

Appendix 7.4: Analysis of the potential gains from switching

Contents

	<i>Page</i>
Introduction	1
Data.....	3
Methodology.....	5
Results	10
Comparison of savings by supplier.....	16
Parties' comments.....	16
Annex A: Definitions.....	22
Annex B: Data cleaning.....	25
Annex C: Consumption assumptions	33
Annex D: Analysis of discounts.....	34
Annex E: Analysis of exit fees.....	35
Annex F: Additional tables.....	37
Annex G: Methodology and detailed output of the regression analysis.....	52

Introduction

1. This appendix sets out the methodology and provisional results of our assessment of the savings in the gas and electricity bills that domestic customers of the Six Large Energy Firms could have potentially made if they had switched to a different tariff within the same supplier (internal switching) or switched supplier (external switching), over the period Q1 2012 to Q2 2014.
2. A finding of material potential savings that are persistent over time and available to a material number of domestic customers would contribute to evidence of weak customer engagement in the retail markets for electricity and gas in Great Britain (GB).
3. We note that the value of the potential savings calculated in our analysis should be interpreted as a measure of the domestic customers' engagement with the market and price differences between suppliers. We do not consider that the results of our analysis can necessarily be relied upon to measure aggregate welfare loss associated with domestic customers not switching to cheaper tariffs, as suppliers offering the cheapest tariffs may not find it sustainable to have a large proportion of customers switching to them. This could be, for example, because cheapest tariffs might be acquisition products

or the cost to serve additional customers would be higher than that for the current customer base of the supplier.

4. We calculated the potential savings available to domestic customers at ten quarterly snapshot dates from 31 March 2012 to 30 June 2014 (the Relevant Period) using data on: the tariffs to which customers were subscribing on these dates; the numbers of customers subscribing to each tariff on these dates; consumption levels by region and tariff family¹; and all tariffs available in the market at the snapshot dates, including tariffs offered by independent suppliers.²
5. The annual potential savings per customer available to dual fuel domestic customers of the Six Large Energy Firms amounted to, on average across the Relevant Period:³
 - (a) £49–£73 annually if they had switched tariffs within supplier (representing savings between 4 and 6% of the current bill);
 - (b) £68–£103 annually if they had switched supplier to tariffs with the same tariff structure and payment method (representing savings between 6 and 9% of the current bill);
 - (c) £118 annually from switching to other suppliers' tariffs limiting the availability of online tariffs to online customers only (equivalent to 11% of the current bill);
 - (d) £137 annually from switching to another supplier's tariffs with the same payment method (equivalent to 12% of the current bill); and
 - (e) £159 annually from switching to any type of tariff and any payment method offered by any supplier (equivalent to 14% of the current bill).
6. The parties made a number of points in response to our working paper published on 24th February 2015. Where appropriate, we addressed some of these points by revising the methodology or interpretation of our analysis. We address other points in paragraphs 48 and 76 below.
7. This appendix is structured as follows:

¹ A description of the consumption data we use is set out in the next section of this appendix.

² We included First Utility, Ovo Energy, Utility Warehouse, Co-op Energy, M&S Energy, Sainsbury's Energy and Ebico.

³ The results presented in this appendix may differ from those presented in the [gains from switching working paper](#). Compared to the gains from switching working paper, the analysis includes all SSE's twin fuel tariffs, all of SSE's gas data in Q3 2013 and improvements made to the quality of the dataset of other suppliers. Moreover, the analysis is now based on revised assumptions about consumption (see Annex C) and excludes tariffs offered by small independent suppliers (see paragraph 17).

- (a) first we describe the data used for this analysis;
 - (b) second we set out the methodology; and
 - (c) finally, we present our results and parties' comments.
8. We provide further detail in the annexes:
- (a) Annex A sets out the definitions used in the data and throughout this paper;
 - (b) Annex B describes in detail the data used for this analysis and the steps taken to clean it;
 - (c) Annex C sets out the assumptions about electricity and gas consumption used in the calculation of bills and savings;
 - (d) Annex D describes the discounts offered by the Six Large Energy Firms across the Relevant Period;
 - (e) Annex E presents descriptive statistics of exit fees;
 - (f) Annex F presents additional detailed results; and
 - (g) Annex G describes the methodology and presents the detailed output of the regression analysis.

Data

9. We collected three sets of data for this analysis,⁴ as follows:
- (a) For each of the Six Large Energy Firms, a list of tariffs⁵ to which the customers were subscribing, the number of customers subscribing to each of these tariffs at a given quarterly snapshot and information on the characteristics of each tariff, such as its price, payment method and tariff structure. The latter characteristic distinguishes between tariffs whose price is not guaranteed and can be increased or decreased by the supplier (i.e. variable tariffs, either evergreen or fixed-term), tariffs which guarantee a certain price until a defined date or for a defined period of time (fixed tariffs) or tariffs which guarantee a price no higher than a pre-determined level until a defined end date or for a defined period of time (ie

⁴ A more detailed explanation of the data and the process of data manipulation is set out in Annex B

⁵ We have excluded social, green and other niche tariffs from the analysis because customers subscribing to these tariffs are more likely to value non-financial tariff characteristics more than others, or for practical reasons (for example, the difficulty of capturing the complexity of time-of-use tariffs in the data).

capped tariffs). We do not distinguish between standard and non-standard variable tariffs.⁶

(b) For each of the Six Large Energy Firms and for each tariff family, annual data on estimated consumption levels at the 10th, 25th, 50th, 75th and 90th percentiles and the mean. The tariff families group customers by region, meter type (Economy 7 or standard, as observed from the type of tariff they subscribe to), payment method and tariff structure (variable, fixed, capped).

(c) Data on all tariffs available for subscription at the end of each quarter, including tariffs offered by the Six Large Energy Firms and independent suppliers. This data includes information on the components of the tariffs, payment methods and whether the tariff structure is variable, fixed or capped.⁷

10. The quarterly snapshots are taken at the last day of each quarter from Q1 2012 to Q2 2014.

11. We excluded some of the data for reasons agreed with the parties or where the data was erroneous or inconsistent (see Annex B). Table 1 and Table 2 show the total number of accounts included in the data submitted by the Six Large Energy Firms and the proportion of accounts affected by our exclusions. Generally the exclusions accounted for less than 20% of customer accounts. The proportion of excluded accounts is highest for SSE's electricity dataset. This is because of missing data (eg unknown region) or where the tariff structure was inconsistent with the tariff description.

Table 1: Total number of electricity accounts (millions) included in the tariff data,⁸ and proportion of these accounts excluded from the analysis, by supplier in each quarter

	Centrica		EDF Energy		E.ON		RWE		Scottish Power		SSE	
	m	%	m	%	m	%	m	%	m	%	m	%
Q1 2012	[X]	11	[X]	8	[X]	17	[X]	1	[X]	13	[X]	36
Q2 2012	[X]	8	[X]	13	[X]	17	[X]	2	[X]	12	[X]	37
Q3 2012	[X]	5	[X]	15	[X]	18	[X]	2	[X]	12	[X]	33
Q4 2012	[X]	10	[X]	12	[X]	19	[X]	4	[X]	13	[X]	37
Q1 2013	[X]	5	[X]	12	[X]	22	[X]	6	[X]	16	[X]	36
Q2 2013	[X]	3	[X]	19	[X]	20	[X]	3	[X]	15	[X]	35
Q3 2013	[X]	3	[X]	18	[X]	19	[X]	0	[X]	15	[X]	35
Q4 2013	[X]	4	[X]	10	[X]	19	[X]	1	[X]	15	[X]	33
Q1 2014	[X]	4	[X]	19	[X]	14	[X]	1	[X]	11	[X]	31
Q2 2014	[X]	5	[X]	14	[X]	10	[X]	1	[X]	14	[X]	33

⁶ Non-standard variable tariffs are no longer allowed from 2014 following the rules implemented under RMR. However, these tariffs are present in our data for 2012 and 2013.

⁷ This dataset originates from the database of Energylinx, a price comparison website.

⁸ We note that the data submitted by the suppliers already excluded some types of customers, for example, Independent Gas Transporter (IGT) accounts. See Annex B for an explanation on the methodology underlying these figures.

Source: CMA analysis.

Table 2: Total number of gas accounts (millions) included in the tariff data,⁹ and proportion of these accounts excluded from the analysis, by supplier in each quarter

	Centrica		EDF Energy		E.ON		RWE		Scottish Power		SSE	
	m	%	m	%	m	%	m	%	m	%	m	%
Q1 2012	[X]	11	[X]	8	[X]	20	[X]	0	[X]	6	[X]	5
Q2 2012	[X]	7	[X]	16	[X]	21	[X]	1	[X]	5	[X]	6
Q3 2012	[X]	5	[X]	18	[X]	22	[X]	2	[X]	6	[X]	3
Q4 2012	[X]	11	[X]	14	[X]	22	[X]	5	[X]	7	[X]	3
Q1 2013	[X]	5	[X]	9	[X]	26	[X]	7	[X]	10	[X]	2
Q2 2013	[X]	4	[X]	19	[X]	23	[X]	3	[X]	9	[X]	2
Q3 2013	[X]	4	[X]	18	[X]	21	[X]	0	[X]	10	[X]	2
Q4 2013	[X]	5	[X]	10	[X]	21	[X]	1	[X]	12	[X]	3
Q1 2014	[X]	5	[X]	23	[X]	16	[X]	1	[X]	10	[X]	2
Q2 2014	[X]	6	[X]	14	[X]	11	[X]	2	[X]	14	[X]	3

Source: CMA analysis.

