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Submission via email: futureretailregulation@ofgem.gov.uk

Dear Barry

Consultation on default tariffs for domestic consumers at the end of fixed-term contracts

Thank you for the opportunity to respond to the consultation on default tariffs for domestic consumers at the end of fixed-term contracts dated 14 August 2017.

First Utility is broadly supportive of all the recent developments covering the lifting of restrictions around the tariff structure, discounts, bundled products and reward point restrictions, and we were cautiously supportive of the introduction of narrow principles replacing the prescription in SLC25. These changes are being made in part to help foster innovation and should work to prompt suppliers to work harder to engage their consumers.

The proposal to enable customers on expiry of their fixed tariffs to be rolled onto another fixed tariff of a similar nature will help ensure that less engaged consumers do not end up languishing on SVTs, and will ensure that they remain in the Fixed Term Expiry (**FTE**) communication process. We suggest however that the proposal is tested alongside Ofgem's forthcoming trials on information remedies, due the concerns as outlined below:

- Consumers may miss out on larger savings by reducing overall engagement in the market if they see themselves on their suppliers cheapest fixed tariff;
- Consideration as to how the default tariff proposal may impact the PP calculation is required - consistency between suppliers and comparison sites is essential; and



- The success of the default tariff will be impacted by other information remedies that Ofgem is considering and testing.

Personal Projections (PP)

We think that it is necessary to consider further how the default tariff proposal may impact the PP calculation. Whilst we are broadly supportive of the proposal to return to the pre-2015 Confidence Code, guidance on how PPs should deal with FTE is essential. Otherwise there is a risk that PCWs and suppliers introduce different calculations which would result in customers obtaining different and potentially confusing results.

Different PPs may also increase the 'need' from a consumer perspective to visit more PCWs, which risks increasing the actual and perceived 'hassle factor' of switching, working to prevent those much less likely to engage from so doing.

Ideally, we see the most effective method as ensuring that suppliers and PCWs be consistent in how each calculates estimated annual costs across all tariffs and for all customers using the same, albeit amended, methodology, along the lines of the provisions in the pre-2015 Code.

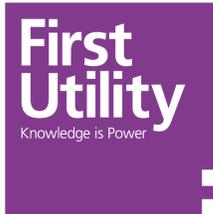
Waiving of exit fees

On exit fees, we agree these should be waived for consumers if suppliers opt to ensure they are rolled onto another fixed-term tariff. However with forecasting costs to incorporate in tariff designs, this could result in slightly higher tariffs as suppliers incorporate a higher risk premium.

Savings Potential

Whilst avoiding rollover onto the SVT could help some consumers save money, the extent to which this is the case, and whether they could save more by switching provider, is difficult to gauge.

In analysis published by Which? on 2nd September 2017, when looking at the cheapest tariffs and the cost of SVTs from a select number of suppliers, British Gas customers for example would save only £13 by moving away from the SVT to the cheapest fix. Given that 69% of British Gas' customers are on their SVT tariff - this proposed option would not encourage British Gas' consumers to switch more (noting here that the differential in SVT and their comparison tariff as expressed in this way is very low).



Parameters could instead be used to suggest the scenarios where this proposal could apply (for example to longer term fixes) rather than to all fixed tariff types. This would in part address the scenario where there may be customers who are otherwise dissuaded from engaging in the market, if on receiving their supplier's cheapest tariff messaging, there appears to be limited saving potential. Monitoring should therefore take place on the impacts such a proposal would have on the level of 'engaged' customers either switching tariff or supplier, to ensure that if there are unintended consequences, that these are quickly addressed.

Ofgem Trials on Information Remedies

We also support the Ofgem trials aimed at testing the efficacy of information remedies to tackle customer disengagement. This will help in addressing the impact, and assessing if there are any unintended consequences.

We believe that it would be useful to trial the impact of the default proposals as well in order to assess customer behaviour and to identify potential outcomes and any unintended consequences. It may also be beneficial to align default trials with specific prompts to customers, or even different approaches to FTE communications (which approach Ofgem is also considering).

Thus, given that the intent of the default tariff proposal is to avoid customers rolling onto the SVT, other trials such as the renaming of Standard Variable Tariff (**SVT**) to 'Out-of-Contract' and using 'Renewal Notice' instead of the Annual Statement should take place. This could prime customers with greater awareness, of both the benefits of switching tariffs and suppliers.

It is essential to avoid further disengagement and embedding of the 'tale of two markets' that we currently see between the disengaged - some 70% of customers on the SVT tariff - and the 30% of customers who are engaged. The Ofgem trials should be used in order to ensure that new policy measures do not result in unintended consequences.

Summary

Overall, whilst the default tariff proposal should help consumers save money and avoid rollover onto the SVT tariff in the interim, it may lead to consumers missing out on larger savings by reducing their engagement in the market. This measure is also aimed at



customers who constitute the 30% of already engaged customers - rather than the 70% of customers on the SVT, where arguably attention should be focused.

We look forward to continuing our engagement with Ofgem and fellow industry stakeholders on measures to strengthen competition in the retail energy market as part of this consultation. In the meantime, if you have any questions or would like to discuss any of the issues covered in my letter, please do get in touch.

Yours sincerely

Emma Piercy
Senior Regulatory & Policy Manager