ofgem Making a positive difference for energy consumers

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

Statutory Consultation

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Overview:

We want to make sure that at the end of their fixed-term contracts, consumers are protected if they do not make an active choice and are able to switch away without penalty later if they choose. They should also receive regular prompts to engage, to ensure they are aware of better deals that might be available. Our current rules deliver these aims. However, changes to these rules could allow better outcomes for consumers.

Currently, suppliers are required, as a default, to roll customers onto standard variable tariffs at the end of their existing fixed-term deals. This means that customers can switch away whenever they choose without incurring any fees. However, standard variable tariffs are often among the most expensive deals on the market.

In this statutory consulation, we propose to allow suppliers to roll customers onto another fixed-term tariff at the end of their existing deals as long as those tariffs do not have any termination fees, are no more expensive at the point of comparison than the standard variable tariff that the customer would otherwise have been rolled onto and otherwise meet the customer's characteristics and preferences. This change will help to reduce the number of customers on poor value standard variable tariffs.

Context

Many domestic consumers are currently on standard variable tariffs, that are some of the most expensive tariffs on the market. The Competition and Markets Authority, following their energy market investigation, put forward a series of measures to strengthen competition in the retail energy market and to help those on standard variable tariffs secure a better deal.

We are working on a range of measures to encourage and enable consumers to choose the right deal for them. These include trials to help provide effective prompts for consumers to engage, and new rules to ensure that consumers are able to make an informed choice of tariff.

The proposal in this paper is consistent with these broader initiatives to help deliver better outcomes for consumers.

Associated documents

Ofgem, Statutory Consultation: Enabling consumers to make informed choices, January 2017

Ofgem, Helping consumers make informed choices – proposed changes to rules around tariff comparability and marketing, August 2016

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Executive Summary

Suppliers are obliged to continue supplying customers who reach the end of a fixed-term tariff, even if that customer hasn't made an active choice to switch to another tariff or supplier. This obligation ensures that consumers don't have their energy supply cut off because they haven't proactively engaged.

As a result, we need to have default tariff arrangements for customers who don't take any action at the end of their fixed-term tariffs. These arrangements should provide adequate protections for consumers. For fixed-term tariffs, this includes knowing what options they have at the end of that tariff, how they can switch if they want to, and what will happen if they don't do anything.

At present, if a consumer chooses not to make an active decision to switch at the end of a fixed-term tariff, their supplier is required, as a default, to roll them onto the cheapest variable tariff[1] they offer. These variable tariffs have no end date and cannot have any termination fees, so consumers are free to switch away whenever they choose. Most consumers choose to switch to another tariff at the end of their current fixed term, but a significant proportion default onto a variable tariff.

We put this requirement in place to prevent suppliers from locking consumers into further contracts by making it more difficult or expensive for them to switch to an alternative tariff or supplier, which might be better value for them.

We continue to believe that consumers should receive protection at the end of fixed-term tariffs to make sure that they are not rolled onto a deal that is inappropriate for them and 'locked in' with termination fees. They should also receive regular prompts to engage, to ensure they are aware of any better deals available.

Our proposal

We consider that we can deliver the necessary protection for consumers while allowing suppliers flexibility to roll customers onto different tariffs at the end of their fixed-term deals. There are often better deals available to consumers than standard variable tariffs. We consulted on a proposal to deliver this outcome last year, and received broad support from stakeholders.

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 further contract:

- Does not have any penalties for early termination;

[1] In this document we use 'cheapest variable tariff' as shorthand for the 'Relevant Cheapest Evergreen Tariff' as defined in condition 1 of the energy supply standard licence conditions.

- 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).

This change will give suppliers flexibility to deliver better outcomes for customers without weakening the important protections for fixed-term tariff customers. We expect suppliers to consider a customer's characteristics and preferences when rolling them onto a new tariff. This includes considering whether the type and duration of the new tariff is appropriate for the customer.