Methodology

Dimensions and scope of analysis

12. A potential gain from switching tariff or supplier is primarily driven by four factors: the tariff to which a customer is currently subscribing; the level of consumption; the range of available tariffs at the time when switching is being considered; and the preferences a customer may have (for example some customers may have a preference over the payment type and tariff structure).

Switching scenarios

13. We defined a set of scenarios for assessing the potential gains from switching. Each scenario is a set of assumptions on the tariffs to which a customer would be willing to switch. The purpose of using these scenarios is to understand, first, how certain tariff characteristics are driving the size of the potential savings, second, to understand how potential savings might be limited by options available to some customers, and third how potential gains would differ if customers had preferences on payment method, for certain suppliers, for tariff structure and on how they manage their accounts.
14. The following tariff or customer characteristics are taken as fixed within each switching scenario:¹⁰

- (a) Region (we use the 14 PES regions for both gas and electricity);

⁹ We note that the data submitted by the suppliers already excluded some types of customers, for example, Independent Gas Transporter (IGT) accounts. See Annex B for an explanation on the methodology underlying these figures.

¹⁰ See detailed definitions in Annex A.

- (b) Fuel type (single fuel gas, single fuel electricity, or dual fuel / twin fuel);
 - (c) Economy 7 (or similar time of use tariffs) or standard meter tariff (we limit the choice of standard meter customers to standard meter tariffs, but Economy 7 customers are assumed to be able to switch to standard meter tariffs); and
 - (d) Payment method for prepayment customers.
15. Each scenario then differs in how customer choice is limited with respect to the following characteristics:
- (a) Supplier type (the Six Large Energy Firms and independent suppliers);
 - (b) Payment method (for credit and direct debit customers);
 - (c) Tariff structure (variable, fixed or capped);
 - (d) Contract length (in some scenarios¹¹ we distinguish between short-term tariffs with a contract of up to and including 24 months, and long-term tariffs with a contract of more than 24 months); and
 - (e) Online (tariffs available through on-line channels only, tariffs sold predominantly through on-line channels or tariffs that require online management of the account and/or paperless billing).
16. In some scenarios (S3b, S4a, S4b and S5) we included mid-tier and white label suppliers. The mid-tier suppliers are First Utility, Ovo Energy, Utility Warehouse, and Co-operative Energy. The white label suppliers are M&S Energy, Sainsbury's Energy and Ebico. We refer to mid-tier and white label suppliers as independent suppliers.
17. As a conservative approach, in each relevant scenario we excluded tariffs offered by small independent suppliers from the choice set available to customers.¹² This is because tariffs offered by such suppliers appeared to often be products with specific characteristics (for example, requiring advance payment of the bill), or had very low or high prices which we were unable to verify on a systematic basis. Moreover, we acknowledge that customers may be less willing to switch to smaller, less established suppliers.
18. Table 3 summarises the scenarios that we have defined.

¹¹ Scenario S3a and scenario S3b (see footnote 13)

¹² The small independent suppliers that were excluded are: Better Energy, Daligas, Ecotricity, Extra Energy, Flow Energy, Glide, Good Energy, Green Energy, Green Star Energy, iSupply Energy, Loco2 Energy, Pioneer Energy, Spark Energy, Utilita, Woodland Trust Energy, and Zog Energy.

Table 3: Switching scenario definitions

<i>Scenario</i>	<i>Parameters that can be changed when switching</i>	<i>Parameters that are held fixed when switching</i>
S1 Internal switch: change tariff structure, but keep payment method	Tariff structure (variable / fixed / capped) Contract length Online	Supplier Payment method
S2 Internal switch: change tariff structure and payment method	Tariff structure (variable / fixed / capped) Payment method: only monthly direct debit and standard credit (or similar) Contract length Online	Supplier Payment method if prepayment
S3a External like-for-like switch to Six Large Energy Firms only	Supplier (within Six Large Energy Firms only) Online	Payment method Tariff structure (variable / fixed / capped) – switching between ‘standard’ variable and ‘non-standard’ variable allowed Contract length (if fixed term) – ‘short’ or ‘long’
S3b External like-for-like switch including independents	Supplier (including independents) Online	Payment method Tariff structure (variable / fixed / capped)* – switching between ‘standard’ variable and ‘non-standard’ variable allowed Contract length (if fixed term) – ‘short’ or ‘long’
S4a External switch: any supplier, online tariff restriction	Supplier (including independents) Payment method: only DD and Credit Tariff structure (variable / fixed / capped) Contract length	Payment method if prepayment Online (only customers subscribing to online tariffs can switch to other online tariffs)
S4b External switch: any supplier, keep payment method	Supplier (including independents) Tariff structure (variable / fixed / capped) Contract length Online	Payment method
S5 External switch: flexible tariff characteristics, any supplier	Supplier (including independents) Payment method: only DD and Credit Tariff structure (variable / fixed / capped) Contract length Online	Payment method if prepayment

Source: CMA definitions.

*Customers on capped tariffs are allowed to switch to fixed tariffs but not variable tariffs. Customers on fixed tariffs are only allowed to switch to other fixed tariffs.

19. Scenarios S1 and S2 are restricted to internal switching and produce estimates of potential gains from switching tariffs within a supplier. Scenarios S3a and S3b allow switching to another supplier but to a tariff with the same characteristics.¹³ Scenarios S4a and S4b calculate gains from external switching to any tariff assuming strict customer preferences over online tariffs and payment methods respectively. Scenario S5 is the most flexible scenario

¹³ These scenarios also restrict switching to tariffs with a similar contract length (where relevant). The contract length dimension is defined as follows. Some fixed-term tariffs have a fixed end date for their contract (regardless of when exactly a customer signed up), whereas other contracts end based on a contract length that counts from the date the customer signed up. We create a standardised contract length by using the contract ending date of the former to calculate, at first launch of tariff, the maximum length. We then use this standardised measure to classify tariffs into short- and long-term. We define short-term tariffs as those with a contract of up to and including 24 months, and long-term tariffs as those with a contract of more than 24 months. The switching scenarios S3a and S3b allow switching from short to short and from long to long fixed term tariffs, but not switching from short to long. This restriction does not apply to non-standard variable price products that may have a limited contract, or capped tariffs. See Annex F for the composition of the electricity and gas fixed customer base.

and allows switching to any supplier and tariff. For some groups of customers, some scenarios produce the same savings estimate. For example, by definition scenarios S1 and S2 yield identical potential savings estimates for prepayment customers.

20. Scenarios S3a and S3b also restrict switching for fixed-term tariffs to those with a similar contract length (for fixed-term tariffs). We classify tariffs into short- and long-term.¹⁴ We define short-term tariffs as those with a contract of up to and including 24 months, and long-term tariffs as those with a contract of more than 24 months.¹⁵
21. We note that in scenarios where the payment methods are fixed, switching is still allowed within payment sub-types (for example, we do not distinguish quarterly direct debit and monthly direct debit as different payment methods). Annex B, paragraph 9 provides a detailed description of how payment methods were grouped. Annex F shows the proportion of gas and electricity customers of the Six Large Energy Firms by tariff structure, fuel and payment method in Q2 2014.

Calculation steps

22. We calculate potential savings for each group of customers (as defined by supplier, region, tariff, payment type and fuel type) at each quarterly snapshot in three steps.

Step 1: Calculating the current bill

23. First, we calculate the current bill; that is, the annual bill of a customer subscribing to a tariff at the quarterly snapshot dates based on the levels of consumption that characterise the tariff family (see paragraph 9(b)). For Economy 7 users we take account of the proportion of electricity used during the off-peak and peak times of the day.¹⁶

¹⁴ Contract length is defined as follows. Some fixed term tariffs have a fixed end date for their contract (regardless of when exactly a customer signed up), whereas other contracts end based on a contract length that counts from the date the customer signed up. We create a standardised contract length by using the contract ending date of the former to calculate, at first launch of tariff, the maximum length.

¹⁵ RWE's advisers argued that grouping fixed-term tariffs into short-term and long-term is not granular enough as it does not take into consideration customer preferences for different contract lengths. However, analysis submitted by RWE's advisers using more granular contract length definitions showed that such changes to the assumptions do not materially impact the results.

¹⁶ See Annex B for a more detailed description of the consumption data.

