.

<sup>3</sup> [Retail mergers commentary \(CMA62\)](#), paragraph 5.2.

<sup>4</sup> For example, see [Cineworld Group plc/City Screen Limited final report](#), Competition Commission (8 October 2013), paragraphs 6.79, 6.82 and 6.107. See further, [The Original Bowling Company Ltd/Bowlplex Ltd decision document](#), CMA (17 August 2015), paragraphs 91 and 112. By contrast, see [MRH \(GB\) Limited/Esso Petroleum Company Limited decision document](#), CMA (26 November 2015), paragraph 54 and [Shell UK Limited/Consortium Rontec Investments LLP decision document](#), OFT (3 February 2012), paragraphs 92–106.

## **GUPPI analysis for SVT prices**

5. Oxera's GUPPI analysis for SSE identifies three types of effect:
  - (a) **Downstream recapture:** recapture of customers switching away from SSE on Npower's SVT and acquisition tariffs.
  - (b) **Wholesale recapture:** recapture of customers switching away from SSE by Utility Warehouse which increases Npower's wholesale revenue.
  - (c) **Wholesale margin effect:** an increase in SSE's SVT price increases the wholesale price paid by Utility Warehouse (which is [~~30%~~] SVT prices). This increases the wholesale revenue earned by Npower as a result of the Wholesale Agreement.
6. In calculating the GUPPI for Npower, only the effects from downstream recapture are considered since any wholesale recapture and wholesale margin effects already apply to Npower prior to the Merger.
7. We note that the recapture effects (paragraph 5(a) and 5(b)) are premised on MergeCo maintaining two separate brands (so that sales lost by one brand will be recaptured using the other brand). However, the evidence we have received indicates that MergeCo is likely to use a single brand following the Merger.
8. Oxera's analysis also includes scenarios in which:
  - (a) The E.ON/RWE transaction will proceed so that E.ON will acquire its proposed share of MergeCo. Consequently, Oxera's analysis calculates a GUPPI for E.ON and considers the possibility of downstream recapture of SSE customers not only by Npower but also by E.ON and likewise for Npower.<sup>5</sup>
  - (b) The Parties' (and E.ON's) customers will be transitioned from SVTs to fixed term default tariffs at a rate of 30% per year. As a result, 66% of customers will migrate off SVTs over three years.<sup>6</sup> The main effect of this assumption is to affect the wholesale-margin effect identified by Oxera. This is because adjusting Utility Warehouse's wholesale price is costly for the Parties since this can only be done by adjusting SVT prices which is likely to prompt customer switching. The greater the proportion of customers migrating away from the SVT the less costly it becomes for the

---

<sup>5</sup> Accounting for E.ONs' proposed share in MergeCo.

<sup>6</sup> Oxera also considers alternatives in which 90% and 95% of current SVT customers will be moved off SVTs over three years.

Parties' to influence Utility Warehouse's wholesale price since fewer of the Parties' customers are affected by the required SVT price change. In Oxera's analysis this increases the incentive identified by Oxera as the wholesale-margin effect.

9. Column 1 of Table 1 summarises the results of Oxera's analysis which shows that the calculated GUPPIs are between [redacted]% and [redacted].

**Table 1: Oxera SVT GUPPI analysis**

	(1)	(2)	(3)	(4)	%
	<i>Original Oxera analysis</i>	<i>Excluding E.ON</i>	<i>Excluding E.ON and migration to default fixed term tariffs</i>	<i>Excluding E.ON, migration to default fixed term tariffs and wholesale margin effect</i>	
SSE	[redacted]	[redacted]	[redacted]	[redacted]	
Npower	[redacted]	[redacted]	[redacted]	[redacted]	
E.ON	[redacted]	[redacted]	[redacted]	[redacted]	

Source: Oxera.

10. We have provisionally concluded that the counterfactual does not include the E.ON/RWE transaction proceeding (see paragraphs 6.56 to 6.60). Therefore, column 2 of Table 1 excludes the E.ON/RWE transaction from Oxera's analysis. This significantly reduces the calculated GUPPI's for SSE and Npower to [redacted]% and [redacted]% respectively.
11. Additionally, the available evidence indicates that it is unrealistic to expect that 66% of the Parties' SVT customers will be migrated to fixed term default tariffs over the next three years. In particular:
- (a) SSE introduced a fixed term default tariff on 26 July 2018 and [redacted].
  - (b) Npower has introduced [redacted] trial fixed term default tariffs involving a limited number of customers and Ofgem's data indicates that as of 1 April 2018 less than 1% of Npower's customers are on a fixed term default tariff.
12. Therefore, column 3 also excludes any migration towards fixed term default tariffs from Oxera's analysis. This further reduces the calculated GUPPIs to below [redacted]% for both SSE and Npower.
13. Additionally, as noted at paragraph 5(c) Oxera's analysis identifies a wholesale margin effect. This refers to the fact that SSE's SVT price affects Utility Warehouse's wholesale price and the possibility that following the Merger SSE may consider this when setting its own SVT price, creating an incentive for SSE to increase its SVT price. The importance of this effect varies depending upon the assumptions used, accounting for 44% of the

calculated GUPPI in Oxera’s original analysis and 31% of the calculated GUPPI if the analysis excludes E.ON and migration to fixed term default tariffs.