As the change allows, rather than requires, suppliers to roll customers onto further fixed-term tariffs, it should involve little or no additional regulatory burden. Several suppliers have indicated their interest in rolling customers onto fixed term tariffs and reiterated their support for our proposal. We expect that some suppliers will make use of the flexibility we propose to provide, and that as consumers roll off fixed-term contracts in future they may start to see the benefit of this change, leading to less consumers on poor value standard variable tariffs.

We want to make sure that competition in the retail energy market works in consumers' interests. As part of this, we are committed to helping consumers to move away from poor value default tariffs. The change we propose to make to the rollover rules is one of a number of measures we are taking forward to help and encourage consumers to engage and get a good deal on their energy, while protecting those who can't engage. By way of an example, we are taking forward work to improve the information provided to consumers, including on the end of fixed term notice, in order to help them engage and choose the right deal for them. We have already started this work by introducing principles requiring suppliers to make sure consumers get the information they need to be able to make an informed choice.

Next steps

We welcome stakeholder views on the proposals set out in this consultation by 15 September 2017. Once we have considered responses we intend to move quickly to make a decision on the way forward. We expect to issue this decision in the autumn.

1. Introduction

1.1. We want to make sure that when domestic consumers on a fixed-term tariff reach the end of that tariff they are able to make a free and informed choice of the right tariff for them, and are not locked into further, potentially poor value, fixed-term deals. When consumers enter into a fixed-term contract they should know what options they have at the end of that contract, how they can switch if they want to, and what will happen if they take no action.

1.2. Currently, if a customer chooses not to switch at the end of a fixed-term tariff, suppliers are required, as a default, to roll the customer onto their cheapest variable tariff.

1.3. We introduced this requirement from October 2013 as part of our Retail Market Review (RMR) reforms for the retail energy market.[2] Our aims were to:

- Provide predictability to consumers about what would happen to them at the end of their fixed-term tariffs;
- Provide consumers with regular prompts to engage through an end of fixed term notice;
- Ensure consumers were not locked into further fixed terms with termination fees; and
- Make sure that consumers were not stuck on an inappropriate or more expensive tariff.

1.4. Before the RMR rules were introduced, suppliers were free to choose which tariff customers would be rolled onto, as a default, at the end of their fixed terms. It was common for suppliers to roll customers onto another fixed-term tariff when their existing one expired. Often suppliers would adopt opt-out approaches to tariff rollovers, which risked customers being placed on unsuitable fixed-term offers. Since these tariffs could (and often did) have termination fees, customers could be discouraged from switching and effectively locked in.

1.5. Such practices allowed suppliers to offer initially attractive deals to customers, expecting that they would be able to roll them onto tariffs with less favourable terms. Supplier practices often varied, for example in the length of notice given to a customer before their tariff was due to end, and in the information they were given at this point. This lack of consistency and certainty served to confuse customers and make them trust suppliers less.

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[2] Ofgem, The Retail Market Review – Implementation of Simpler Tariff Choices and Clearer Information, August 2013

Why we are revisiting these rules

1.6. Following its energy market investigation, the Competition and Markets Authority (CMA) recommended we remove restrictions on the number and structure of tariffs and discounts. After consulting with stakeholders we removed these restrictions in November 2016.[3] To allow us to deliver the CMA changes as quickly as possible, we chose to implement changes to the RMR 'simpler tariff' rules first, and signalled that we would consider other consequential amendments later.[4]

1.7. In August 2016 we proposed a range of changes to some of the information requirements affected by the removal of certain RMR tariff rules. We also proposed a set of new principles covering sales and marketing activities and tariff comparability to ensure consumers are able to make informed choices.[5]

1.8. The changes are in keeping with Ofgem's general commitment to rely more on principles in the way we regulate the retail energy market. In doing so we aim to encourage competition and innovation, put a greater onus on suppliers to deliver positive consumer outcomes, and protect consumers effectively by helping to future-proof our regulation in a rapidly-changing market.