24. For single fuel tariffs, the calculated bill is a bill for only one fuel. For dual fuel and twin fuel tariffs, this is a combined gas and electricity bill.¹⁷
25. For dual fuel customers we assume that their level of consumption of electricity is in the same part of the consumption distribution as their gas consumption. That is, we assume that a low consuming electricity customer is also a low consuming gas customer. E.ON¹⁸ and RWE have argued that this assumption is too simplistic in that there are customers for whom the levels of gas and electricity consumption are not correlated. Whilst we agree that this assumption is a simplification of reality, we have no reason to expect that this assumption would result in a systematic error that would bias our results. E.ON also said that, despite some limitations,¹⁹ there was a general positive correlation between electricity and gas consumption levels. Similarly, RWE acknowledged that for the majority of dual fuel customers there was a strong positive correlation between the level of gas and electricity usage, but noted that there was a significant minority of dual fuel customers for whom this was not true. The bill calculation uses the standing charge, unit rate and other price information, as well as all tariff-specific discounts. The calculated bill is an annualised bill based on the price of the tariff at the end-of-quarter date.
26. The discounts we account for in the bill calculation are dual fuel discounts, discounts associated with payment type, and other discounts directly associated with the tariff (for example, an online discount that is part of an online tariff). Data does not include prompt-pay discounts, paperless billing discounts, cash-backs or other financial or non-financial rewards that are not directly associated with the tariff but were instead widely available to customers who met certain conditions.
27. RWE and Centrica said that our analysis is flawed because it does not capture all discounts and rewards. We agree that our approach may overestimate the bills some customers were paying, however, we have seen no evidence that the exclusion of such discounts and rewards would introduce a systematic and material bias in our estimates. Our analysis of the suppliers' average spend on prompt-pay discounts, paperless billing discounts, cashbacks or other financial rewards non-directly associated with the tariff suggests that on average the omitted discounts and rewards have not been material in size (see Annex D).

¹⁷ We paired gas and electricity tariffs based on an identifier in the data that indicated, for each dual fuel electricity tariff, the most common dual fuel gas tariff.

¹⁸ E.ON said that the assumed link between electricity and gas consumption imposes some limitations and therefore the analysis should be viewed with caution. See E.ON response to the updated issues statement, paragraph 169.

¹⁹ E.ON said that consumption bands were relatively wide and that, for example, electricity consumption between 2000kWh and 5000 kWh accounted for half of all customers.

Step 2: Calculating the bill for the cheapest alternative tariff

28. Next, for each scenario we search for the cheapest available tariff for each customer type (as defined by supplier, region, current tariff characteristics and consumption) as follows:
- (a) For each type of customer, we filter all available tariffs to keep only those that meet the criteria set in the switching scenario.
 - (b) For each of the tariffs identified by (a), calculate an annual energy bill for each consumption level (as defined by the 10th, 25th, 50th, 75th and 90th percentiles and the mean consumption).
 - (c) For each consumption level, identify the tariff (and the value of the associated bill) which offers the lowest possible bill.
 - (d) Record the result from (c) as the best available bill for that type of customer for that quarter in that switching scenario.

Step 3: Calculating the potential savings

29. The annualised potential savings for each customer group are calculated as the difference between the current bill from step 1 and best available tariff from step 2, or zero if the difference is negative. We summarise the overall savings aggregating over the consumption distribution as detailed in Annex C.

Results

30. In presenting our results we focus on the potential savings for dual fuel customers given the large proportion of these customers within the customer base.²⁰ We show potential savings for single fuel gas and electricity customers in Annex F.
31. We present the following metrics: the distribution of potential annual savings; the average size of potential annual savings; and a comparison of potential savings available to customers subscribed to SVT and non-standard tariffs.

Summary statistics of potential savings

32. Figure 1 illustrates the distribution of potential savings that were available to dual fuel customers. It shows the proportions (average across the Relevant Period and firms) of dual fuel customers who either had no potential savings

²⁰ The proportion of customers included in the analysis of the gains from switching who are dual fuel is 75% in 2012, 76% in 2013 and 76% in 2014. Source: CMA analysis of tariff data request dated 15 September 2014.

or whose potential savings fell within the following ranges: £1 to £100, £101 to £200, £201 to £300 or larger than £300. See Annex F for the underlying numbers and corresponding results for single fuel customers, SVTs and non-standard tariffs and results for different payment methods.

Figure 1: Distribution of potential annual savings for dual fuel customers of the Six Large Energy Firms (average proportions across firms and quarters)



Source: CMA analysis.

33. The key results are as follows:

- (a) The majority of dual fuel customers switching internally within the same supplier had either no potential annual savings or savings that fell within the range of £1 and £100 (S1 and S2). The results are similar for switching externally to a tariff with the same characteristics (ie S3a and S3b).
- (b) Switching externally to any tariff but limiting the choice of customers on offline tariffs to other offline tariffs (ie S4a) offered potential savings between £1 and £100 to 38% of dual fuel customers, £100 and £200 savings to 41% of dual fuel customers and £200 or more to 14% of dual fuel customers. The results are similar for switching externally to any tariff with the same payment method (ie S4b).
- (c) Switching externally to any tariff (ie S5) offered potential annual savings between £1 and £100 to 24% of dual fuel customers, £100 and £200 to 42% of dual fuel customers and £200 or more to 30% of dual fuel customers.

34. The proportion of dual fuel customers who could gain at least £100 or more is larger in scenarios where they can switch to independent suppliers (ie S3b, S4a, S4b and S5). This suggests that there have been low-priced tariffs offered by independent suppliers at each quarterly snapshot in the Relevant Period. Annex F shows the suppliers and tariffs our 'search engine' indicated as cheapest in Q2 2014 (See Annex F, Tables 19 to 27).
35. Table 4 shows, for each scenario, the weighted average annual potential savings that were available to dual fuel customers of the Six Large Energy Firms (expressed in GBP or as a percentage of the bill). The minimum and maximum correspond to the firms with the lowest and highest average savings respectively (average across the quarters). Within each quarter the weighted average savings are calculated using data on the distribution of consumption, and the weights reflect the number of accounts that belong to each tariff.²¹ The estimates include those customers who cannot gain from switching (ie gains equal to zero). Annex F shows the results for single fuel customers, SVTs and non-standard tariffs and results for different payment methods.

Table 4: Average potential savings available to dual fuel customers across the Six Large Energy Firms

	Average savings (£ per year)			Average savings (% of bill)		
	Min	Max	Avg	Min	Max	Avg
S1	25	75	49	2	6	4
S2	40	101	73	3	9	6
S3a	29	107	68	2	9	6
S3b	59	143	103	5	13	9
S4a	56	148	118	5	13	11
S4b	84	177	137	8	16	12
S5	99	195	159	9	17	14

Source: CMA analysis.

Notes:

1. The minimum and maximum correspond to the firms with the lowest and highest average savings respectively.
2. The average is a simple average across the quarters and uses consumption at different levels of the consumption distribution.²²
3. Base: All customers.

36. The key results are as follows:
- (a) Switching internally within one of the Six Large Energy Firms (ie S1 and S2) offered, on average, potential annual savings in the range of £49 to £73 (representing savings between 4 and 6% of the current bill).

²¹ In this way, tariffs with more accounts receive a proportionally larger weight in the average than tariffs with fewer accounts. See Annex C for details on how this averaging accounts for different levels of assumption.

²² See Annex C for a full description of the assumptions around electricity and gas consumption.

- (b) Switching externally to a tariff with the same characteristics (ie S3a and S3b) offered, on average, annual potential savings in the range of £68 to £103 (representing savings between 6 and 9% of the current bill).
 - (c) Switching externally to any tariff but limiting the choice of customers on offline tariffs to other offline tariffs (ie S4a) offered, on average, annual potential savings equal to £118 (representing savings of 11% of the current bill).
 - (d) Switching externally to any tariff but not allowing customers to change payment method (ie S4b) offered, on average, annual potential savings equal to £137 (representing savings of 12% of the current bill).
 - (e) Switching externally to any tariff (ie S5) offered, on average, potential annual savings equal to £159 (representing savings of 14% of the current bill).
37. We also looked at results by tariff type and payment type (see Annex F for further results). We find that dual fuel prepayment SVT customers could, on average, have saved between £37 and £110 by switching tariff and/or supplier, depending on their current supplier. We also find that those who, on average, had the most to gain from switching were:
- (a) credit SVT customers if we allow them to change to tariff and supplier (ieS5), at £232 for dual fuel customers; and
 - (b) direct debit SVT customers if we allow them to change tariff and supplier (ie S5), at £183 for dual fuel customers.
38. RWE, EDF Energy and SSE argued that the omission of exit fees from the calculation overstates the potential annual savings. We estimate that, on average, across the Relevant Period 53%^{23,24} of customers on fixed-term fixed-price tariffs are subject to exit fees. Customers on the SVT do not face exit fees and it is these customers who are estimated to have the most to gain from switching.
39. In addition, the purpose of the analysis was to determine whether there are customers who are subscribing to tariffs that have consistently offered poor value compared to other tariffs offered by the same and other suppliers. For this reason, we did not consider it necessary to factor exit fees into our

²³ Base: all customers including those customers subscribed to tariffs excluded from the analysis of the gains from switching.

²⁴ We note that this figure does not account for the fact that between April 2012 and July 2013 EDF Energy removed exit fees from its on-sale tariff.

assessment of the potential savings available to domestic energy customers on fixed-term tariffs.

40. We also note that [§] and that suppliers are not allowed to charge exit fees during the contract cooling-off period. [§] (see Annex E).

Savings available to dual fuel SVT customers

41. For credit SVT customers we find that, on average:
- (a) 8% could save more than £100 by switching tariff with their existing supplier but not payment method (ie S1); 60% could save more than £100 by switching supplier but not tariff structure,²⁵ contract length and payment method (ie S3b); and 99% could save more than £100 in the most liberal scenario (ie S5); and
 - (b) they could save £37 from switching tariff with their existing supplier but not payment type (ie S1), £121 by switching supplier to a similar variable tariff²⁶ (ie S3b), and £232 in the most liberal scenario (ie S5).
42. For direct debit SVT customers we find that, on average:
- (a) 27% could save more than £100 by switching tariff with their existing supplier but not payment method (ie S1); 69% could save more than £100 by switching supplier but not tariff structure,²⁷ contract length and payment method (ie S3b); and 90% could save more than £100 in the most liberal scenario (ie S5); and
 - (b) they could save £81 from switching tariff with their existing supplier but not payment type (ie S1), £137 by switching supplier to a similar variable tariff²⁸ (ie S3b), and £183 in the most liberal scenario (ie S5).