14. However, we have not received evidence that Npower currently considers the Wholesale Agreement when setting its own SVT price. Therefore, we have assessed whether MergeCo is more likely to consider this effect following the Merger. For the reasons set out in Section 10 we do not consider that the Merger is likely to reduce the constraints Npower currently faces in adjusting Utility Warehouse’s wholesale price. Consequently, we do not consider that MergeCo is more likely to account for this possible effect following the Merger than Npower is prior to the Merger.
15. Therefore, column 4 of Table 1 shows that excluding the wholesale margin effect further reduces Oxera’s calculated GUPPI to [redacted]% for SSE.
16. Overall, Oxera’s analysis produces small SVT GUPPI estimates (see Table 1) in all of the scenarios considered. We have considered the likely effects of the Merger on SVT prices in Section 9. As we explain there, in this case, in light of the relatively limited customer switching between the Parties by SVT customers and the range of effective alternatives available to customers, we consider that switching between the Parties will not be sufficient to provide a material incentive for the Parties to increase their SVT prices following the Merger.

**Analysis of incentives to increase acquisition tariff prices**

17. Oxera’s analysis also includes calculations of equivalent GUPPIs for acquisition tariff prices. These estimates are summarised in Table 2 on the same basis as presented in Table 1.<sup>7</sup>

**Table 2: Oxera acquisition tariff GUPPI analysis**

	%		
	<i>Original Oxera analysis</i>	<i>Excluding E.ON</i>	<i>Excluding E.ON and migration to default fixed term tariffs</i>
SSE	[redacted]	[redacted]	[redacted]
Npower	[redacted]	[redacted]	[redacted]
E.ON	[redacted]	[redacted]	[redacted]

Source: Oxera.

18. As we noted in paragraph 4 above, the CMA typically considers that a GUPPI of less than 5% indicates that concerns can be ruled out and occasionally a

---

<sup>7</sup> With the exception of the ‘wholesale margin effect’ which is not relevant to the setting of acquisition tariff prices.



higher threshold will be used. Therefore, Oxera's GUPPI estimates for acquisition tariff would typically be considered to be relatively small and below the level at which concerns would usually arise. We also note that Oxera's analysis includes a number of assumptions which are likely to mean that these GUPPIs are overestimates. For example, Oxera's analysis is based on an assumption that [X] % of Npower's acquisition tariff customers who switch, will switch to SSE's acquisition tariff. However, Npower's switching data shows that only [X] % of Npower's acquisition tariff customers who switched externally switched to SSE's acquisition tariffs.<sup>8</sup>

19. We have considered whether it is likely that the Merger will provide the Parties with a material incentive to increase acquisition tariff prices in Section 9. As we explain there, in this case, in light of the relatively limited customer switching between the Parties, the range of effective alternatives available to customers who are switching or who are considering whether to switch and since customers who switch are primarily driven by price in their choice of supplier, we do not consider that the Parties will have the ability to increase their acquisition tariff prices following the Merger.

### **Oxera's vertical foreclosure analysis**

20. Oxera has also provided an analysis on behalf of Utility Warehouse considering the Parties' incentives to foreclose Utility Warehouse by increasing Utility Warehouse's wholesale price. Our analysis of this issue is presented in Section 10.
21. Oxera's analysis estimates MergeCo's incentives to increase Utility Warehouse's wholesale price following the Merger because of the possibility that this will result in an increase in Utility Warehouse's retail price, leading some customers to substitute to Npower and to SSE.
22. Regarding Oxera's analysis we note that:
  - (a) We are required to assess the effect of the Merger. In assessing the effects of the Merger on the Parties' incentives to partially foreclose Utility Warehouse the relevant consideration is the possibility that, as a result of an increase in Utility Warehouse's wholesale prices, Utility Warehouse's customers will switch to SSE. By considering switching to Npower, Oxera's analysis considers effects which already exist prior to the Merger, which are not Merger specific and which are therefore outside the scope

---

<sup>8</sup> We have focussed on external switching patterns since the GUPPI analysis is concerned with the likely switching patterns of customers in response to a price increase and, in that context, it is unlikely that a customer who decides to switch will then switch to another acquisition tariff with the same supplier.

of our inquiry. Our analysis of the Merger specific incentive which is created is presented in Section 10.

