

Notice of reasons¹ to issue directions pursuant to Standard License Condition 32A – Direction for the participation in the End of Fixed Term Communication (EFTC) Trial

This letter sets out the reasons for the decision of the Gas and Electricity Markets Authority (“the **Authority**”) to issue directions pursuant to standard licence condition (“**SLC**”) 32A (*Power to direct suppliers to test consumer engagement measures*) of the electricity and gas supply licences of [supplier name redacted] (the “**Supplier**”).

The following direction was issued to the Supplier in connection with the End of Fixed Term Communication (EFTC) Trial:

Direction issued to the Supplier on 19 February 2019 for participation in the End of Fixed Term Communication (“EFTC”) Trial (the “**EFTC Direction**”).

Background to, and rationale for, the EFTC Direction:

In its Final Report² on its Energy Market Investigation, the Competition and Markets Authority (“**CMA**”) made a number of recommendations to the Authority to address the adverse effects on competition (“**AEC**”) it identified in the gas and electricity markets. This included recommendations in respect of the Domestic and Microbusiness Weak Customer Response AECs.

In particular, the CMA made recommendations to the Authority to implement a programme that would involve rigorous testing and trialling to prompt engagement within the domestic and microbusiness sectors. This included:

- (i) the establishment of an ongoing programme to identify, test (through randomised controlled trials (RCTs), where appropriate) and implement measures to provide domestic customers with different or additional information with the aim of promoting engagement in the domestic retail energy markets; and
- (ii) monitoring the impact of these interventions with a view to maximising their effectiveness as regards improving engagement.

In response to the above recommendations, and based on other available information, the Authority made the decision to conduct a trial to test the impact of a communication to customers who had recently moved onto a default tariff following the end of their fixed-term tariff.

This trial was one way the Authority has sought to address the CMA’s finding of a weak customer response in the market which gives energy suppliers a position of unilateral market power concerning their inactive customer base. The main reason for conducting this trial was to increase and expand the Authority’s understanding of customers on fixed term tariffs, as intelligence is less developed in this area than for customers who are on default tariffs. In particular the Authority wanted to understand more about customer behaviour at the end of a fixed term contract, when the customer could engage and choose a new tariff, or roll onto the

¹ As required by s.49A Electricity Act 1989 and s.38A Gas Act 1986

² Competition and Markets Authority, June 2016, Energy Market Investigation Final Report. URL: <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf>

suppliers' default tariff. Following initial evidence gathering from suppliers about the end of fixed term tariffs, the Authority found that roll-over rates vary considerably between suppliers.

The Authority decided to conduct this trial to understand customer engagement at the end of fixed-term tariffs and to assess ways of increasing customer engagement at that point. The trial measured the impact of sending a communication, referred to as the EFTC, to relevant customers, referred to as 'Eligible Trial Participants', at the end of their fixed-term tariff, which informed them that they are on a more expensive Standard Variable Tariff. The EFTC was designed to test a way of addressing barriers and prompting re-engagement from customers who had previously switched energy supplier or tariff, but had not done so recently.

One Supplier participated in the EFTC trial. This was on a voluntary basis, although the selection process was in accordance with the Authority's selection criteria³. The EFTC Direction provided a regulatory framework to support the voluntary action taken by the Supplier to participate in the trial.

In accordance with the Direction, the Supplier was required to identify customers eligible for the trial, who were previously on fixed-term tariffs but had rolled-on a standard variable tariff. The Supplier was also required to randomly allocate trial participants into a trial arm and a control group, in accordance with the instructions provided by the Authority. The Supplier was required to send out a communication to eligible trial participants in the trial arm, and provide data and other information on the EFTC Trial for reporting purposes, to the Authority. The EFTC Direction also required the Supplier to provide specified information to a third party agency, appointed by the Authority, for the purpose of qualitative telephone interviews with trial subjects from the EFTC Trial.

Yours faithfully



Anna Rossington
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Signed on behalf of the Authority and authorised for that purpose.

³ Ofgem, January 2017, Selection criteria for mandatory supplier testing of measures to promote domestic consumer engagement. URL: <https://www.ofgem.gov.uk/publications-and-updates/decision-selection-criteria-mandatory-supplier-testing-measures-promote-domestic-consumer-engagement>