1.9. In line with this general aim to remove prescription and provide flexibility for suppliers in certain areas, we sought stakeholder views on whether, at the end of a fixed-term contract, suppliers should be allowed to move a customer who has not actively chosen to switch onto a fixed-term tariff rather than a variable tariff. This flexibility would be allowed as long as the additional fixed-term contract was a cheaper option at the point of comparison and the customer was able to exit it at any time without penalty. The aim of this proposal was to give suppliers room to default customers onto tariffs other than the standard variable, which was often among their most expensive tariffs.

1.10. Stakeholders broadly supported our proposal and agreed that allowing this flexibility could provide a means for suppliers to deliver better outcomes for their customers by rolling them onto better value tariffs. Certain stakeholders raised some specific issues with the proposal. We summarise these issues, and our response to them, in chapter 2.

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[3] Ofgem, Modification of electricity and gas supply licences to remove certain RMR Simpler Tariff Choices rules, September 2016
[4] Ofgem, CMA provisional remedies: removal of certain RMR 'simpler choices' rules, April 2016
[5] Ofgem, Helping consumers to make informed choices – proposed changes to rules around tariff comparability and marketing, August 2016

Related initiatives

1.11. **CMA microbusiness order:** In December 2016, the CMA implemented changes to make prices more transparent for microbusiness customers and make it easier for them to switch suppliers.[6] One of these changes prevents suppliers from including termination fees in a rollover contract. Suppliers can also no longer restrict when customers can tell them they intend to end the contract and switch. The changes should make it easier for non-domestic customers to avoid rolling onto default tariffs and to switch away from them if they do.

1.12. We share the CMA's objectives. The changes we propose in this paper are designed to ensure domestic consumers are not locked in to poor value default tariffs and are free to choose the right tariff for them.

1.13. **Estimated annual costs**: Suppliers must provide domestic consumers with an estimate of their annual costs on a given tariff on bills, annual summaries and a range of other communications. The methodology for calculating the cost of a tariff is set out in the supply licence. At present, it requires suppliers to calculate it assuming that the consumer takes no action over the following 12 months and defaults onto the cheapest variable tariff. This means that for consumers on fixed-term tariffs that have less than a year left, the estimate of annual costs will be based on a 'blend' of their existing tariff and the cheapest variable tariff.

1.14. We are currently consulting on changes to the methodology to give suppliers the flexibility to come up with their own methodologies.[7] Changes we make involving the default tariff for consumers coming off fixed-term tariffs may affect the assumptions to be used by suppliers and price comparison sites when estimating annual costs. The changes to the estimated annual cost methodology are likely to come into effect shortly after the changes proposed in this consultation. Should there be a period where the estimated annual cost formula is incompatible with the supplier's choice of default tariff, we would expect suppliers to adapt their approach to complying with the estimated annual cost rules in a way that ensures consumers are not misled.

1.15. **Disengaged customer database**: As part of the package of remedies put forward at the end of its energy market investigation, the CMA recommended we consider implementing a database to facilitate consumer engagement. This database would contain the details of those that have not switched for three years or more so that they can be prompted to do so.

1.16. We and the CMA both envisaged that this remedy would apply to those that have not actively engaged, as opposed to those that are on variable tariffs.

[6] CMA, Energy Market Investigation (Microbusinesses) Order 2016, December 2016
[7] Ofgem, Personal Projection: Updated thinking on the way forward, July 2017

The requirements related to the remedy have therefore been drafted on the basis of 'default' tariffs, so any changes we make to the tariffs that customers can be rolled onto will not have an impact on those that should be included on the database.

1.17. **Customer communications**: A priority area for our work over the next year is to review the rules relating to supplier-customer communications, such as bills and annual statements. Our aim is to remove unnecessary prescription from the rules and rely more on principles-based requirements. This will help make communications more engaging for consumers by allowing room for suppliers to innovate, while continuing to ensure consumers receive the information they need to effectively engage with their energy supply.