- (b) Npower (pre-Merger) and SSE (post-Merger) can only influence Utility Warehouse's wholesale price by adjusting their own SVTs. This is not considered in Oxera's vertical foreclosure analysis, which assumes that the Parties are freely able to adjust Utility Warehouse's wholesale price without adjusting SVT prices. This has important implications for the Parties' incentives to attempt to vertically foreclose Utility Warehouse since any attempt to foreclose Utility Warehouse requires the Parties to increase SVT prices. This is likely to require the Parties to set their SVT prices above the level they would absent any foreclosure strategy. Departing from the profit maximising SVT pricing strategy is likely to lead to additional SVT customer switching and a decrease in profits.

# Appendix K: Barriers to entry and expansion

## Introduction

1. This appendix briefly reviews evidence on barriers to entry and expansion, and hence whether market entry or expansion might prevent an SLC.

## Assessment of barriers to entry

2. This section sets out our provisional assessment of the evidence we received on the extent to which there are barriers to entry in the domestic retail energy market. We consider the following barriers to setting up a new business for a new market entrant:
  - (a) Ofgem's licence requirement;
  - (b) natural or intrinsic barriers; and
  - (c) wholesale energy hedging.

### *Barriers to entry – Ofgem's licence requirement*

3. The Parties told us that licences from Ofgem to supply gas or electricity could be obtained easily without the requirement of any previous industry experience. The Parties added that there were no barriers to entry in terms of patent and know-how. This was consistent with a large number of suppliers having entered the market over the past five years. As well as start-ups, the Parties told us this number included foreign utilities firms and upstream energy companies, for example:
  - (a) Engie (a French energy company) entered the GB domestic markets in May 2017;
  - (b) Vattenfall (a Swedish utility company) entered the GB domestic markets through its acquisition of iSupplyEnergy in June 2017; and
  - (c) Shell (an Anglo-Dutch energy company) completed its acquisition of First Utility in February 2018.<sup>1</sup>
4. The Parties told us that in 2015, Ofgem had introduced a simpler application process to apply for a licence to supply electricity known as 'Licence Lite'.

---

<sup>1</sup> See [Shell press release](#) (dated 28 February 2018).

Ofgem introduced this with the aim of easing some of the potential barriers faced by potential market entrants or distributed energy generators.<sup>2</sup> Some of the third parties told us that the regulatory process had become increasingly 'light touch' for market entry.

5. Three new domestic energy retailers were licensed in the first half of 2018 while twenty new domestic energy retailers were licensed during 2017. The total number of suppliers in the domestic energy market has increased to 72 energy retailers compared with 40 suppliers in December 2015.<sup>3</sup> These new suppliers used a range of entry strategies: organic entry, acquisitions of an incumbent retail energy supplier, and white-label arrangements (ie Utility Warehouse, Sainsbury's Energy and M&S Energy through their respective partnership arrangements with Npower, British Gas and SSE).

### ***Barriers to entry – natural or intrinsic barriers***

6. Natural or intrinsic barriers to entry are the costs that firms unavoidably incur when entering a market. The cost includes initial set-up cost such as IT, human resources and financial systems, and any initial investment in specific assets and advertising.
7. The Parties told us that start-up capital requirements were low, and that there were no intellectual property barriers in relation to the required software. The Parties cited Cornwall Insight's estimates that the costs of a 'supplier-in-the-box'<sup>4</sup> type start-up package had reduced over the last five years from a range of around £800,000 to £1 million to a range of around £150,000 to £300,000.
8. The Parties' estimates for the total cost of entry, depending on the scale of entry, are set out in Table 1 below.

**Table 1: Parties' estimates for total cost of entry by scale of entry**

<i>Scale of entry</i>	<i>Estimated cost range</i>
Small (up to 250,000 customers)	£25,000* - £8 million†
Medium (250,000 – 1 million customers)	£13 million - £34 million
Large (over 1 million customers)	£36 million

Source: Parties.

\* The lower band is based on a 'supplier-in-the-box' type package discussed above.

† Upper band is based on the cost of a system used by Airtricity, a specialist system designed for a low number of customers.

9. The Parties provided examples on the low cost of entry by Ovo Energy, which entered the market in 2009 with an initial start-up capital of £350,000; and

<sup>2</sup> See [Licence Lite](#), Ofgem.

<sup>3</sup> [Number of active domestic suppliers by fuel type \(GB\)](#), Ofgem (March 2018).

<sup>4</sup> 'Supplier-in-a-box' is where intermediaries offer pre-accredited, pre-licensed energy supply companies, complete with a basic billing platform. These are 'off-the-shelf' software packages offered by Utiligroup and Dyball.

market entry by People's Energy, which started supplying customers in the UK in September 2017 (having obtained its licence from Ofgem in May 2017), and was launched with a start-up capital of £450,000, raised through a crowd-funding campaign.

