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By e-mail: [futureretailregulation@ofgem.gov.uk](mailto:futureretailregulation@ofgem.gov.uk)

Dear Barry

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

Centrica welcomes this statutory consultation and proposal to relax the current restrictive rules *requiring* suppliers to default customers onto 'evergreen' tariffs, which are criticised as contributing to a significant proportion of customers defaulting onto a variable tariff.

We support this proposed reform which, in principle, gives suppliers greater flexibility to deliver better consumer outcomes by

- providing fixed term 'default' tariffs, thereby ensuring that customers receive meaningful prompts to engage and review their tariff choice each time their contract approaches expiry
- maintaining competitive pressure on suppliers to offer attractive tariff choices to existing customers because customers who default to a fixed term contract will be free to switch without penalty at any time
- potentially enhancing market opportunities for competing suppliers to win customers away from their rivals as customers consider their options at the end of each fixed term

We believe such flexibility is a step in the right direction, though we regret that it remains voluntary at this stage. Centrica has previously called for an end to 'evergreen' tariffs and continues to believe that an industry-wide move away from evergreen standard variable tariffs (SVTs) would provide a much more powerful vehicle to enhance consumer engagement and empowerment. Consequently, we believe Ofgem should be bolder and mandate an end to 'evergreen' tariffs at the earliest opportunity following appropriate consultation.

In the meantime, the present proposal is a necessary first step. We recognise a need for some 'default' to protect consumers who do not actively choose a new tariff but nevertheless require supply continuity. Whilst we also accept the need for some protections in the short term to build confidence that default FTCs will offer as good or better value than the SVTs they replace, we believe

that removing evergreen tariffs altogether will bring a change to the nature of the competitive process offering much more substantial consumer benefits and intensified price competition. We recognise that removing evergreen tariffs will need to be properly tested and are happy to support such a process. We also believe the current proposals add to the case for further reforms and simplification of existing prescriptive rules governing customer communication so that key choices are not obscured by information overload. More detailed comments are set out in the attached appendix.

We are committed to working with Ofgem to develop simpler and more effective prompts to encourage consumer engagement.

We welcome this change as a first step towards further pro-competitive reforms including the end of evergreen tariffs, which will ultimately require the concept of SVT benchmarks to be revisited. If you have any questions about this response, please contact [don.wilson@centrica.com](mailto:don.wilson@centrica.com)

Yours sincerely

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## **Appendix – detailed comments on the proposal and related issues**

*Question 1: Do you have any specific concerns with our proposal to allow suppliers, as a default and subject to the controls we outline in our recommendation, to roll customers onto further fixed-term contracts at the end of their existing fixed terms?*

As set out in the covering letter, Centrica broadly welcomes the present proposal as a step in the right direction. Our comments below reflect that broad support while also highlighting implications for related areas of policy.

Ofgem summarises its proposal as follows:

*We propose to allow suppliers, at the end of a fixed-term contract, to move a consumer that has not made an active choice onto another fixed term contract, as long as that contract*

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

Our comments on each of these provisos follow below.

### **No penalties for early termination**

We agree with and support the proviso that default tariffs should not be subject to exit fees, so that consumers are not 'locked-in'. A default tariff provides a safety net to ensure supply continuity for consumers who do not actively choose an alternative tariff at expiry of their current fixed term contract.

### **Same or cheaper than SVT**

As a transitional measure, we understand and accept the 'no worse' than comparator SVT requirement, on the basis that

- this is a one-off comparison, close to rollover
- it does not imply that the default must never exceed SVT on an ongoing basis. As Ofgem notes, this would be difficult and expensive to administer, making it unattractive to suppliers and thus reducing the likelihood that suppliers would in practice take advantage of the option to offer an alternative default tariff

Looking ahead, however, we believe that SVT comparator will require review, since it presupposes 'evergreen' SVTs continue indefinitely. As noted above, Centrica urges Ofgem to be bold and bring about an end to evergreen tariffs at the earliest opportunity following appropriate consultation.

