

Notice of reasons¹ to issue directions pursuant to Standard condition 32A – Direction for participation in the Active Choice Collective Switch Autumn 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 “**Suppliers**”).

The following directions were issued to the Suppliers in connection with the Active Choice Collective Switch Autumn Trial:

- Direction issued to the Suppliers on 31 August 2018 for participation in the Active Choice Collective Switch Autumn Trial (the “**Trial**”);

Background to, and rationale for, the directions:

In its Final Report 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.² This included recommendations in respect of the Domestic and Microbusiness Weak Customer Response AECs. In particular, the CMA recommended that the Authority established an ongoing programme to identify, test and implement measures to provide domestic customers with different or additional information with the aim of promoting engagement.

In addition, the CMA made a series of 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 following a smaller scale Collective Switch trial at the beginning of 2018, the Authority considered it appropriate to conduct a similar but larger in scale trial (the Trial) later that year. During the Trial, a consumer-facing partner (“Service Provider”, appointed by the Authority) negotiated a Collective Switch tariff and provided personal projected savings to customers forming part of the trial, designed to prompt their engagement. It also provided online and telephone routes for interested customers to start a supplier switch, if they wished to do so. This Trial sought to address the CMA’s finding of an AEC arising through an overarching feature of weak customer response, which in turn gives energy suppliers a position of unilateral market power concerning their inactive customer base.

The Collective Switch Trial was designed to test whether a Collective Switch would prompt engagement from consumers who have not recently switched energy supplier or tariff. In

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

² <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf>

particular, the Authority wanted to understand if the results of the first trial could be replicable to a larger scale.

The Authority issued the Autumn **Collective Switch Direction** which required each of the participating Suppliers to identify up to 100,000 from their domestic customers who were eligible for the Trial. The Collective Switch Direction required these Suppliers to send an initial communication to those eligible consumers that were not identified as part of the control population, informing them that certain data relating to their energy supply would be transferred to the Authority's appointed Service Provider. The appointed Service Provider would in turn calculate each customer's projected saving, send customers the projected saving and reminder letters, run online and telephone services to get full details including an open market search and complete the switch if customers wished to do so, for the purposes of the Collective Switch, unless the customer elected to opt-out of the service. The Suppliers were also required to assist the Authority's evaluation of the Collective Switch by monitoring and reporting on certain data items specified by the Authority.

The Collective Switch Direction also required the Suppliers to provide specified information in accordance with SLC 32A to a third party agency with the intention of conducting qualitative telephone interviews with trial subjects from the Collective Switch.

The Collective Switch Direction provided a framework for the collaborative work of the Suppliers and the Authority in implementing the Trial. In order to facilitate compliance with the Direction, the Directions set out that relevant data should be provided from the suppliers to the appointed Service Provider and the Authority in the format specified in the schedules to the Collective Switch Direction and under the Authority's data protection policy.

Yours faithfully



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