

## BGL Group Limited

### Ofgem consultation

#### Default tariffs for domestic customers at the end of fixed-term contracts

#### 1 Introduction

##### 1.1 Allowing suppliers to roll customers onto another fixed term tariff contract at the end of their existing deal provided:

- 1.1.1 those tariffs do not have any termination fees;
- 1.1.2 are no more expensive at the point of comparison than the standard variable tariff (SVT); and
- 1.1.3 otherwise meet the customer's characteristics and preferences,

may help prevent customers from being locked-in to poor value deals.<sup>1</sup> That said, BGL considers that Ofgem's proposal does not adequately address the more fundamental issue of customer inertia and associated consumer detriment; indeed, BGL is concerned that it may exacerbate inertia.

##### 1.2 In other words, in BGL's view, Ofgem's proposal, while beneficial in certain respects, is still likely to leave disengaged customers exposed, and may lead more engaged customers into believing that they are getting a good deal, when in fact many more competitive and suitable deals are available. Ofgem may wish to conduct/evaluate more consumer behavioural research in this area before finalising its view.

##### 1.3 BGL considers that the following features of Ofgem's proposal merit further attention:

- 1.3.1 Allowing any new fixed-term contract to be priced at the same level as the SVT is counter intuitive. This proposal is simply likely to result in a substitution of 'tariff name' while leaving customers on a similarly poor value deal. As SVTs generally comprise the most expensive tariffs on the market, there is no clear consumer benefit in allowing suppliers to roll customers onto new fixed-term contracts that are equally expensive. Without resorting to price regulation, surely there would be some benefit in requiring the new fixed-term tariff to be meaningfully cheaper than the SVT (for example, requiring that it cannot be >95% of the SVT)?
- 1.3.2 On a related point, Ofgem is proposing that any such rollover is optional, rather than mandatory. Affording suppliers this discretion invites them to 'do nothing', thus leaving the unwelcome SVT status quo the likely outcome for many disengaged consumers. Consumers may also start to receive an inconsistent experience from one supplier to the next, causing utter confusion around what to expect at the end of any fixed-term tariff.

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<sup>1</sup> For example, the conditions that Ofgem proposes to attach to these rollovers may address certain concerns associated with other auto-rollover models where customers have a limited window to opt not to rollover and switch, failing which they are locked-in for a further period. See para. 16.94 of the CMA's Energy Final Report (24 June 2016)

BGL would also observe that the optional nature of Ofgem's remedy does not adequately meet Ofgem's stated objective, which is:

*We want to make sure that at the end of their fixed-term contracts, consumers are protected if they do not make an active choice.*

- 1.4 Although Ofgem's proposal might have a marginal effect in reducing the number of customers on poor value SVTs, the beneficial impacts are unlikely to remain anything other than minimal unless adjustments to the proposal, as outlined above, are adopted. While BGL appreciates that Ofgem has already considered whether its proposal should be mandatory rather than optional, BGL would urge Ofgem to revisit this point (as well as the issue described in paragraph 1.3.1 above) to meet the stated objective and to reduce confusion for consumers.
- 1.5 In BGL's view, it is critically important that Ofgem does not create conditions which: i) have the propensity to confuse customers; ii) mislead them into thinking that they are getting a better deal (thus contributing to inertia) when this is not the case; or iii) reduce pressure on suppliers from offering a more competitive deal. BGL would therefore recommend that rather than relying on rolling consumers onto fixed-term tariffs, Ofgem gives greater consideration to other switching prompts and triggers. BGL would be happy to engage further with Ofgem in this area. BGL notes that it will also be important for Ofgem to have the appropriate mechanisms in place to assess and monitor these tariffs in order to evaluate their success and effectiveness in terms of realising actual consumer benefits.
- 1.6 For completeness, Ofgem's rollover consultation references a related consultation on changes to the methodology to be used by suppliers and comparison sites in respect of calculating estimated annual costs, with the intention of allowing suppliers and comparison sites to develop different methodologies. Without limiting independent innovation and allowing for continual improvement in such methodologies, Ofgem should, in BGL's view, guard against any outcome where consumers are likely to receive an inconsistent experience between estimates calculated by their supplier and what they would see using a comparison site, as again this is likely to undermine confidence in any switching process and contribute to inertia.