10. One third party told us it was now relatively cheap and easy to set up as a new supplier, and that more than half of the energy suppliers in the market (thirty-six as of February 2018) were set up as a 'supplier-in-a-box'.
11. Entry also appears to be achievable reasonably quickly. The Parties told us that the overall timescale for full market entry could be achieved within twelve months if various stages were progressed concurrently.
12. Ofgem recently announced that it would consider whether there should be 'additional requirements relating to the financial health of a prospective supplier', or 'the level of financial information it may be appropriate to obtain from those entering the market'. We understand that this review will include Ofgem's approach to supplier licensing, to ensure that appropriate protections are in place against poor customer service and financial instability.<sup>5</sup> However we have no evidence at this stage on whether a new barrier to entry will be created.

### ***Barriers to entry – wholesale energy hedging (technical advantage)***

13. It is important for energy suppliers to be able to hedge their acquisition of wholesale energy to offer FTCs at a known price. Because it is expensive and time consuming to change SVT pricing, suppliers also need to hedge these costs to elude exposure to extremely high risks if wholesale energy prices should increase (although one third party also told us that several small providers were unhedged, with consequential risks to their long-term survival).
14. The Parties told us there were numerous mechanisms by which smaller suppliers could hedge their wholesale energy prices, eg through other energy suppliers, investment banks, major oil companies or commodity traders, or by using third-party trading portals or broker services. Npower [X]. It was also its understanding that Shell's Trading business also offered hedging services to third parties, and currently served First Utility, amongst others.
15. We also note the conclusions in the EMI, where its analysis of wholesale market liquidity suggested that liquidity in the products that vertically

---

<sup>5</sup> See [Ofgem reviews supplier licensing regime](#).

integrated firms use to hedge their exposure to wholesale market risk is sufficient for independent firms to hedge in a similar way.<sup>6</sup>

## **Assessment of barriers to expansion**

16. We now set out our assessment of the evidence we received on the extent to which there are barriers to expansion for incumbents.
17. The number of customers achieved by the larger SAMS have in some cases increased and in some decreased over the last two years. Examples of the large SAMS growing include:
  - (a) Ovo Energy's number of customer accounts increased from 250,000 in Q1 2014 to 1.5 million by January 2018.
  - (b) Bulb Energy started operations in July 2016 with 0.01 million customer accounts and had grown rapidly from 0.3 million customers accounts to 0.51 million customer accounts in 3 months ending January 2018.
  - (c) Utilita's number of customer accounts increased from 0.56 million to 1.11 million over the last two years.
  - (d) Since the start of 2016, three suppliers (Green Star Energy, Economy Energy and Spark Energy) grew considerably to breach a level of 250,000 customers (see paragraphs 19 to 23).
18. Below, we consider the following barriers to expansion:
  - (a) policy cost;
  - (b) brand and reputation; and
  - (c) customer disengagement.

### ***Barriers to expansion – policy cost***

19. Policy costs are associated with a supplier's environmental and social obligations, incurred once a supplier has more than 250,000 customer accounts:
  - (a) Energy Company Obligation scheme (ECO) (the [Energy Act 2011](#) includes provision for ECO): under the ECO, a supplier with over 250,000

---

<sup>6</sup> [EMI final report](#) (24 June 2016), paragraph 85.

customer accounts and also providing 400 GWh of electricity and 2,000 GWh of gas is required to pay for household energy efficiency measures.<sup>7</sup> A taper mechanism is currently in place to help ensure the ECO does not act as a 'cliff edge' barrier for newly obligated suppliers. This mechanism gradually increases their share of the obligation as their supply volumes increase from the equivalent of 250,000 to 500,000 customer accounts.<sup>8</sup>

- (b) Warm Home Discount (WHD) scheme (the [Energy Act 2010](#) allowed for introduction of WHD): under the WHD, suppliers with over 250,000 domestic customer accounts are required to offer a £140 rebate to people who are in fuel poverty. Suppliers coming under this customer account threshold can voluntarily participate in parts of this scheme.<sup>9</sup> The WHD is to be extended between 2019 and 2020 by reducing the customer account threshold from 250,000 to 150,000.<sup>10</sup>
- (c) Feed-in-Tariffs (first introduced in the [Energy Act 2008](#)): under this scheme, suppliers with over 250,000 domestic customer accounts pay fixed tariffs to micro and small renewable, and micro-CHP generators for electricity generated and exported to the National Grid. Suppliers coming under this customer account threshold can voluntarily participate in parts of this scheme.<sup>11</sup>

- 20. The Parties told us that these regulatory obligations had not prevented the growth of small suppliers. The Parties estimated that smaller suppliers below the relevant scheme thresholds had an annual net cost benefit of up to around £[redacted] per dual fuel customer (comprised of £[redacted] for ECO; £[redacted] for WHD; £[redacted] for reduced obligations in Smart Metering; and £[redacted] for the exemption from the obligation to accept all types of payment methods), which gave them the ability to give around a [redacted]% discount compared to larger suppliers.
- 21. The Parties also told us that larger suppliers faced higher costs because of other regulatory obligations; the requirement to produce consolidated segmental statements; greater involvement with Ofgem's initiatives (eg the design of the Default Tariff Cap and the implementation of the EMI remedies; the provision of energy trading liquidity (for vertically integrated suppliers); and the domestic smart meter roll-out).
- 22. Third parties told us that the primary barrier to expansion was the schemes' thresholds. They said that this impeded expansion because a small supplier

---

<sup>7</sup> See [Energy Company Obligation \(ECO\)](#), Ofgem.