On the other hand, we agree that Ofgem should not go beyond the current proposal by mandating that the default tariff must be the supplier's cheapest fixed term contract, for several reasons

- it would undermine incentives to for consumers to engage and for suppliers to offer FTCs as default, negating the potential benefits
- FTCs with no lock-in add risk for suppliers compared with FTCs which allow exit fees and suppliers should be free to reflect risk in customer pricing
- the cheapest FTC might be a shorter term fix which does not reflect previous consumer choices and would conflict with Ofgem's third proviso

### **Similarity to current tariff, taking account of consumer characteristics and preferences**

Most of this requirement – i.e. to take account of payment method, meter type, on/offline account management etc. - is business as usual and should not be controversial.

We agree that there is no need at present to prescribe a rigid duration. Indeed, it would be odd to do so while allowing indefinite 'evergreen' tariffs to continue. In the short term, similarity with current FTC term is sufficient. The question of duration can be revisited if appropriate in the context of the more fundamental move away from evergreen tariffs Centrica advocates.

We also accept Ofgem's proposal that a default FTC should be of similar type to the FTC it replaces. This would allow flexibility over time to the extent that consumer opt for different tariff types e.g. tracker vs fixed price. This requirement does, however, sit oddly alongside the continuing option to default consumers to evergreen SVTs at the end of a FTC - which clearly does not respect the 'similar type' requirement.

### **Miscellaneous**

Customer communications and engagement prompts

The proposed change to allow alternative default tariffs has clear knock-on implications for personal projections – it makes little sense to require personal projections to assume SVT in cases where the customer will default to an alternative tariff. However, we believe relaxation of the current prescriptive rules around personal projections needs to go further than currently proposed, with greater supplier freedom balanced by transparency on assumptions. Centrica's position on personal projections is set out more fully in our response to Ofgem's recent working paper outlining its updated thinking.

We welcome Ofgem's reaffirmation of commitment to prioritise its review of rules relating to supplier-customer communications with the aim of removing unnecessary prescription. Indeed, we urge that that this long-promised review of prescriptive communications rules proceeds apace.

Ofgem's 2016 survey of consumer engagement prepared on its behalf by TNS BMRB clearly reveals the lack of positive impact these measures are having, which should itself prompt a thorough review. Moreover, among other findings against the Retail Market Review (RMR) suite of interventions, the

Competition and Markets Authority (CMA) recognised that CTMs stand to exacerbate the adverse effect on competition (AEC) it perceived by inhibiting selective discounts.

The proposed change to defaults tariffs makes this much needed review ever more urgent as inconsistencies and incoherence mount. For example

- while the consultation document itself is silent on white label tariffs, the accompanying notice rightly amends white label provisions so that relevant SVT comparator for a fixed term default is within brand
- yet confusing cross-brand CTMs will apparently continue to apply unless/until wider changes are made – this is inconsistent with respect for customer characteristics and preferences

#### Speed of change

Centrica believes real change for customers can be achieved more rapidly than Ofgem seems to suggest when it talks of customers starting to see the effect as new contracts concluded from the end of this year come to an end. The effect of these changes should not be confined to new customer contracts but can and should also extend to apply to existing fixed term contracts as they expire, subject to appropriate customer notification.

#### Legal drafting in Statutory Notices

We have the following drafting comments relating to white label tariffs

- Proposed definition 31D.22A (b) in the Gas Statutory Notice says “may not provide for a Domestic Customer to pay a Termination Fee;” (*emphasis added*)

We don't think Ofgem wants to give suppliers the choice with this – and for the non-white label definition and the Electricity version of the same clause the Notice says “must not provide....”

- Proposed definition 31D.22A (c) says “is cheaper than or as cheap as the licensee's Relevant Cheapest Evergreen Tariff for the particular Domestic Customer;”

Ofgem should clarify that this refers to the 31D.22 definition of the Relevant Cheapest Evergreen Tariff – so suppliers are comparing the default fixed tariff for a white label to the white label evergreen tariff as opposed to the non-white label evergreen tariff.

- Proposed definition 31D.22A (a) in the Electricity Statutory Notice, contains an extra ‘and terms’ which needs taking out – “(a) has terms ~~and terms~~ and conditions that are as similar as possible to ....”