1.18. One important communication channel that will be reviewed as part of this work is the end of fixed term notice. This notice is provided to consumers between six and seven weeks before the end of their fixed term, to let them know what will happen if they take no action and to encourage them to consider switching to another tariff. The proposal in this paper will have a bearing on the default tariff presented to the consumer in the end of fixed term notice. However, in this document we do not consider any wider issues relating to the notice, such as its general content or when it should be sent to consumers. We will consider these issues as part of our broader work on customer communications.

1.19. **Cheapest tariff message and prompts to engage**: On bills and other communications, consumers receive messages informing them of how much they could save by moving to a cheaper tariff with their current supplier. This is to make them aware of the savings available to them and to encourage them to engage and switch. We have also launched a programme for suppliers to trial new prompts to engage. We have recently issued directions requiring suppliers to participate in randomised control trials to test certain prompts. The aim of these trials is to identify, test and implement measures to provide consumers with information to encourage them to engage.

1.20. Requirements relating to the end of fixed term notice and cheapest tariff message, as well as the trialling of new prompts, mean that consumers will continue to receive prompts to engage, whatever changes we make to the rollover rules.

2. Policy issues and considerations

Chapter Summary

We outline the issues considered in the design of our policy proposal to allow suppliers to roll customers onto additional fixed-term tariffs at the end of their existing contracts. We cover termination fees, the duration and price of the rollover contract, feedback we've received to date, our recommendation and next steps.

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?

2.1. We want to make sure that at the end of their fixed-term tariffs consumers are not locked into poor value or inappropriate tariffs with termination fees. We want to make sure that consumers are able to make a free and informed choice of the right tariff for them, and continue to receive prompts to engage.

2.2. We have considered a number of issues in developing our proposal to best meet these objectives. These are set out below, followed by a summary of some of the issues raised by stakeholders in response to our earlier consultation, and an outline of our recommendation.

Termination fees

2.3. Before the current rules were introduced, suppliers could apply termination fees[8] to the default tariffs customers would be rolled onto at the end of fixed-term tariffs. This would act to lock customers into a further fixed-term tariff by imposing a penalty on any customer wanting to switch away, and reducing their incentive to switch as the savings they could make would be reduced by the amount of the termination fee.

2.4. By allowing suppliers to use fixed-term tariffs as rollover contracts, but preventing them from including termination fees on these tariffs, we would ensure that customers are able to switch away to another tariff at any time without incurring any penalty. This would minimise any barriers to engagement.

2.5. Banning termination fees on default tariffs may mean that some competitively-priced tariffs are not used as rollover contracts. Suppliers use termination fees as a means of minimising their hedging risks, enabling them to recoup costs even if a customer chooses to leave a contract early. This may mean that suppliers are unwilling to use their most competitively-priced tariffs

[8] Termination fees (or exit fees) are the contractually-agreed fees a customer must pay if they terminate their contract with a supplier before the agreed contract end date.

as a default contract in case the customer leaves during the fixed term period. However, many of the cheapest tariffs in the market do not have termination fees, and we are concerned that customers would be tied into further fixed-term periods if we let termination fees be applied to rollover contracts. In any event, it would be up to suppliers to decide their pricing strategy for rollover tariffs.

2.6. One of the options we considered but discounted was to allow suppliers to include termination fees in the tariffs used as rollover contracts, but to waive them in the case of those on rollover tariffs. This may have some administrative benefits for suppliers as it could let them use a single tariff for both new customer sign-up and as a default tariff for those on rollover contracts. But it could also weaken consumer protections, potentially leaving greater scope for errors and wrongly applying termination fees. Waiving the fees may also confuse consumers when comparing tariffs. If a consumer is on a comparison site, for instance, they may not know that the termination fees of the tariff they are currently on will be waived, and they may be discouraged from switching.

Duration and type of the rollover tariff

2.7. We have considered whether fixed-term tariffs, if used as the default tariff, should have a maximum length. Assigning one would ensure that customers receive the end of fixed term notice more frequently. We have also considered whether and how customers' general characteristics and preferences should be taken into account when determining the rollover tariff.