<sup>8</sup> See [BEIS: Energy Company Obligation \(ECO3: 2018-2022\)](#).

<sup>9</sup> See [Warm Home Discount \(WHD\)](#), Ofgem.

<sup>10</sup> See ['Households with smaller energy suppliers to benefit from £140 Warm Home Discount on their energy bills'](#).

<sup>11</sup> See [Feed-in-Tariffs](#), Ofgem.

had to grow significantly above the threshold of 250,000 customer accounts to recover the additional regulatory obligation costs, and remain sustainable. We were told it created an incentive for suppliers to remain below the threshold in order to stay competitive. On the other hand, it was acknowledged that the policy cost was disadvantageous for big suppliers. It was noted that after the policy cost exemption was introduced in 2011, the market share of the SLEFs reduced from 99% in 2011 to currently under 80%.<sup>12</sup>

23. We observed that while some suppliers have maintained their size below the customer accounts threshold to avoid triggering some of these policy costs, some other small suppliers have grown beyond this threshold.

### ***Barriers to expansion – brand recognition and reputation***

24. We considered whether brand and reputation was important in limiting the ability of a supplier to expand.
25. The Parties also told us that increases in the use of PCWs in recent years meant that there were no incumbency advantages in terms of customer access to information that would create a market barrier for a new supplier. The Parties also told us that Ofgem's 2017 consumer engagement survey showed that brand and reputation were not important drivers of customer choice.<sup>13</sup>
26. The Parties also told us that in 2017, 57% of total customer switching across gas and electricity were to the SAMS, and that for the first four months of 2018, this had increased to 69% of all electricity switches and 61% of all gas switches,<sup>14</sup> which demonstrated that customers viewed the SAMS as credible alternatives to the larger suppliers and were willing to switch to them in large numbers. However this includes a lot of inter-SAMS switching; Ofgem instead reports a net gain percentage for movement to the SAMS (calculated taking the gross gains for medium/small suppliers then subtracting the losses to calculate a net gains value), which for January to May 2018 was 28%.<sup>15</sup> The Parties' switching data showed that the proportion of customers switching from each of Npower and SSE to the SAMS was over 50% and showed 'a trend of switching to SAMS rather than the SLEFs increasing over time'.

---

<sup>12</sup> [Citizens Advice response to the Issues Statement](#), page 8.

<sup>13</sup> Ofgem's 2017 consumer engagement survey showed that the proportion of customers who chose a supplier based on branding or reputation was minimal (below 1%) ([GfK NOP consumer engagement in the energy market 2017 report](#), Ofgem (21 September 2017)).

<sup>14</sup> [Number of domestic customers switching supplier by fuel type \(GB\)](#), Ofgem.

<sup>15</sup> [Bills, prices and profits](#), Ofgem (July 2018).



27. However, as noted in paragraph 3.29, some consumer groups told us that some customers prefer large suppliers with well-known brands. For example, one third party told us that customers' recognition of the brand helped gain customer trust, and that many disengaged customers remained with their incumbent suppliers because it was a name that they knew and therefore could trust.
28. While some customers may be reluctant to switch to an unknown supplier, it is apparent that many have been willing to do so in response to attractive pricing on acquisition tariffs.

### ***Barriers to expansion – customer disengagement***

29. We also considered the evidence for whether customer disengagement might be a barrier to expansion.
30. There are a substantial number of customers who appear to be disengaged in that they have not actively chosen a tariff for a while and consequently are on higher priced default tariffs (see Section 3 and Appendix B). However, the number of such customers is diminishing over time and further measures are being introduced to advance engagement.
31. While some SVT customers will have actively made that choice, or are on SVTs temporarily pending a move to a different tariff, the SLEFs at March 2018 had 11.1 million non-prepayment domestic customer accounts on SVTs out of 19.8 million domestic customer accounts served by the SLEFs (56%).<sup>16</sup> Of these, 6.9 million were customer accounts that had been on the SVT for over three years (35%).
32. Suppliers cannot expand by acquiring these disengaged customers directly and are instead reliant on other factors and processes increasing customer engagement first. There is potential to seek to engage customers through marketing and offering better prices and service; but we note that a large price gap has persisted between average SVT pricing and FTC pricing offered by the SAMS for many years, showing that disengaged customers are hard to engage.
33. It is apparent, that SAMS have been able to grow because a sizeable proportion of customers are engaged or have become engaged. But there are

---

<sup>16</sup> Number of non-price protected domestic customer accounts by supplier: Standard variable, fixed and other tariffs (GB), Ofgem.

a large number of disengaged customers, limiting potential growth rates and the constraint posed by SAMS expansion.

