

Notice of reasons¹ to issue directions pursuant to Standard condition 32A – direction for participation in the Active Choice Collective Switch trial.

This letter sets out the reasons for the decision of the Gas and Electricity Markets Authority (“the **Authority**”) to issue a direction 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 active collective switch trial:

- Direction issued to the Supplier on 7 February 2018 for participation in the Active Choice Collective Switch trial (the “**Collective Switch Trial**”);

Background to, and rationale for, the direction:

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 establishes 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, the Authority conducted a trial by which a consumer-facing partner (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 switch (the “Active Choice Collective Switch”).

This proposal sought to address the CMA’s finding of an AEC arising because of 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 was designed to prompt engagement from consumers who have not recently switched energy supplier or tariff.

The Authority issued the **Collective Switch Direction** to require the Supplier to identify 50,000 of its domestic customers who were eligible for the Collective Switch and send an initial

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

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

communication to those eligible consumers (that were not part of the control population), informing them that certain data relating to their energy supply will be transferred to the Authority's appointed Service Provider for the purposes of the Collective Switch, unless the customer elects to opt-out of the service. The Supplier was 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 required the Supplier 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 Directions provided that relevant data should be provided in the format specified in the schedules to the Collective Switch Direction in order to facilitate compliance with the Direction.

The Supplier's participation in the Collective Switch trial was on a voluntary basis and the Collective Switch Direction provided a framework for the collaborative work of the Supplier and the Authority in implementing the Collective Switch trial.

Yours faithfully

A handwritten signature in black ink that reads "Paul Fisher". The signature is written in a cursive style and is positioned above a solid horizontal line.

Paul Fisher
Associate Director,
Consumers and Competition

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