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15 September 2017

Dear Barry,

## **DEFAULT TARIFFS FOR DOMESTIC CONSUMERS AT THE END OF FIXED-TERM CONTRACTS**

Thank you for the opportunity to respond to the above statutory consultation on removing the obligation to default customers at the end of a fixed term tariff to the Relevant Cheapest Evergreen Tariff. We are supportive of the proposal and agree with Ofgem's assessment that allowing suppliers to move customers onto a further fixed term tariff will offer better protections to customers through the potential for cheaper tariffs and regular prompts to engage.

We think this proposal is an important enabler for the complete phasing out of Standard Variable Tariffs (SVTs). A key cause of the problems identified by the CMA is the enduring nature of SVT contracts and the absence of any compelling prompt to engage. We believe phasing out SVTs in favour of default fixed term tariffs with annual renewals is the best long term solution, and we have previously suggested to the CMA how this might be done. We would encourage Ofgem to consider this in more detail in addition to the changes being consulted on, and we would be happy to engage with Ofgem on this.

We set out below our detailed thoughts on the proposals set out in the statutory consultation, and have provided some suggested amendments to the draft licence conditions in the attached annex.

### **Linking the Default Tariff to SVT pricing**

While we understand Ofgem's concern that customers should not be assigned to "particularly poor value fixed-term tariffs", the particular solution chosen – that default tariffs must not exceed the Relevant Cheapest Evergreen Tariff (generally the supplier's SVT) – misses the mark.

If input costs are expected to rise, then fixed price contracts would normally be above the SVT level at the start, unless the supplier chose to accept a reduced margin for marketing reasons. Defaulting customers to the fixed term tariff rather than the SVT may well be better for the customer over the life of the deal, and if the customer has previously opted for a fixed term product, it is likely better to reflect their preferences. It is unreasonable to require what is in effect a further discount to be applied as a condition of the supplier giving the customer what may be a preferable tariff choice.

In practice, we do not think that the risk identified by Ofgem is a particularly severe one and it may be appropriate to wait and see how the market develops. Should problems be observed in future, greater transparency for roll-over deals could be achieved quickly and with much less intervention, for example by requiring suppliers to disclose all default tariffs prominently on their websites.

In any event, given the potential consumer benefits from the complete phasing out of SVTs, we think it would be sensible to future-proof the licence drafting so that it works if SVTs were to be removed from the market<sup>1</sup>. In this context we understand that Ofgem considers the current drafting would allow for a situation where a supplier had no Relevant Cheapest Evergreen Tariff in relation to a customer, since the requirement linking to SVT pricing would simply become inoperative. We agree with this position but suggest that it would be helpful for Ofgem to clarify this in writing.

### **Default Tariff Terms and Conditions as similar as possible to current tariff**

While we agree with Ofgem's proposal that a default fixed term tariff must be as similar as possible to a customer's current tariff in respect of payment method, meter type and account management, we think that the corresponding requirement in respect of a customer's characteristics and preferences may be unduly restrictive and does not reflect the policy intent set out in paragraph 2.12 of the consultation document.

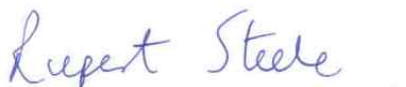
We believe suppliers should be free to offer a short term<sup>2</sup> fixed price default tariff for all customers as it may not be practicable for suppliers to offer multiple fixed term default tariffs of differing lengths. We have set out proposed amendments to the licence drafting in Annex 1 which allow for this, while preserving Ofgem's proposal in relation to longer contracts. This is a practical way forward which ensures customers receive the intended protection.

### **Implementation date**

Ofgem's intention is to implement these changes by the end of 2017, which would allow suppliers to specify alternative default tariffs in new tariff terms and conditions from that date. We believe it would also be possible for suppliers to unilaterally change the default tariff in existing fixed term contracts from that date, provided that the change was not to the customer's disadvantage. This could be achieved by specifying a "fix and fall" tariff as the default, ie a fixed term tariff where the price is the lower of the initial fix and the SVT. We would be happy to discuss this in more detail with Ofgem if it would be helpful.

Should you wish to discuss further or have any questions please contact me or Rhona Peat ([rhona.peat@scottishpower.com](mailto:rhona.peat@scottishpower.com)).

Yours sincerely,



**Rupert Steele**  
Director of Regulation

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<sup>1</sup> We recognise that there are a number of other licence conditions currently in place that require a supplier to have an evergreen tariff (for example SLC 7 and SLC 22D) and that the phasing out of SVTs would require amendments or derogations to those licence conditions prior to implementation. In addition, SVTs would probably need to be retained for "dumb" prepayment meters.