34. Of more importance to our consideration of the effects of the Merger, given that the SLEFs can and do price discriminate against SVT customers and charge them higher prices, is that the levels of disengagement mean that threat of entry and expansion becomes less important in the SLEFs' determining of pricing of SVTs. This is because SVT customers are more likely to be disengaged and so are less likely to be responsive to price differences.
35. The Parties told us that they disagreed with the view that SAMS do not impose an effective competitive constraint on SVTs. They said that as customers do not simply fall into discrete camps of engaged and disengaged customers and as degrees of engagement will vary across the customer base as well as over time, the distinction between FTC customers and SVT customers is artificial. They said that it is competition in FTCs and the savings available that are the primary motivation for switching, leading to customer engagement; the SAMS therefore have a central role in driving customer engagement among SVT customers and expanding their methods of doing so.
36. We agree that there is no clear delineation between engaged and disengaged customers, that individuals often vary in their engagement over time, and that competition in FTCs can provide a prompt to customers to consider switching. However, we do not accept that acquisition tariffs and competition and expansion from the SAMS thereby provide an effective constraint. If they did, there would be active competition such that the price differential for SVTs compared to FTCs would be eroded. Instead, the average differential remains very large and moreover is increasing.

### ***Barriers to expansion – cross-subsidisation***

37. We also considered the evidence whether cross-subsidisation by SLEFs on the profits from SVTs customers are used to keep prices low for their FTCs customer resulting in partial barriers to expansion of the SAMS.
38. As discussed in Section 8, we found that it is unclear if cross-subsidisation is affected by the Merger. In any event, the number of SAMS had grown in the market, and Ofgem suggested that they have not seen evidence that SLEFs cross-subsidisation is affecting the growth of the SAMS.

### ***Provisional findings on barriers to entry and expansion***

39. In light of the above, we observe that the barriers to entry in retail energy supply are not significant or prohibitively high, in order to serve engaged customers, relating to:
- (a) Ofgem licence requirement – these requirements are not sufficient to form a barrier as shown by the number of new entrants there have been;
  - (b) natural or intrinsic barriers – as new market entrants do not face significant regulatory hurdles or investment costs to enter the market on a small scale; and
  - (c) wholesale energy hedging – because of numerous mechanisms by which smaller suppliers could hedge their wholesale energy prices.
40. However, there are some restrictions on expansion relating to:
- (a) policy costs become more expensive when SAMS increase in size above 250,000 customers;
  - (b) brand recognition and reputation as some customers are not readily accessible, including a proportion who prefer to deal with larger or better-known suppliers; and
  - (c) customer disengagement as it is not possible to win disengaged customers for as long as they remain disengaged.
41. Given that we have seen some SAMS expanding, and that in aggregate the SAMS have established a significant market share, we do not consider these barriers to expansion to the supply of energy as a whole to be prohibitive.
42. As such, the threat of entry and expansion is potentially a relevant constraint on existing suppliers in regard of engaged customers and hence acquisition tariffs. For disengaged customers, who will not switch until they become engaged, the threat of entry and expansion does not apply in the same way.

## Glossary

<b>Act</b>	<a href="#">Enterprise Act 2002</a> .
<b>Acquisition tariffs</b>	Tariffs intended to attract customers (either from another supplier or customers switching tariff within a supplier). These are usually <b>FTCs</b> although some suppliers offer variable acquisition tariffs.
<b>British Gas</b>	Company owned by <b>Centrica</b> ; one of the <b>SLEFs</b> .
<b>Capex</b>	Capital expenditure.
<b>Centrica</b>	Centrica plc, parent company of <b>British Gas</b> ; (one of the <b>SLEFs</b> ).
<b>Citizens Advice</b>	An organisation whose functions include representing consumer interests, providing advice to individuals to help resolve their issues as consumers and engaging with government and regulators to ensure representation of consumers in England and Wales.
<b>Citizens Advice Scotland</b>	An organisation whose functions include representing consumer interests and providing advice to individuals to help resolve their issues as consumers and engaging with government and regulators to ensure representation of consumers in Scotland.
<b>CMA</b>	Competition and Markets Authority.
<b>Contribution Agreement</b>	Agreement by which <b>innogy</b> and <b>SSE</b> will transfer <b>Npower</b> and <b>SSE Retail</b> to <b>MergeCo</b> .
<b>Conventional meter</b>	Meters that only record the aggregate electricity usage and do not distinguish between the time or purpose of use.
<b>CSS</b>	Consolidated Segmental Statements, required to be produced and published by all <b>SLEFs</b> in accordance with rules set by <b>Ofgem</b> .
<b>Customer</b>	Any person or business supplied or requiring to be supplied with gas or electricity at any premises in <b>GB</b> .
<b>Default Tariff Cap</b>	A cap on all domestic <b>SVT</b> and default tariffs required under the <b>Tariff Cap Act</b> .