Comparison of savings available to SVT and other customers

43. Table 5 shows the weighted average potential savings (expressed in GBP or as a percentage of the bill) and the range of savings across the Six Large Energy Firms averaged over the Relevant Period for dual fuel customers subscribed to SVTs and non-standard tariffs. The ranges show the firms with the lowest and highest average savings respectively (average across the quarters). Within each quarter the weighted average savings are calculated

²⁵ We note that customers can switch to offline/online tariffs.

²⁶ We do not distinguish between standard and non-standard variable tariffs.

²⁷ See footnote 25.

²⁸ See footnote 26.

using data on the distribution of consumption, and the weights reflect the number of accounts that belong to each tariff. The estimates include those customers who cannot gain from switching (ie gains equal to zero).

Table 5: Weighted average potential savings for dual fuel customers subscribed to SVT and non-standard tariffs of the Six Large Energy Firms

	<i>Weighted average (£)</i>		<i>Range across the suppliers (£)</i>	
	<i>SVT</i>	<i>Non-standard</i>	<i>SVT</i>	<i>Non-standard</i>
S1	52	44	31–74	14–84
S2	82	56	52–122	18–98
S3a	75	54	39–103	9–113
S3b	116	79	76–142	25–146
S4a	127	101	79–161	22–151
S4b	143	124	104–165	52–192
S5	171	137	124–197	59–207

Source: CMA analysis.

Notes:

1. The ranges show the firms with the lowest and highest average savings respectively (average across the quarters).
2. Within each quarter the weighted average are calculated using data on the distribution of consumption and the weights reflect the number of accounts that belong to each tariff.
3. Base: all dual fuel customers. Base: all customers.

44. The savings available to SVT customers were, on average, larger than savings available to non-standard tariff customers across all scenarios. For example, potential gains from switching to another tariff with the same tariff characteristics (S3b) were £37 larger for SVT customers than for non-standard tariff customers, or £34 larger if switching to any type of tariff (S5).
45. We note that such a comparison of savings available to SVT and non-standard tariff customers may not be a like-for-like comparison because the customer type mix within each average could be different. For example, a larger proportion of SVT customers may be subscribing to prepayment tariffs and the estimated savings available to those customers are lower. To compare the size of potential savings available to SVT customers and similar customers subscribed to other tariffs in a tractable way we have conducted a regression analysis. See Annex G for a technical description of the methodology, a full set of results and a summary of our sensitivity analysis.
46. In summary, the like-for-like comparison of savings available to SVT customers and non-standard tariff customers shows that, on average over the Relevant Period, the savings available to dual fuel SVT customers were around £43 larger (based on switching to the same type of tariff as in S3b), or around £34 larger (based on switching to any other tariff as in S5) than the savings available to similar customers on comparable non-standard tariffs (see Table 6).²⁹ The equivalent difference for single fuel customers is £20 or

²⁹ Comparable in terms of the level of consumption, region, meter type (Economy 7 or standard), payment method. See Annex G for details.

£10, and £15 or £10 for electricity and gas respectively. These comparisons control for the possibility that the SVT and non-standard tariff customer base may have a different customer mix with respect to levels of consumption, payment types, regions and suppliers.

Table 6: Difference in potential savings available to customers subscribing to the SVT and other customers, controlling for differences in customer mix

	£						
	S1	S2	S3a	S3b	S4a	S4b	S5
Dual fuel	22	26	29	43	33	34	34
Single fuel (electricity)	8	10	17	20	14	15	15
Single fuel (gas)	-0.2	2	9	10	8	10	10

Source: CMA analysis.

Comparison of savings by supplier

47. We also looked at potential gains from switching by supplier. Results are provided in Annex F. Table 7 provides results for S1 for all customers, SVT customers and non-SVT customers. [REDACTED]

Table 7: Weighted average potential savings (£s) available to dual fuel customers subscribing to the SVT and other customers of the Six Large Energy

	£					
	Centrica	EDF Energy	E.ON	RWE	Scottish Power	SSE
All customers	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
SVT customers	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Non-SVT customers	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CMA analysis.

Notes:

1. The average is a simple average across the quarters.
2. Within each quarter the weighted average are calculated using data on the distribution of consumption and the weights reflect the number of accounts that belong to each tariff.
3. Base: all dual fuel customers, SVT customers and non-SVT customers.

Parties' comments

48. In response to the working paper³⁰ parties made comments in relation to the following:

- (a) The results being based on quarterly snapshots of the savings available to domestic customers.

³⁰ [Gains from switching working paper](#).

(b) Customers might have preferences that will limit the choices available to them.

(c) The aggregation of the potential gains across all customers.

49. We consider each of these in turn.

Snapshots

50. The estimated gains are based on those that would be available to a domestic customer at a point in time given a) the choices they have made in the past in relation to the tariff, payment method, suppliers etc; and b) the tariffs currently available to them.

51. RWE said that our analysis unreasonably assumed that customers would switch every quarter. Centrica said that it implied that all customers should be subscribed to the tariff that was cheapest at each moment in time.

52. We do not accept these comments. As explained above, the purpose of the analysis was to determine whether there are customers who are subscribing to tariffs that have consistently offered poor value compared to other tariffs offered by the same and other suppliers. We consider that a series of quarterly snapshots over a 36-month period provides a reasonable basis for establishing whether this has been the case. Furthermore, this was a period when the relationship between SVTs and fixed-term tariffs was fairly stable, and the prices of fixed-term tariffs were not generally declining. We discuss this point further in Section 8 of the provisional findings report.

53. We note that whilst EDF Energy said the switching gains analysis could not be relied upon to measure aggregate welfare loss of customers, it did say that the results were a measure of the price triggers that were in the market at specific quarters during the period studied.

Preferences

54. Centrica, EDF Energy and RWE have argued that our scenarios, and in particular the most flexible scenario S5, do not sufficiently account for customers' preferences for a number of tariff characteristics, and therefore overstate the potential gains from switching. The parties have also rerun our

analysis adding further restrictions to the scenarios and found the potential gains from switching to be lower.³¹

55. Centrica said that payment method could be related to customer preferences; some customers valued price certainty and therefore chose a fixed-rate tariff and others had a preference not to be locked into a relationship with a supplier and therefore did not choose a fixed-term tariff; for some customers who were unwilling to pay by direct debit, those without access to the internet or those who would be unwilling to transact online, they would not be eligible or willing to consider online tariffs.
56. Centrica told us that when research participants were presented with the choice of four tariffs, customers tended to choose the SVT even if there were cheaper tariffs in front of them and said, when asked why, that they wanted the flexibility that an SVT gave them and the more gradual changes in price that they thought that it would give them.
57. EDF Energy said that customer preferences had a strong bearing on switching choices with some actively choosing higher priced tariffs. For example: some customers valued certainty and were therefore willing to lock into a fixed-price tariff and some customers might also be willing to pay a premium for a green tariff; and there were likely to be groups of customers who would be unwilling, or unable, to manage their account online. EDF Energy said that Ovo Energy's cheapest tariffs included a discount of £60/dual fuel for online account management plus a further £20/dual fuel for paperless billing and First Utility offered online/paperless discounts worth £24 per customer (single fuel or dual fuel).
58. RWE said that the methodology did not take proper account of customers' actual preferences, as revealed by their behaviour; the CMA seemed to be suggesting that customers had very few fixed preferences that impacted their choice set, but provided no evidence of actual switching behaviour to support this assertion; and that the CMA survey provided evidence that customers rated a wide range of important factors including payment options, quality of service, supplier characteristics and supplier reputation. RWE identified the following attributes: payment method; the duration of fixed-term tariffs;

³¹ Centrica's advisers carried out sensitivity tests imposing restrictions on online tariffs, advance payment tariffs and limiting the sample of available tariffs to those offered by the Six Large Energy Firms, First Utility, Co-operative Energy, Ovo Energy and Utility Warehouse. RWE's advisers carried out sensitivity tests imposing restrictions on contract length and limiting the sample of available tariffs customers can switch to. RWE's advisers also tested the annual potential gains against different assumptions about the consumption distribution. SSE's advisers carried out sensitivity tests imposing restrictions on exit fees, Economy 7 tariffs and limiting the sample of available tariffs customers can switch to. SSE's advisers have also estimated the search costs incurred by customers when switching tariffs.

discount(s), exit fee (if any) and any additional charges; sales channel; non-financial promotional offers.

59. SSE said that it was unrealistic to assume that all customers were completely indifferent between different payment methods and billing options. For example, in its experience, customers who did not take up the option of direct debit payment had a strong preference for credit payment. Other customers might have a preference to avoid fixed-term tariffs that have exit fees.
60. We consider these arguments in Section 8 of the provisional findings report. We also note that the parties have not provided any clear evidence in relation to the strength of the claimed customer preferences.³²
61. RWE said that we could have used a standard model of customer choice to account for customers' preferences over observed and unobserved product characteristics. We consider that such a model would only be appropriate in a market where customers reveal their preferences by actively choosing products.