2.8. The end of fixed term notice tends to work as an effective prompt for consumers to engage – consumers report they are more likely to read it in detail and be prompted to take action after they receive it than other communications, such as bills. Fifty-one percent of those who recall receiving an end of fixed term notice report reading it in detail, compared to 40% for the bill. Thirty-two percent looked into switching tariffs with their current supplier and 25% looked into switching supplier after receiving the end of fixed term notice, compared to 11% and 10% for the bill, respectively.[9]

2.9. Allowing a longer, or unlimited, duration for rollover tariffs would mean consumers do not receive the notice as frequently and so receive fewer prompts to engage. Setting a shorter time limit may increase costs to suppliers and contribute to consumer information overload, but would increase the prompts for consumers to engage. Whatever the case, consumers would continue to receive bills and annual summaries, which contain the cheapest tariff message, so they will receive some prompts.

[9] TNS BMRB/Ofgem, Consumer engagement in the energy market since the Retail Market Review: 2016 Survey Findings, August 2016

2.10. Setting a rigid duration may prevent suppliers from nominating as the default contract those tariffs that are "fixed until…" a certain date, which are relatively common. A less concrete duration would allow suppliers to use these types of tariffs as the rollover contract.

2.11. Our current conditions specify that, where a customer is being rolled onto the supplier's standard variable tariff, their current characteristics and preferences in terms of things like online account management and payment method should be applied to the rollover tariff. We want to extend these conditions to cover any alternative rollover tariff that suppliers may now use following our proposed change.

2.12. We also expect suppliers to take into account the customer's characteristics and preferences in terms of the type of tariff used as the rollover contract. This includes considering whether the type and duration of the new contract is appropriate. For example, if a customer is rolling off a flat tariff with a one-year fixed period, we would generally not expect that customer to be rolled onto a long-term 'tracker' tariff.[10] Requiring suppliers to take customer characteristics and preferences into account may mean that, in practice, if customers roll onto a fixed-term default contract these would be around a year in length (as reasonably short fixed-term tariffs are among the most popular in the market). This would mean they would receive an end of fixed term notice approximately annually.

Price

2.13. We want to make sure that consumers that roll onto a default tariff are not locked into poor value deals. Specifically, if we allow suppliers to roll customers onto fixed-term deals, we do not want those that are disengaged to be assigned to particularly poor value fixed-term tariffs.

2.14. A substantial proportion of consumers are currently on standard variable tariffs, which are often among the most expensive tariffs in the market. We are committed to helping consumers to move away from poor value standard variable tariffs. The change we propose in this paper is one of a number of measures we are taking forward to address this.

2.15. There is a risk that, should we allow suppliers to roll customers onto fixed terms in the absence of specific protections for customers, there would continue to be a large proportion of customers on poor value tariffs. But the problem may be less apparent in this case, and receive less external scrutiny. This would be because, instead of being put onto one single type of tariff,

[10] We use 'tracker' tariff here to refer to a tariff whose price is benchmarked against an independent index.

disengaged consumers are spread across many different fixed-term tariffs, which may be harder to monitor.

2.16. To address this, we have considered requiring suppliers to use their cheapest fixed-term tariff as the rollover contract. However, we do not think this is proportionate at this stage, as it would likely have a major effect on competition.

2.17. We have also considered requiring that the rollover contract is no more expensive than the standard variable tariff that the consumer would otherwise have been rolled onto. This would ensure that consumers are no worse off than if they were on the standard variable tariff, while leaving room for suppliers to put their customers onto better deals should they choose.

2.18. We considered whether the comparison to determine which tariff is cheaper should be done by suppliers on an ongoing basis, such that every time the price of the standard variable tariff changes the supplier would be required to perform an individual comparison to check which tariff would be cheaper for each customer. However, we expect that this may be difficult (and therefore expensive) to administer, as it may require an ongoing or retrospective comparison of costs to ensure that the customer has not paid more than they would have done on the standard variable tariff. This may mean that it is unattractive for suppliers to offer fixed-term rollover deals, meaning the flexibility provided by a change in the rules is not taken advantage of.