<b>Default Tariff Cap Act</b>	<a href="#">Domestic Gas and Electricity (Tariff Cap) Act 2018.</a>
<b>Direct debit</b>	An arrangement made between an energy customer and his/her bank to transfer a fixed sum of money on specified and agreed dates to his/her energy supplier.
<b>Direct costs</b>	Direct cost items relate to wholesale energy, network and social and environmental obligations.
<b>Domestic customer</b>	A <b>customer</b> supplied or requiring to be supplied at a <b>domestic premise</b> .
<b>Domestic premises</b>	Premises at which the supply of electricity or gas is taken wholly or mainly for domestic purposes.
<b>Dual fuel</b>	The supply of more than one energy type, eg gas and electricity. Also known as combined energy.
<b>Dual fuel tariff</b>	A tariff that provides <b>energy</b> customers with both electricity and gas from the same supplier.
<b>Dumb meter</b>	Another term <b>conventional meters</b> are commonly known by.
<b>E.ON</b>	E.ON UK plc, a company owned by E.ON SE; one of the <b>SLEFs</b> .
<b>EBIT</b>	Earnings before interest and taxes.
<b>EBITDA</b>	Earnings before interest, taxes, depreciation and amortization.
<b>ECO</b>	Energy Company Obligation.
<b>EDF</b>	EDF Energy plc, a company owned by EDF S.A.; one of the <b>SLEFs</b> .
<b>EMI</b>	Energy Market Investigation. On 27 June 2014, <b>Ofgem</b> , in exercise of its powers under the <b>Act</b> , made a reference to the <b>CMA</b> for an investigation into the supply and acquisition of energy in <b>GB</b> . The <b>CMA</b> published its <a href="#">final report</a> on 24 June 2016.
<b>Energy</b>	Refers to electricity and gas for the purposes of our report.

<b>Energy supplier</b>	A party licensed by <b>Ofgem</b> to sell gas and/or electricity to <b>domestic</b> and <b>non-domestic customers</b> .
<b>Feed-in-tariff</b>	A feed-in tariff (FiT) is a payment made to an energy customer who generates their own renewable electricity (by for example, solar panels or wind turbines).
<b>First Utility</b>	<b>First Utility</b> , a mid-tier energy supplier; one of the <b>SAMS</b> .
<b>Fixed tariffs</b>	Energy tariffs that are fixed at a certain level for a fixed period.
<b>FTC</b>	Fixed term contract. A tariff sold at a fixed price for a fixed period of time, eg one, two or three years. They may have 'exit fees' where a customer chooses to leave the tariff before the fixed time period has expired. On expiry of the <b>FTC</b> , a customer will generally be rolled onto an <b>SVT</b> if he/she does not make an active choice of alternative tariff.
<b>FY</b>	Financial Year.
<b>GB</b>	Great Britain.
<b>GEMA</b>	Gas and Electricity Markets Authority. <b>GEMA</b> is <b>Ofgem's</b> governing body.
<b>Guidelines</b>	<a href="#">Merger Assessment Guidelines (CC2 Revised)</a> .
<b>GUPPI</b>	Gross Upward Pricing Pressure Index.
<b>GWh</b>	Gigawatt hour. One million kilowatt hours.
<b>Indirect costs</b>	Indirect cost items relate to the costs to serve customers, including metering, bad debt, sales and marketing and customer.
<b>innogy</b>	innogy SE. <b>Npower</b> is wholly-owned by <b>innogy</b> , a European energy group listed on the Frankfurt Stock Exchange that is active in renewable energy generation, electricity and gas distribution, and the retail supply of energy. <b>innogy</b> is majority owned by <b>RWE</b> .
<b>IT</b>	Information technology.
<b>kWh</b>	Kilowatt hour. A unit of energy used by the gas industry. Approximately equal to 0.0341 Therms. One Megawatt hour (MWh) equals 1000 kWh, 1 <b>GWh</b> equals 1,000,000 kWh,

and 1 **TWh** equals 100,000,000 kWh. Kilowatt hour – 3,600,000 j.