Aggregation

62. Centrica said that the aggregation of savings was not a measure of the total welfare loss and thought it important to recognise that the existence of gains from switching, with a range of price points for the marginal customer, was entirely consistent with a competitive outcome.
63. EDF Energy said the switching gains analysis could not be relied upon to measure aggregate welfare loss of customers and that the results should be presented as a measure of the price triggers that were in the market at specific quarters during the period studied.
64. RWE said that the estimated gains from switching for an individual customer could not be used to estimate aggregate welfare loss. RWE set out several reasons why such an analysis would not be meaningful or reliable. It said that the CMA should recognise that suppliers had to offer discounts to acquire and retain customers. [✂]
65. SSE said that the results of this analysis could not be relied upon to measure aggregate welfare loss and so it would follow that this was also not a measure of excess profit.

³² We discuss customer engagement and the key factors considered when choosing tariffs or suppliers in Section 7 of the provisional findings report.

66. We consider that the results of our analysis cannot necessarily be relied upon to measure aggregate welfare loss as it may not be sustainable for a large proportion of customers to switch to the cheapest tariffs in the market. This matter is considered further in Section 10 of the provisional findings report.

Further comments

67. In addition, in response to our working paper,³³ parties argued that our analysis was incorrect or not robust for a number of reasons, such as:
- (a) Some other markets exhibit gains from switching that are comparable to the gains we have estimated for the domestic energy markets, or higher.
 - (b) The results overstate the potential savings as:
 - (i) the results for certain scenarios are driven by niche products which would not be available as a mass-market product;
 - (ii) the analysis does not capture all discounts and rewards;
 - (iii) the results do not allow for exit fees;
 - (iv) the analysis disregards search costs, or incorrectly assumes that customers are able to see all tariffs in the market and conduct a 'perfect search'; and
 - (v) the analysis overlooks the advantage that long-term fixed products could provide over short-term fixed products as when a shorter product comes to an end the longer term product may then be cheaper than the alternatives available.
 - (c) The use of aggregate consumption figures overstates the level of savings as the methodology assigns a certain level of consumption to all customers within a consumption band.
 - (d) The data we have collected does not fully reflect customer heterogeneity.
 - (e) The analysis assumes consumption levels are fixed over time.
68. With respect to 67(a), Section 7 of the provisional findings report discusses the significance of potential gains from switching in the domestic gas and electricity markets.

³³ [Gains from switching working paper](#).

69. With respect to 67(b)(i), since the publication of the working paper we have refined the methodology as explained in paragraph 17 above.
70. With respect to 67(b)(ii), we do not consider that the exclusion of discounts and rewards would introduce a systematic and material bias in our estimates (see paragraph 27).
71. With respect to 67(b)(iii), see paragraphs 38 to 40);
72. With respect to 67(b)(iv), we acknowledge that depending on the route to market customers might face a restricted set of information and that this might increase the search costs incurred by customers when shopping for energy. To the extent that incomplete or too complex information may be causing customers to forego existing potential savings, we consider this to be a possible driver of disengagement.
73. With respect to 67(b)(v), we note that our analysis considers a different set of scenarios to understand how certain tariff characteristics, including the length of the contract for fixed-term tariffs, are driving the size of gains (see paragraph 13 to 21).
74. With respect to point 67(c), we note that the use of representative consumption levels may either overstate or understate the size of the bill and savings for any particular customer. As the bias could go in both directions, we do not expect there to be a bias on average. It is also unlikely that any bias would be material; for example, RWE presented a sensitivity analysis that showed that small adjustments to the level of consumption did not materially impact the results.
75. With respect to 67(d), we did not consider it practicable to attempt to collect customer-level data. However, our approach takes into account variation in consumption (see Annex C). We also adopted a more granular approach in the calculation of gains available from switching for survey respondents³⁴ and we found the results to be broadly consistent with those presented here.
76. Finally, with respect to 67(e), we consider that allowing for changes in consumption would be unlikely to have a material impact on results.

³⁴ Appendix 8.1: CMA domestic customer survey results.

Annex A: Definitions

1. This annex lists the definitions used in the three datasets: the supplier tariff data, consumption data and Energylinx data on available tariffs.

Tariffs, accounts and customer types

2. 'Tariff' refers to the product that is being supplied to the customer. It contains a set of characteristics that describe the product, such as: fuel type (single fuel, dual fuel, twin fuel), the terms of the price in the contract (variable, fixed, capped), payment method (direct debit, credit, prepayment and other), the price of the product, discounts directly associated with the product³⁵ and other relevant characteristics.
3. Where a household purchases both gas and electricity, it would have two 'accounts'. 'Customer' refers to a household which may have one or two accounts with one or two suppliers. Our datasets contain information on the number of accounts rather than customers.
4. We define three customer types with respect to their consumption of electricity and gas:
 - (a) 'Dual fuel' customers have electricity and gas accounts with the same supplier and receive a dual fuel discount.
 - (b) 'Twin fuel' customers have electricity and gas accounts with the same supplier but do not receive any dual fuel discount. For suppliers who do not offer dual fuel discounts or tariffs, all customers who have both electricity and gas accounts with them would be classified as twin fuel customers.
 - (c) 'Single fuel' customers have either an electricity or gas account with a given supplier. This includes customers who have accounts for electricity and gas with two different suppliers, and customers who only use one fuel (electricity).

³⁵ Discounts that are generally available to customers, that is, are not specifically attached to particular tariffs, are not included in this definition. Examples of such discounts include prompt payment discounts that are awarded to any credit customers paying their bill promptly, or paperless billing discounts offered to any customers choosing to view their bills online.

Regions

5. Tariffs and accounts for both gas and electricity have been allocated to the 14 PES regions, as defined in the table below.

Table 1: PES regions of GB

<i>Region</i>	<i>Also known as</i>
East Midlands	
East Anglia	Eastern
London	
Merseyside and North Wales	Manweb
Midlands	
North East	Northern
North West	Norweb
South Wales	SWALEC
South West	SWEB
North Scotland	Scottish Hydro
South Scotland	Scottish Power
South East	Seeboard
Southern	Southern Electric
Yorkshire	

Source: CMA definitions.

Tariff types and characteristics

6. Tariff types and characteristics are defined in the table that follows. We note that many of these characteristics are not mutually exclusive.

Table 2: Tariff types, characteristics and definitions

<i>Tariff characteristics</i>	<i>Definition</i>
Variable tariff	The price of a variable tariff is not guaranteed for any period of time and can be increased or decreased by the supplier. This includes tracker tariffs. Tariffs that have a fixed-term contract but do not include a promise of a certain price level (or up to a certain price level) over the contract period are also classified as variable.
Fixed tariff	A tariff that guarantees a certain fixed price until a defined end date, or for a defined period of time. This does not include tariffs that have an expiration date but allow the price to vary (see 'variable tariff').
Capped tariff	A tariff that guarantees a price no higher than a pre-determined level, until a defined end date or for a defined period of time.
Online tariff (supplier data, narrow definition)	A tariff that is available only to those subscribing online. Where the same tariff is available to customers using online and any other distribution channel (such as those contacting suppliers by telephone), these are not defined as online. We note that some tariffs that were marketed as online tariffs would not be classified as such using this definition, as they were also available through other sales channels.
Online tariff (supplier data, wide definition)	A tariff available through on-line channels only or sold predominantly through on-line channels or a tariff that require online management of the account and/or paperless billing.
Online tariff (Energylinx data)	A tariff where the customer must supply an email address and complete the application to switch to the tariff online. This does not necessarily mean that the customer will receive paperless energy bills.
Social tariff	These were tariffs that were available to customers struggling to pay their bills. This has now been replaced by the Warm Home Discount (WHD) scheme. This may include other tariffs not mandated by the WHD but available to 'vulnerable' customers, whether it be due to low income, age, illness or disability, at a price which must be at most the same as the cheapest standard alternative for a customer within that region on each payment type.
Green tariff	A tariff that comes with a promise by the supplier to either meet the customer's usage with generation from renewable energy sources, or to contribute to environmental schemes. This should include all tariffs whose primary marketed attribute is being 'green' or 'sustainable', regardless of whether the 'green' status of that tariff has been accredited by certain external institutions.
Dynamic teleswitch tariff	Tariff suited for dynamic teleswitching meters (typically designed for households with electric heating).
Tracker tariff	A tariff which is usually set at a percentage above or below a variable tariff or a certain external index.
Economy 7 tariff	A tariff that offers cheaper energy for seven off-peak hours during the night. Available to customers who have an Economy 7 or similar meter.
Time of use tariff	A tariff that offers energy for different prices depending on the time of the day, other than the Economy 7 tariff above.
Bundled tariff	A tariff where additional services or products are supplied, such as boiler maintenance. This does not include bolt-ons that are not attached to specific tariffs.
White label tariff ³⁶	A tariff relating to an energy product produced by a supplier that other companies rebrand and market under their own name.
Win-back tariff	A tariff offered to retain existing customers at risk of switching that is not publicly marketed.
Exit fee	Exit fee applied if the customer changes tariff before it expires.

Source: CMA definitions.

³⁶ Centrica, EDF Energy and SSE provided information on their white label tariffs in their datasets. All white label tariffs were assessed together with other tariffs of that specific supplier.