2.19. An alternative approach would be to require a one-off comparison before the customer’s current tariff ends. One possible outcome of this approach is that it could mean that if a supplier reduces the price of their standard variable tariff, a customer that has been rolled onto a fixed-term tariff before this may be paying more than if they had been rolled onto the standard variable in the first place. This may be unlikely, as the way demand volumes are hedged tends to mean that where there is a fall in wholesale prices this is first seen in fixed-term rather than standard variable tariffs.

2.20. Additionally, if the customer did end up paying more on a fixed-term rollover than on the standard variable tariff, they would be free to switch away at any time as they would not be locked in by termination fees. They would also continue to receive regular communications informing them that they could make savings by switching to other tariffs in the form of the cheapest tariff message. Additionally, the comparison would be performed again at the end of the rollover tariff, to ensure any further fixed-term tariff they were rolled onto was cheaper than the standard variable.

2.21. In any event, in keeping with Standards of Conduct principles requiring suppliers to treat customers fairly, we would expect that the comparison of the relative price of the standard variable tariff against the fixed-term rollover contract would be done at a point in time close to when the rollover is likely to happen, for example when the supplier is sending the end of fixed term notice.

Feedback to date

2.22. We consulted last year on a number of measures aimed at ensuring that domestic consumers are able to make informed choices about their energy supply.[11] As part of that consultation, we sought stakeholder views on whether "we should allow suppliers flexibility to roll customers onto further fixed-term tariffs, as opposed to the standard variable tariff, at the end of their existing tariff." This would be the case as long as the customer could leave the tariff at any time with no penalty.

2.23. Stakeholders broadly supported this proposal, and agreed that this could be a way for customers to be rolled onto cheaper deals at the end of their fixed-term contracts.

2.24. A number of stakeholders raised some concerns with the proposals, which we outline along with our response below.

2.25. Some stakeholders, while supportive of our proposal for this change to be optional, objected to any policy that would go further and would *require* suppliers to roll customers onto fixed-term tariffs, and one recommended that this would require a full impact assessment. We considered whether our proposal should be mandatory rather than optional. However, we do not consider such a change to be proportionate at this stage. It is our intention to leave it at suppliers' discretion whether they want to roll customers onto further fixed-term contracts, rather than the standard variable tariff.

2.26. One stakeholder suggested that termination fees should be allowed for the default contracts. As outlined above, although preventing suppliers from applying termination fees to the default contract may mean that some of the cheapest deals are not used as rollover tariffs, the alternative risks customers being effectively locked in to tariffs unsuited to them.

2.27. One stakeholder suggested the change could lead to more disengaged consumers. They felt that as some customers may be rolled onto another fixed term they might automatically assume that they are getting good deal and not search around to see if they could get a better one. We acknowledge that as our proposed change allows consumers to be switched between fixed-term tariffs without actively choosing to, they may assume they are on a good deal. However, consumers will continue to receive end of fixed term notices, as well as bills and other communications, which will ensure that they get regular prompts to engage, which will tell them whether there are even better deals available.

[11] Ofgem, Helping consumers make informed choices – proposed changes to rules around tariff comparability and marketing, August 2016

2.28. Some stakeholders disagreed over whether customers that had rolled onto a fixed-term default contract should be included in the disengaged consumer database. As noted earlier in this paper, we and the CMA intend for the database order to apply to those on default tariffs, rather than those on standard variable tariffs specifically. Therefore we expect that even where a customer has been rolled onto a fixed-term default contract, where they have not actively engaged for more than three years they would be subject to the requirements of the CMA's order.