<b>Large energy firms</b>	See <b>SLEFs</b> .
<b>LSE</b>	London Stock Exchange.
<b>MergeCo</b>	The new merged entity resulting from the <b>Merger</b> .
<b>Merger</b>	On 8 May 2018 the <b>CMA</b> , in exercise of its duty under <a href="#">section 33(1)</a> of the <b>Act</b> , referred the anticipated merger between the domestic retail energy business of <b>SSE (SSE Retail)</b> and <b>Npower</b> for further investigation and report by a group of <b>CMA</b> panel members.
<b>mth</b>	Million therms, a unit of measurement for gas.
<b>Non-domestic customer</b>	A customer supplied or requiring to be supplied at <b>non-domestic premises</b> .
<b>Npower</b>	Npower Group Limited (formerly Npower Group plc). (The <a href="#">terms of reference</a> (see Appendix A) named Npower Group plc. However, this business was re-registered as Npower Group Limited with effect from 22 May 2018, therefore, for the purposes of our provisional findings report we refer to Npower Group Limited.) Brand used in the <b>UK</b> by <b>RWE</b> ; one of the <b>SLEFs</b> .
<b>Ofgem</b>	The Office of Gas and Electricity Markets. The <b>UK</b> regulator for both gas and electricity.
<b>Ovo Energy</b>	<b>Ovo Energy</b> Ltd, a mid-tier energy supplier; one of the <b>SAMS</b> .
<b>Parties</b>	Throughout this document, where relevant, we refer to <b>SSE</b> and <b>Npower</b> collectively as ‘the Parties’.
<b>PCW</b>	Price comparison website.
<b>PES</b>	Public electricity suppliers. The 14 electricity companies created in the <b>UK</b> following privatisation of the electricity market. These companies were subsequently split between distribution network operators and separate supply companies.

<b>Phase 1</b>	The investigation, by the <b>CMA</b> , of the transaction to determine whether the statutory test for reference to an in-depth <b>phase 2</b> has been met.
<b>Phase 2</b>	An in-depth inquiry by the <b>CMA</b> of the transaction following the reference from <b>phase 1</b> .
<b>PPM Price Cap</b>	Prepayment meter price cap. This was introduced on 1 April 2017 and will remain in place until at least 31 December 2020, and could be extended on an annual basis to 2023.
<b>Prepayment</b>	Where a customer is required to pay for their energy usage in advance.
<b>Prepayment meter</b>	Any electricity meter operating in a mode which requires a <b>customer</b> to pay charges in advance
<b>Restricted meters</b>	Restricted meters record electricity usage at different times of the day (or for different purposes separately). For example, Economy 7 meters – these meters distinguish between peak and off-peak electricity usage allowing for 7 hours of off-peak electricity usage at night. They are the most common single form of restricted meter. Non-Economy 7 restricted meters – there are a number of different types of restricted meter other than Economy 7 meters which record electricity usage in a variety of different ways. For example, Economy 10 meters are primarily designed for use with electric heating systems and record ten hours of off-peak electricity usage split between night, afternoon and evening.
<b>RWE</b>	RWE AG. <b>Npower</b> is owned fully by <b>innogy</b> , which is in turn majority owned by <b>RWE</b> .
<b>SAMS</b>	Small and mid-tier suppliers.
<b>SAP</b>	Systems Applications Products.
<b>ScottishPower</b>	Scottish Power Ltd, a company owned by Iberdrola S.A.; one of the <b>SLEFs</b> .
<b>SLC</b>	Substantial lessening of competition.
<b>SLEFs</b>	Six Large Energy Firms ( <b>Centrica</b> , <b>E.ON</b> , <b>EDF</b> , <b>Npower</b> , <b>ScottishPower</b> and <b>SSE</b> ).



<b>Smart meter</b>	A device installed for the purposes of the supply of electricity that provides the functional capability specified by <b>DECC</b> .
<b>SSE</b>	SSE plc (formerly Scottish and Southern Energy plc); one of the <b>SLEFs</b> .
<b>SSE Retail</b>	The domestic retail energy businesses of <b>SSE</b> which comprises SSE Electricity Limited, Southern Electric Gas, SSE Home Services Limited, SSE Retail Telecoms Limited, SSE Energy Solutions Limited and SSE Metering Limited.
<b>Standard credit</b>	Payment of energy bills after they are issued as opposed to regular fixed payments via <b>direct debit</b> or advance payments for fixed amounts of energy via <b>prepayment meters</b> .
<b>Standard Licence Conditions</b>	Conditions that apply to all holders of a particular licence in relation to gas and/or electricity and are set by <b>Ofgem</b> .
<b>SVT</b>	Standard variable tariff.
<b>Transaction</b>	Another term used to describe the transfer of assets by the <b>Parties</b> via the <b>Contribution Agreement</b> .
<b>Twh</b>	Terawatt hours.
<b>UK</b>	United Kingdom.
<b>Utility Warehouse</b>	Brand name for parent company Telecom Plus plc, a mid-tier energy supplier; one of the <b>SAMS</b> .
<b>WHD</b>	Warm Home Discount.
<b>White-label</b>	An organisation that does not hold a license to supply energy, but partners with a licensed energy supplier to supply gas and/or electricity under its brand.
<b>Wholesale Agreement</b>	<b>Npower</b> has an exclusive supply and services agreement to supply gas and electricity to <b>Utility Warehouse</b> .