



Making a positive difference
for energy consumers

To domestic electricity and gas suppliers, consumer groups and other stakeholders

Direct Dial: 0207 901 1802
Email: DomesticRetailPolicy@ofgem.gov.uk

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Open letter: Proposed selection criteria for mandatory supplier testing of measures to promote domestic consumer engagement

This open letter asks for your views on proposed selection criteria that we would use to identify suppliers to conduct tests and/or randomised controlled trials (RCTs). We are only considering the domestic sector at this time.

Improving customer communications through trials

On 7 March 2016 we published our views on improving consumer communications and the value of trials.¹ We think there is huge scope to use trials and online/lab experiments to help gain better insight into what works best for different consumers and to improve the effectiveness of customer communications .

On 24 June 2016 the CMA published the final report on the energy market investigation² and on 3 August 2016 we set out our CMA Remedy Implementation Strategy.³ The CMA recommended that Ofgem establish an ongoing programme to identify, test (through RCTs, where appropriate⁴) and implement measures to give domestic customers different or additional information, and get them more engaged in the retail energy markets.

The CMA also recommended Ofgem introduce a domestic licence condition requiring suppliers to participate in testing consumer engagement measures and included proposed text for this licence condition in its final report (SLC 32A).⁵ Ofgem intends to act on these recommendations and we have today issued a statutory consultation on the proposed SLC 32A.⁶

The proposed SLC 32A includes a provision for Ofgem to publish criteria for the selection of suppliers (the selection criteria) which may be required to conduct tests and/or RCTs. The overarching objective of these selection criteria is to ensure that the most appropriate

¹Ofgem open letter, Improving consumer communications and the value of trials, 7 March 2016, https://www.ofgem.gov.uk/system/files/docs/2016/03/improving_consumer_communication_and_the_value_of_trials.pdf

² CMA, Energy Market Investigation, Final report, 24 June 2016, <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf>

³Ofgem, CMA Remedy Implementation Strategy, 3 August 2016, https://www.ofgem.gov.uk/system/files/docs/2016/08/ofgem_implementation_strategy.pdf

⁴ Where RCTs are not appropriate, we will use quasi-experimental or other research methods.

⁵ See Appendix 13.1, <https://assets.publishing.service.gov.uk/media/576bcc89ed915d3cfd0000c1/appendix-13-1-standard-condition-32a-fr.pdf>

⁶ Ofgem, Statutory Consultations on the introduction of SLC 32A: Power to direct suppliers to test consumer engagement measures, 19 October 2016, <https://ofgem.gov.uk/publications-and-updates/statutory-consultations-introduction-slc-32a-power-direct-suppliers-test-consumer-engagement-measures>

supplier is chosen to undertake a particular trial and that the selection of the supplier is proportionate. We set out a range of criteria that we consider to be a critical component of the selection process, which will encompass a range of measures to assess suitability for tests and trials. The purpose of this letter is to consult on the proposed criteria. However, we recognise that there will be no single set of criteria that can be universally applied to all trials and that we may need to develop specific criteria determined by the nature of a particular trial.

The selection criteria

To make the testing and trialling successful, we need to select the supplier(s) in a manner which is proportionate and targeted to the particular type of test or trial being considered and the focus of that test or trial. We now want your views on the proposed selection criteria we would use to select suppliers for tests and trials conducted under proposed SLC 32A.

We think the selection criteria for the purposes of proposed SLC 32A should be high-level. This is so they provide a common framework that we can use to select a supplier (or suppliers) for a wide range of trials. For this reason we are setting out various criteria that we will consider when selecting an appropriate supplier(s). These will be complemented by, but not limited to, a number of underlying sub-criteria that we will apply as appropriate and will be determined by the nature of a particular trial. For example, if we run a trial to promote engagement among prepayment customers, the weight attached to some of the underlying criteria will not be the same as if we wanted to run an equivalent trial on Economy 10 customers.

First, we will be considering **suppliers' customer base**. For example, this will include the number of customers and demographic and geographic distribution. With respect to tariffs and meters, we will be interested in tariff and payment method distribution, as well as meter types. We also propose to consider engagement levels, 'stickiness' and consumption profiles. This will allow us to understand a supplier's customer distribution, and to determine whether they are appropriate for a particular trial⁷.

Building on the above example – promoting engagement among prepayment customers, we would consider suppliers with a large number of prepayment customers, putting more weight on that criteria, vis-à-vis considering suppliers with a small number of prepayment customers. Correspondingly, we are likely to select suppliers with the largest 'sticky' customer base where we are looking to trial measures to (re)activate customer engagement.

Second, we will assess whether a supplier has the **capabilities to undertake a trial**. Here, we will be considering criteria such as the number of employees and length of time a supplier has been in the market. It is important to note that we may expect a supplier to build, develop or buy-in particular skills or capability where they do not currently have them if we have identified that supplier as the most appropriate to run a particular trial.

Third, we will consider whether the **burden of the trial is proportionate to a particular supplier**. This will include design costs, length of trial and analysis costs. We will also take into account the extent to which a supplier or suppliers have already undertaken trialling work that is helpful to our policy design and research objectives.

In the selection of the supplier(s) to conduct a trial we will look to control the impact on systems and costs, keeping it proportionate to the potential benefit to consumers. Where a supplier may not currently have the necessary infrastructure to undertake specific tests and trials, we would still expect them to implement system changes, for example, as and when necessary.

⁷ Where a supplier's customer base is identified for trialling more than once, the supplier may be required to participate in multiple trials.

We will clarify the selection process in due course. In the first instance, we envisage using the information gathering powers set out in the proposed SLC 32A to collect the relevant information to select suppliers to undertake tests and trials.

Question: What do you think about the proposed selection criteria? Do you think we should consider any others? If so, what are they and why?

Let us know your views by getting in touch by 18 November 2016 at the address below.

Next steps

We will review responses, make a decision on the selection criteria to use and publish these alongside the final licence condition. Our forthcoming CMA Remedies Implementation Plan will provide more detail on timelines for this remedy's implementation.

Contact the team at DomesticRetailPolicy@ofgem.gov.uk to discuss anything in this letter.

Yours faithfully,

A handwritten signature in black ink that reads "NBarnes." The signature is written in a cursive, flowing style.

Neil Barnes

Associate Partner
Consumers & Competition