2.29. Several stakeholders questioned how consumers' estimated annual cost would be calculated if the default tariff is not always the standard variable. Some suggested it may be particularly difficult for price comparison sites to calculate the estimated annual cost for a consumer, as they may not know what the default tariff for them will be. We are consulting separately on changes to the estimated annual cost methodology. We intend for suppliers and comparison sites to develop their own methodology for calculating a consumer's estimated annual costs. This would enable them, for instance, to use the rates of the consumer's current tariff to generate an annual cost figure, rather than assuming they would roll onto a different tariff.[12]

2.30. Two stakeholders recommended that we consider the extent to which principles could be used to deliver our proposed change. Although we have not relied on principles in our proposed licence drafting, we have attempted to keep the level of prescription in the new conditions to a minimum.

Recommendation

2.31. We propose to allow suppliers to roll customers, as a default, onto further fixed-term tariffs at the end of their existing fixed-term contracts, as long as the rollover contract:

- Does not have any penalties for early termination[13];
- Is the same price or cheaper at the point of comparison than the variable tariff that the customer 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).

2.32. Suppliers would not be required to roll customers onto fixed-term contracts – this would be at their discretion. We expect suppliers to consider a customer's characteristics and preferences when rolling them onto a new tariff. This includes considering whether the type and duration of the new tariff is

[12] Ofgem, Personal Projection: Updated thinking on the way forward, July 2017
[13] For clarity, we do not consider that 'waiving' termination fees would be sufficient to meet this condition.

appropriate.[14] Generally we would expect the new tariff to be similar in nature to the old tariff.

2.33. Assuming we proceed with the change, suppliers may start to change the terms and conditions of fixed-term tariffs to reflect a new rollover contract at the end of this year. As these contracts come to an end, customers are likely to start to see the effect of these changes.

2.34. We consider these proposals ensure consumers are not locked into inappropriate or expensive deals, meaning they are free to switch away whenever they choose. At the same time, they allow flexibility for suppliers to differentiate themselves and to provide better deals for their customers should they choose.[15]

Next steps

We welcome stakeholder views on the proposals in this consultation by 15 September 2017. Alongside this document we have also published statutory notices, setting out our envisaged licence drafting to reflect the proposed changes. Please send any responses to futureretailregulation@ofgem.gov.uk

We intend to make a decision quickly on these proposals after considering stakeholder feedback. We aim to make a decision in the autumn so that any changes can come into effect before the end of the year.

[14] In so far as that duration is compatible with any relevant provisions of legislation, law or other licence conditions.

[15] In the notices published alongside this document we also propose a number of minor consequential amendments (eg to conditions such as that relating to bespoke heating system arrangements) to ensure licence references to rollover tariffs are coherent.

Appendices

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Appendix 1 – Consultation responses and questions

We would like to hear the views of anyone interested in this document. We especially welcome responses to the question below.

Please respond by 15 September 2017 and send your response to futureretailregulation@ofgem.gov.uk

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?

Appendix 2 – Detailed licence condition changes

<table>
<tr><th>SLC</th><th>Recommendation</th><th>Reasoning</th><th>Nature of obligation</th></tr>
<tr><td>1</td><td>Add new definition</td><td>We propose to insert a new definition – “Relevant Fixed Term Default Tariff” – that will specify the conditions to be met if a supplier is to use a fixed-term tariff as the rollover tariff for customers whose existing fixed-term tariffs have ended.</td><td>Defined term</td></tr>
<tr><td>22C.3(c)(iv)</td><td rowspan="10">Amend</td><td rowspan="10">22C currently requires that unless the customer actively chooses to switch to another tariff or agrees to extend the terms of a contract for a further fixed term period they should be rolled onto the Relevant Cheapest Evergreen Tariff. 22C also contains notification rules, which require suppliers to tell the customer that their tariff is coming to an end, inform them what will happen if they do nothing, and the savings they could make by moving to the cheapest tariff with the supplier compared with if they roll onto the Relevant Cheapest Evergreen Tariff.