Annex B: Data cleaning

1. This annex summarises the structure of the supplier data (tariff and consumption datasets) and the Energylinx data of available tariffs, and the steps we took in cleaning these datasets for the analysis.

Tariff data

2. The tariff dataset includes information on the majority of domestic gas and electricity tariffs at each end of quarter snapshot from 31 March 2008 (Q1 2008) to 31 June 2014 (Q2 2014).
3. The datasets were constructed such that each row contains the tariff name, information on the number of accounts, prices, discounts, payment method, fuel type and other relevant characteristics of a specific gas or electricity tariff. Each tariff is listed in multiple rows to accommodate the following:
 - (a) Separate rows to indicate dual fuel, twin fuel and single fuel customers, and the associated prices and discounts.
 - (b) Separate rows for each payment method associated with a product (credit, debit, prepayment or other), and the associated prices and discounts.
 - (c) Economy 7 and other time of use tariffs are also entered in rows that are separate from the equivalent standard meter tariffs, if any.
4. The data includes discounts that are directly associated with a tariff and excludes discounts that were widely available such as prompt payment discounts, loyalty rewards, credits and rebated and vulnerable customer discounts.³⁷

Exclusions

5. We have excluded the following customers from our analysis:³⁸
 - (a) All customers subscribed to green tariffs. Customers subscribed to such tariffs are likely to value non-monetary characteristics of the tariff more highly than most other customers.

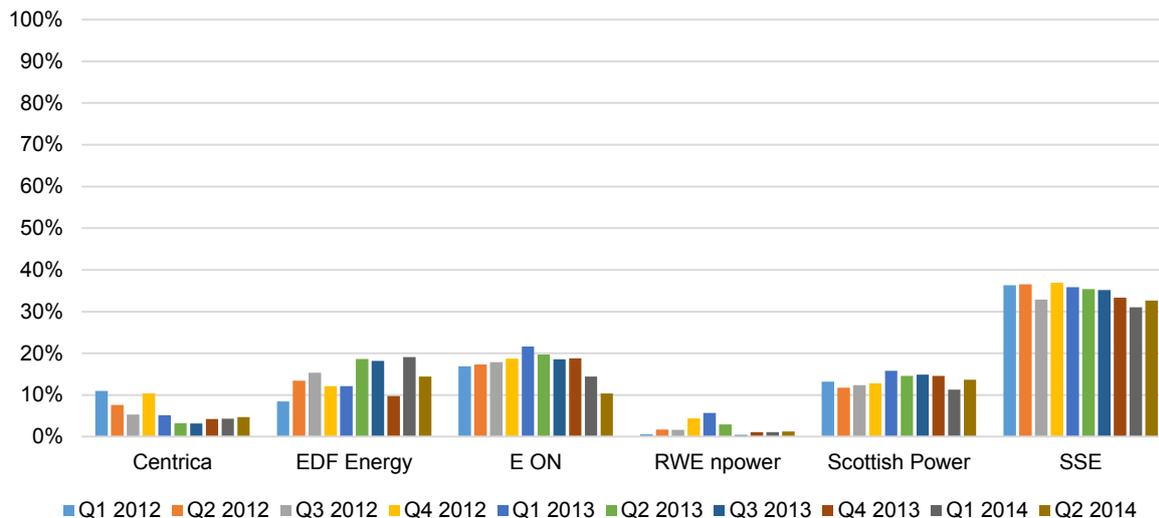
³⁷ See Annex D for a full description of discounts offered by the Six Large Energy Firms excluded from the analysis of the gains from switching.

³⁸ These exclusions were done because these types of tariffs tend to be niche products, may be aimed at customers with very specific preferences (for example, green tariffs), have a complex pricing structure or have limited eligibility.

- (b) All customers subscribed to social tariffs or other tariffs that are restricted to certain types of (mostly vulnerable) households.
 - (c) All customers subscribed to time of use tariffs other than Economy 7. The pricing structures for these tariffs can vary considerably according to meter type and across suppliers, so in the interests of data tractability we did not collect the full price information of such tariffs.
 - (d) All Independent Gas Transporter (IGT) tariffs.
 - (e) All customers subscribed to tariffs where the price includes a bundle of energy and non-energy products (for example, boiler maintenance).
 - (f) All customers subscribed to tariffs that had less than 1,000 accounts across all regions, within a given quarter.
 - (g) All customers with an uncommon payment method (flagged as 'other').
6. We have also excluded data points that were erroneous or inconsistent:
- (a) Missing data (unknown region, zero unit price).
 - (b) All tariffs that were erroneously recorded in the dataset and not relevant to our analysis (non-domestic tariffs or deemed tariffs).
 - (c) Tariffs where the price structure was inconsistent with the tariff description, or the price was not plausible (for example, extremely high).
 - (d) All tariffs introduced after the date of the quarterly snapshot, or those whose contract ended before the date of the quarterly snapshot.
 - (e) All fixed price and fixed term tariffs where the remaining contract length was less than three months at the date of the quarterly snapshot.
7. The graphs below summarise the proportion of accounts excluded from the analysis at this stage.³⁹

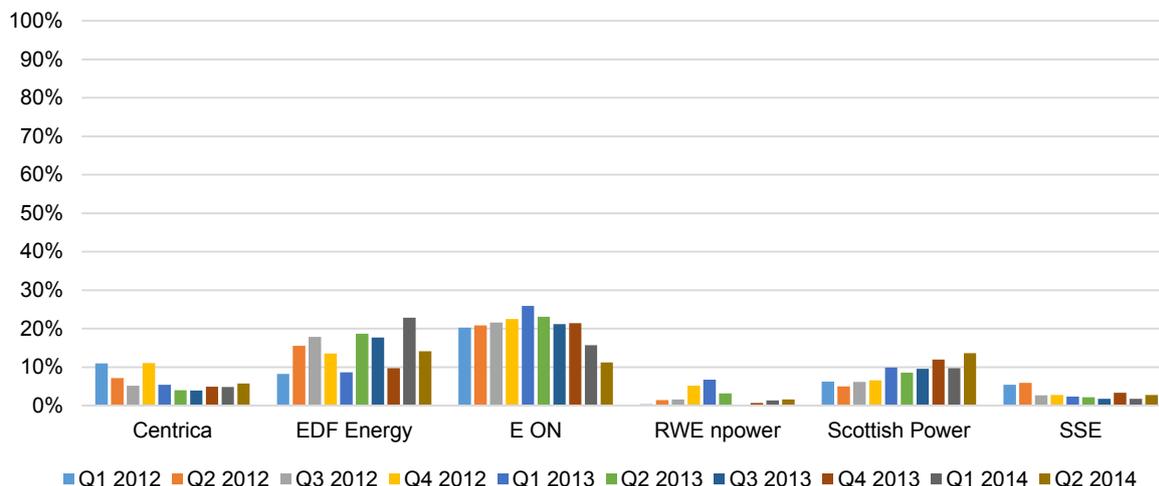
³⁹ We note that some suppliers excluded a list of tariffs from the datasets they submitted. This explains why for some suppliers (for example, RWE) the proportion of accounts excluded from the analysis appears to be smaller.

Figure 1: Proportion of electricity accounts excluded from the analysis



Source: CMA analysis.

Figure 2: Proportion of gas accounts excluded from the analysis



Source: CMA analysis.

8. We also excluded some tariffs from the dual fuel analysis where we were unable to combine gas and electricity tariffs to form a dual fuel bill. Table 1 shows the number of electricity accounts which we were unable to pair with gas tariffs.

Table 1: Number of electricity accounts that could not be matched to a gas tariff in the data

	<i>Centrica</i>	<i>EDF Energy</i>	<i>E.ON</i>	<i>RWE</i>	<i>Scottish Power</i>	<i>SSE</i>
Q1 2012	0	0	30	3192	33	14
Q2 2012	0	1	37	2615	22	22
Q3 2012	0	0	317	976	26	37
Q4 2012	0	0	623	921	17	33
Q1 2013	0	0	462	275	18	28109
Q2 2013	0	0	978	271	16	52825
Q3 2013	1	0	1039	257	18	53935
Q4 2013	5	0	776	81	371	24524
Q1 2014	1	10318	586	0	173	25351
Q2 2014	2	7558	166	0	253	0

Source: CMA analysis.

Payment type categorisation

9. Payment types are grouped into four broad categories: direct debit (DD), credit (CR), prepayment (PP) and Other. Accounts within the latter category were excluded from the analysis. The table below summarises how the categorisation was done in each of the Six Large Energy Firms' data.