<sup>2</sup> In practice we expect tariffs would be between 10 and 14 months in length based on maturity dates of existing tariffs

**SCOTTISHPOWER COMMENTS ON ANNEX 1 TO THE NOTICE ACCOMPANYING THE STATUTORY CONSULTATION: PROPOSED CHANGES TO THE STANDARD CONDITIONS OF ELECTRICITY/GAS SUPPLY LICENCE**

Reference	Comment and/or Suggested Amendment	Rationale
<p><b>SLC 1: Definition of Relevant Fixed Term Default Tariff</b></p>	<p>Amend the definition of Relevant Fixed Term Default Tariff as follows:</p> <p>means a Fixed Term Supply Contract available from the licensee (or, where there are any Affiliate Licensees, the licensee and any Affiliate Licensees), that:</p> <p>(a) has terms and conditions that are as-similar as-possible to the existing Fixed Term Supply Contract for that Domestic Customer, including in respect of:</p> <p>(i) their current payment method;</p> <p>(ii) their current Relevant Meter Type; <del>and</del></p> <p>(iii) their current Account Management Arrangement; <del>and</del> <del>(iv) their characteristics and preferences;</del></p> <p>(b) must not provide for a Domestic Customer to pay a Termination Fee; <del>and</del></p> <p><del>[(c) at the date the SLC 22C Statement of Renewal Terms is issued to the customer, is cheaper than or as cheap as the licensee's Relevant Cheapest Evergreen Tariff for the particular Domestic Customer;] and</del></p> <p><del>(d) where the duration is greater than 15 months, has terms and conditions that reasonably reflect the characteristics and preferences of the Domestic Customer.</del></p>	<p><i>In relation to amendments to sub-paragraph (a) and addition of new sub-paragraph (d):</i></p> <p>We believe the current drafting does not reflect the policy intent set out in para 2.12 of the consultation document. Suppliers should be free to offer a single short term fixed term default tariff for all customers as it may not be practicable for suppliers to offer multiple fixed term default tariffs of differing lengths. Our drafting allows for this, while preserving Ofgem's proposal in relation to longer contracts.</p> <p><i>In relation to amendments to sub-paragraph (c):</i></p> <p>1. We have put the whole sub-paragraph in square brackets as we suggest it should be omitted, with transparency requirements brought in at a later date if needed.</p> <p>2. In paras 2.18 to 2.21 of the consultation document Ofgem sets out its reasoning and conclusions that suppliers need only ensure that the Relevant Fixed Term Default Tariff is cheaper than or as cheap as the Relevant Cheapest Evergreen Tariff on a one-off basis prior to the customer's existing fixed term tariff ending. We think the licence drafting could be clearer on this point, and have proposed some additional text. Without this clarification, we would be concerned that the licence drafting could oblige suppliers to undertake further comparisons prior to the end of the default tariff, and we agree with Ofgem's assessment that this is likely to be difficult and expensive to operationalise.</p>

<p><b>SLC 31D.22A: Definition of Relevant Fixed Term Default Tariff in relation to White Label Tariffs</b></p>	<p>Amend the definition of Relevant Fixed Term Default Tariff as follows:</p> <p>means a Fixed Term Supply Contract available from the licensee (or, where there are any Affiliate Licensees, the licensee and any Affiliate Licensees), that:</p> <p>(a) has terms and conditions that are as-similar as-possible to the existing Fixed Term Supply Contract for that Domestic Customer, including in respect of:</p> <p>(i) their current payment method;</p> <p>(ii) their current Relevant Meter Type; <del>and</del></p> <p>(iii) their current Account Management Arrangement; <del>and</del></p> <p><del>(iv) their characteristics and preferences;</del></p> <p><del>(v)</del> (iv) where the Domestic Customer is subject to a White Label Tariff, a White Label Tariff of the same White Label Tariff Provider; and</p> <p><del>(vi)</del> (v) where the Domestic Customer is not subject to a White Label Tariff, a Tariff which is not a White Label Tariff;</p> <p>(b) must not provide for a Domestic Customer to pay a Termination Fee; <del>and</del></p> <p><del>[(c) at the date the SLC 22C Statement of Renewal Terms is issued to the customer is cheaper than or as cheap as the licensee's Relevant Cheapest Evergreen Tariff for the particular Domestic Customer;] and</del></p> <p><del>(d) where the duration is greater than 15 months, has terms and conditions that reasonably reflect the characteristics and preferences of the Domestic Customer</del></p>	<p>See above</p>
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