We propose to amend these requirements so that references to the Relevant Cheapest Evergreen Tariff are extended such that they could be met by the new Relevant Fixed Term Default Tariff definition we are proposing to insert.</td><td rowspan="10">Customer information & contract terms</td></tr>
<tr><td>22C.3(c)(v)(2)</td></tr>
<tr><td>22C.3(c)(vii)</td></tr>
<tr><td>22C.3(c)(viii)</td></tr>
<tr><td>22C.3(c)(ix)</td></tr>
<tr><td>22C.3(d)(ii)</td></tr>
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<tr><td>22C.7</td></tr>
<tr><td>22C.8(a)</td></tr>
<tr><td>22C.9</td></tr>
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22F.10	Amend	Where a customer has multiple electricity meters, suppliers are required to interpret singular references to "meter" in the definition of certain terms as "meters". We propose to expand the list of terms to which this applies to cover our new definition of Relevant Fixed Term Default Tariff.	Customers with multiple meters
23.2A(a) 23.3A(c) 23.3B(a)	Amend	Certain clauses in SLC 23 exempt suppliers from specific requirements to notify customers of important information regarding changes in tariff terms and conditions (because the provision of this information is already required by other conditions). We propose to expand these exemptions to cover circumstances where the customer is to be rolled onto a Relevant Fixed Term Default Tariff, as requirements in 22C will already specify that customers should be provided with this information.	Customer information & contract terms
24.3	Amend	Certain clauses in SLC 24 specify the situations in which suppliers are not allowed to apply termination fees. We propose to extend the situations covered by this condition so that suppliers cannot apply termination fees to any Relevant Fixed Term Default Tariff.	Contract terms
31D.22A	Insert	Where a supplier is a white label, the Relevant Cheapest Evergreen Tariff definition is replaced by one that covers white label supply arrangements. We propose to treat the Relevant Fixed Term Default Tariff definition the same for the purposes of white labels so that if a customer is with a whitel label supplier they are rolled onto a tariff with that same supplier.	White labels

Appendix 3 - Stakeholder feedback to informed choices consultation

Question 3: Do you support our suggestion that, at the end of a fixed-term contract, consumers could be rolled onto another fixed-term (rather than evergreen) tariff, if the consumer were able to exit this tariff with no penalty and at any time?

A large number of respondents supported this proposal and agreed that this could be a way for consumers to be rolled onto cheaper deals at the end of their fixed-term contracts, though some suggested this should be an option rather than a requirement. One consumer group argued that, were this to be introduced, suppliers should be required to justify the choice of tariff they rolled a consumer onto.

However, many also highlighted potential concerns or issues:

- some of the larger suppliers argued that exit fees should be allowed, noting their prevalence in other industries;
- some expressed a concern that this proposal could reduce engagement in the market and, therefore, competition;
- others highlighted links with the database remedy, but disagreed on whether consumers on a 'fixed-term roll-on contract' should be included in the database;
- one TPI argued that contractual arrangements between suppliers and PCWs were directly preventing PCWs from engaging consumers near the end of their fixed-term contracts; and
- another questioned how PCWs would calculate the EAC if price information on rollover tariffs was not available.

Of the six respondents who disagreed with this proposal, one was strongly opposed, arguing that it required a full cost-benefit analysis and suggesting that suppliers may increase their prices to hedge the risk of customers leaving contracts early.

Two suppliers suggested that Ofgem should consider whether principles could play a role here instead of introducing additional prescription.

We have set out our consideration of these issues raised by stakeholders in chapter 2.

Appendix 4 - Feedback on this consultation

We want to hear from anyone interested in this document. Send your response to the person or team named at the top of the front page.

We've asked for your feedback in each of the questions throughout it. Please respond to each one as fully as you can.

Unless you mark your response confidential, we'll publish it on our website, www.ofgem.gov.uk, and put it in our library. You can ask us to keep your response confidential, and we'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons.

If the information you give in your response contains personal data under the Data Protection Act 1998, the Gas and Electricity Markets Authority will be the data controller. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in the appendices.

General feedback

We believe that consultation is at the heart of good policy development. We are keen to hear your comments about how we've conducted this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Do you have any further comments?

Please send your comments to stakeholders@ofgem.gov.uk.