Table 2: Payment type categorisation for the Six Large Energy Firms

<i>Supplier</i>	<i>Category</i>	<i>Payment type</i>
Centrica	DD	Direct Debit – VDD, Direct Debit – CPS Standing Order
	CR	CPS – APT (Annual Payment Tariff) CPS – QEP (Quarterly Equal Payments) Cash / Cheque Fuel Direct Pending Fuel Direct
	PP	Prepayment
	Other	Magnetic Card
EDF Energy	DD	Budget Direct Debit (Monthly) (DD) Direct Debit Whole Amount (Monthly) (DD-WAM) Direct Debit Whole Amount (Quarterly) (DD-WAQ) Direct Debit Payment Plan Direct Debit Whole Amount
	CR	Cash / Cheque Whole Amount (Monthly) (CC-WAM) Cash / Cheque Whole Amount (Quarterly) (CC-WAQ) Cash / Cheque (Monthly) (CC-M) Cash / Cheque (Quarterly) (CC-Q) Cash / Cheque Cash / Cheque Payment Plan Payment Plan Card Standing Order Payment Plan
	PP	Prepayment (PK) Domestic Power Key User

	DD	Fixed Direct Debit Variable Direct Debit
E.ON	CR	On Demand Payment On Demand Unmonitored Payment Card Regular Cash Payment Standing Order Pay Plus
	PP	Prepayment Prepayment Meter Driven Billing
	DD	Monthly Fixed Direct Debit Monthly Variable Direct Debit Quarterly Variable Direct Debit Legacy Monthly Fixed Direct Debit Legacy Receipt of Bill – Direct Debit
RWE	CR	DWP / Fuel Direct Half-Yearly Receipt of Bill Monthly Receipt of Bill Payment Card Easi Pay Quarterly Receipt of Bill Regular Payment Scheme Monthly Regular Payment Scheme Fortnightly Regular Payment Scheme Weekly Legacy Weekly / Fortnightly / Monthly Regular Payment Scheme by Card Legacy Receipt of Bill – Credit
	PP	Prepayment Card Legacy Prepayment Card
	DD	Direct Debit Bankers order
Scottish Power	CR	Receipt of Bill Direct Debit Cash Card (Monthly) and Card (Weekly) Receipt of Bill Bankers Order Receipt of Bill Cash Receipt of Bill Card Pay in Advance Fuel Direct
	PP	Prepayment
	DD	Direct Debit Variable Monthly Direct Debit Annual Direct Debit Standing Order
SSE	CR	Budget Card Booklet Credit Card Cheque Cash Debit Card Direct Credit BACS
	PP	Pay As You Go

Source: Correspondence between the CMA and the parties.

Calculating a dual fuel bill

10. To aid the calculation of dual fuel and twin fuel bills we asked the suppliers to indicate, for each electricity tariff, the gas tariff that was most commonly subscribed to by dual fuel customers on the electricity tariff. In a small number of cases the information provided was erroneous (for example, the gas tariff

referred to as the most common matching pair did not exist in that quarter or region) and these tariffs had to be excluded from the dual fuel analysis. In a small number of cases, where the corresponding gas tariff could not be found, we assumed that the gas tariff is the standard variable evergreen tariff.

11. Our methodology for combining electricity and gas tariffs assumes that both accounts have the same payment method. Most of the resulting dual fuel bills are also of the same tariff structure (variable, fixed or capped), but a small number of accounts have different types for gas and electricity.⁴⁰ Where this is the case, we use the electricity tariff's characteristics in conducting the search for the cheapest alternative tariff.

Contract length

12. Fixed, capped and variable fixed term tariffs can have either a fixed termination date (regardless of when the customer subscribed) or fixed duration of the contract that takes effect from the time the customer subscribes to the tariff. For tariffs with the former type of contract, we calculated the contract length as the difference, in months, between the date the tariff was first introduced into the market and the date the contract terminates. For tariffs which were in the market for a long period of time, this may overestimate the actual length of the contract.

Consumption data

13. The consumption dataset includes information on annual gas and electricity usage of suppliers' customers at the 10th, 25th, 50th, 75th and 90th percentiles and mean, by PES region, tariff structure (variable, fixed, capped), payment method (credit, direct debit, prepayment) and whether or not the tariff is an Economy 7 tariff (for electricity only). The data we collected does not distinguish between single fuel and dual fuel, and does not include customers on green, social tariffs and tariffs with uncommon payment methods. For Economy 7 tariffs, we also collected regional data on the proportion of total consumption that is consumed during the off-peak and peak periods.

⁴⁰ The number of accounts excluded on this basis for E.ON ranges between 217 and 5,310 in any given quarter, and between 6,643 and 10,352 for Scottish Power.

14. All consumption figures are derived from EAC⁴¹ (electricity) and AQ⁴² (for gas) measures on an annual basis.⁴³ These measures were available from all suppliers on a consistent basis.
15. When calculating a dual fuel bill, we assume that a dual fuel customer's consumption of each fuel lies in the same part of the consumption distribution for that tariff family. That is, the bill for the 25th consumption percentile uses the 25th percentile of the electricity distribution and the 25th percentile of the gas distribution for that tariff.

Energylinx data

16. The Energylinx dataset lists tariffs offered by all suppliers (the Six Large Energy Firms as well as independents) to domestic customers for electricity and gas at each quarterly snapshot date. The dataset does not include time of use tariffs other than Economy 7, green tariffs and social tariffs. The structure of the dataset is otherwise the same as that of the supplier tariff data.
17. The table below summarises the way payment methods were categorised in this dataset. We have excluded the category 'other' from all switching scenarios.

⁴¹ Estimated annual consumption.

⁴² Annual quantity.

⁴³ As at 31 December 2012, 31 December 2013 and 30 June 2014.

Table 3: Payment type categorisation and descriptions from the Energylinx dataset

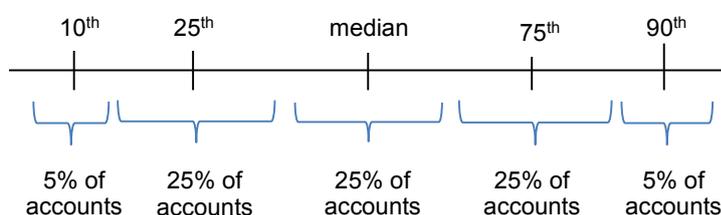
<i>Payment type</i>	<i>Description</i>	<i>Category</i>
Monthly Direct Debit	Equal monthly direct debits based on a set proportion of the annual billing amount.	DD
Quarterly Direct Debit	This effectively is a quarterly bill that is then paid in full, usually around 14 days after it is sent.	DD
Standing Order	Rarely available, this is when the customer sets a specific payment from their account every month.	CR
Quarterly Cash/Cheque	Billed every quarter and paid by cash or cheque.	CR
Prepayment Meter	Where the customer has a meter that requires paying for energy before it is delivered.	PP
Advance Payment	Where the customer pays in advance for their energy delivery.	This does not apply to any tariff within the time frame for the project.
Monthly Card	The customer will pay towards their future energy bills by paying on a monthly basis.	Other
Monthly Debit/Credit Card	Similar to monthly cash/cheque in that the customer is provided with a bill on a monthly basis and payment is made by debit card and continuous payment authority has been provided.	CR
Monthly Variable Direct Debit	Where the monthly direct debit varies on a month to month basis, typically changed due the customer receiving a monthly bill based on actual consumption.	DD
Quarterly Equal Payments	Payment made each quarter, typically in advance, set at one quarter of their expected annual energy spend.	Other
Monthly Cash/Cheque	Also known as 'Cash Cheque Whole Amount Monthly' where the customer is paying for their actual consumption for the month.	CR
Regular Cash	This may be weekly, fortnightly or monthly.	CR
Quarterly Debit Card	Similar to quarterly cash/cheque in that the customer is provided with a bill on a quarterly basis and payment is made by debit card and continuous payment authority has been provided.	CR

Source: Correspondence between the CMA and Energylinx.

Annex C: Consumption assumptions

1. This annex explains the methodology for how we have used the consumption data in summarising the average, the range of, or the distribution of the potential gains from switching.
2. For each product in our dataset we know the number of accounts associated with each of those products at the quarterly snapshot date. In addition, each of the products belongs to a tariff family (see Annex B), and for each tariff family we have data on six points of the consumption distribution: the three quartiles, the tenth and 90th percentiles and the mean.
3. In creating summary statistics for the potential gains from switching we allocate the customers subscribed to each product to the known points of the consumption distribution. First, we assume that the three quartiles represent a third of the customers each. Second, we assume that the tenth and 90th points in the consumption distribution represent 5% of the customers each. Finally, we consider the remaining 15% of the customers to either be very low or very high consumption (likely lower than the 7.5th or higher than the 92.5th percentile of the distribution) and as such they are excluded from the summary statistics. Figure 1 illustrates these assumptions.

Figure 1: Allocation of customer accounts to points in the consumption distribution



Source: CMA analysis.

4. We note that using these assumptions would be equivalent to using the simple mean consumption value if the consumption distribution was symmetric. However, in practice the consumption distribution is skewed with a small number of very high consumers. Such high consumption values are not accounted for in our analysis. For this reason our estimate of the average bill, and average gains, for the assumed consumption distribution tends to be slightly lower than what the equivalent estimate for the overall mean consumption level would be.

Annex D: Analysis of discounts

1. This annex summarises the discounts offered by the Six Large Energy Firms and not included in the analysis of the gains from switching over the Relevant Period. These discounts are the following:⁴⁴
 - (a) Prompt payment discounts.
 - (b) Credits and rebates.
 - (c) Loyalty rewards.
 - (d) Vulnerable customers discounts (eg Warm Home Discount scheme).
 - (e) Other (eg no main gas discount, in-store vouchers).
2. Table 1 shows each of the Six Large Energy Firm's spend per customer account on dual fuel, direct debit and prompt payment discounts and online/paperless discounts, loyalty rewards and credits and cashback. We note that, as a result of Ofgem's RMR rules, discount offerings might have been changed or withdrawn (for example, this was the case with prompt payment discounts) as they are no longer permitted.

Table 1: Average spend on discounts per customer account* in 2013

	£					
	Centrica	EDF Energy	E.ON†	RWE	Scottish Power	SSE
Prompt payment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Loyalty rewards	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Credits and rebates	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Vulnerable customers	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other‡	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total not included in our analysis	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CMA analysis.

* Total number of customer provided in response to question 93 of the market and financial questionnaire.

† E.ON did not provide separate figures for each discount offered in 2013 as they are not broken down in the P&L information requested by the CMA.

‡ Includes financial incentives that do not fall in any of the categories above.

3. Table 1 shows that for all types of discounts not included in the analysis of the gains from switching the total average spend per customer falls within the range £0 to £8.

⁴⁴ A full description of the discounts offered by each of the Six Large Energy Firms is provided in Appendix 7.3: The pricing strategies of the Six Large Energy Firms.

Annex E: Analysis of exit fees

1. This annex summarises the exit fees charged by the Six Large Energy Firms to dual fuel and single fuel customers for those tariffs included in the analysis of gains from switching over the Relevant Period.
2. The Six Large Energy Firms apply exit fees to contracts with a fixed termination date. Table 1 shows the proportion of dual fuel and single fuel customers in the cleaned data subscribed to fixed tariffs with exit fees against the total number of dual fuel customers subscribed to fixed tariffs.

Table 1: Proportion of customers of the Six Large Energy Firms subscribed to fixed tariffs with exit fees against the total number of dual fuel customers subscribed to fixed tariffs

<i>Exit fees</i>	%								
	<i>Dual fuel</i>			<i>Single fuel electricity</i>			<i>Single fuel gas</i>		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
No	32	47	41	47	63	57	20	22	25
Yes	68	53	59	53	37	43	80	78	75

Source: CMA analysis.

Note: Base – customers subscribed to tariffs included in the analysis of the gains from switching.

3. Table 2 shows the minimum, maximum and the weighted average exit fees. For dual fuel customers, exit fees will be equal to the sum of the electricity and gas exit fees.⁴⁵ The weighted average is calculated using weights that reflect the number of accounts that belong to each tariff. The estimates include only those tariffs that have exit fees.
4. In the case of certain fixed tariffs (eg those with a long contract period), we note that SSE charges different exit fees according to the point in time where customers switch. Table 2 only shows the maximum exit fee applied to each fixed-term tariff.

⁴⁵ We note that this is true for all suppliers but SSE, whose exit fees are equal to the sum of electricity and gas except where exit fees are applied per customers, not per fuel. We acknowledge that the tariff dataset does not currently allow for this specification. We plan to include any improvements to the quality of the dataset before the publication of the final report.

Table 2: Minimum, maximum and weighted average exit fee applied by the Six Large Energy Firms

£

	<i>Dual fuel</i>			<i>Single fuel electricity</i>			<i>Single fuel gas</i>		
	<i>min</i>	<i>max</i>	<i>avg</i>	<i>min</i>	<i>max</i>	<i>avg</i>	<i>min</i>	<i>max</i>	<i>avg</i>
Centrica	[£]	[£]	[£]	[£]	[£]	[£]	[£]	[£]	[£]
EDF Energy	[£]	[£]	[£]	[£]	[£]	[£]	[£]	[£]	[£]
E.ON	[£]	[£]	[£]	[£]	[£]	[£]	[£]	[£]	[£]
RWE	[£]	[£]	[£]	[£]	[£]	[£]	[£]	[£]	[£]
Scottish Power	[£]	[£]	[£]	[£]	[£]	[£]	[£]	[£]	[£]
SSE	[£]	[£]	[£]	[£]	[£]	[£]	[£]	[£]	[£]

Source: CMA analysis.

Note: Base – customers subscribed to tariffs included in the analysis of the gains from switching.

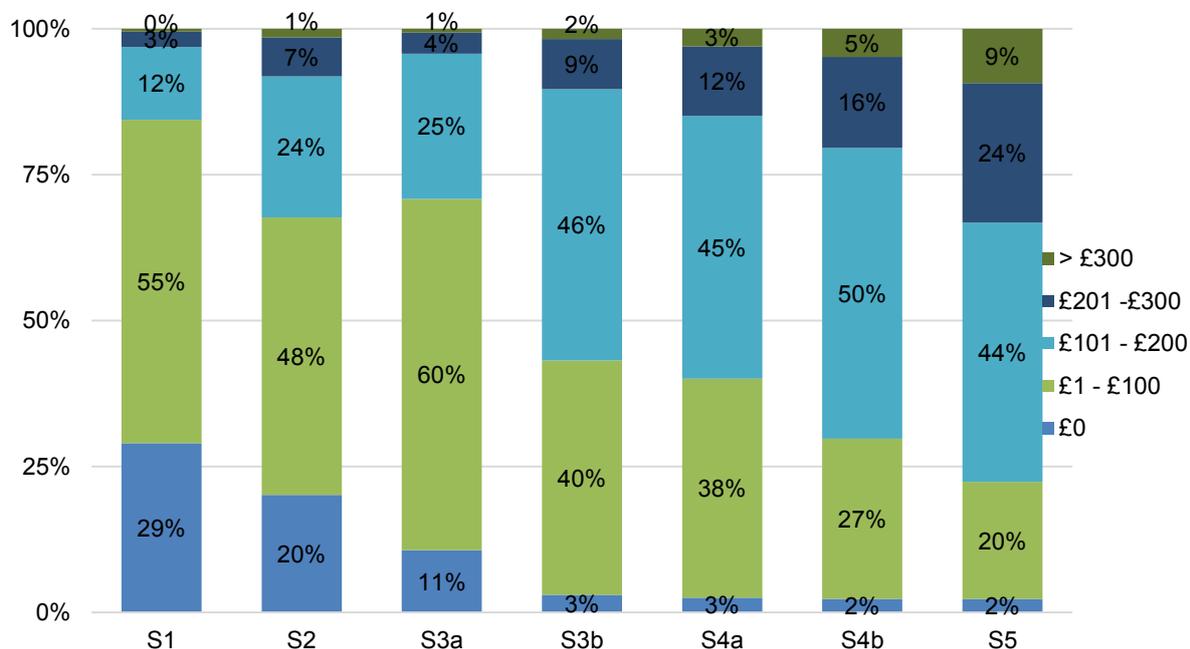
5. We note that there are a number of situations where the Six Large Energy Firms waive exit fees, such as:
- (a) Customer switching to a different tariff within the same supplier.
 - (b) Customer switching as a result of price change or disadvantageous unilateral variation (eg reduction of discounts).
 - (c) Contract or service comes to an end.
 - (d) Customers switching within the cooling-off period.
 - (e) Customers switching between 42 and 49 days prior to the fixed-tariff term.⁴⁶
 - (f) Customers moving home provided that they maintain the current supplier.

⁴⁶ See 'Energy contracts explained' on the [Citizens Advice website](#).

Annex F: Additional tables

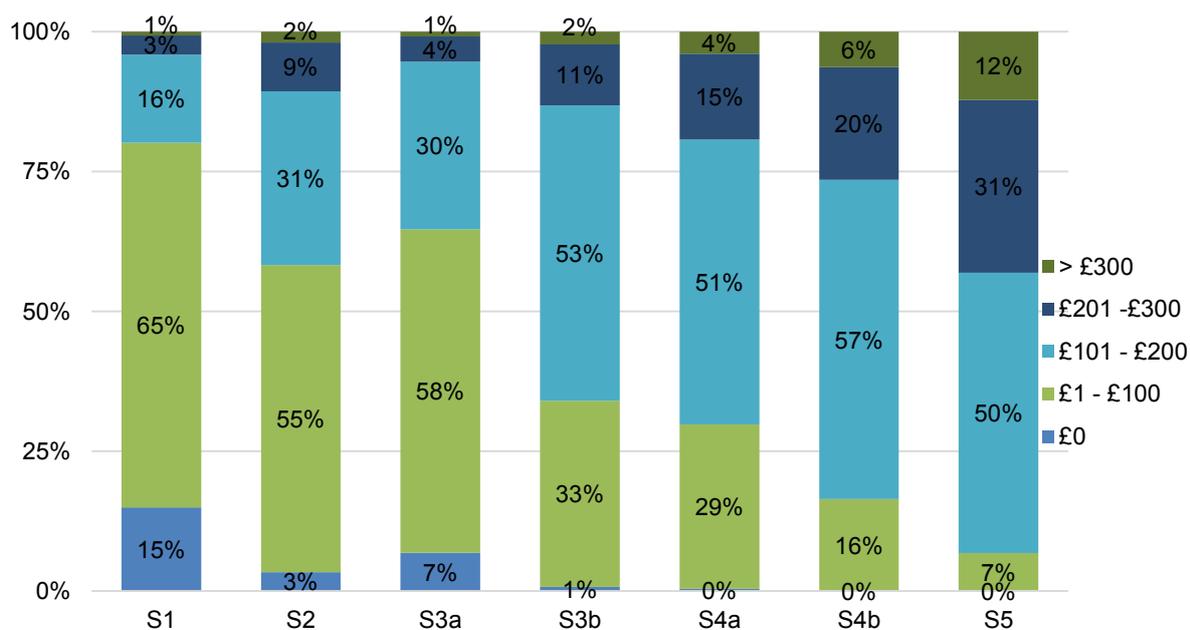
Distribution of the annual potential savings

Figure 1: Distribution of potential annual savings for dual fuel SVT customers of the Six Large Energy Firms



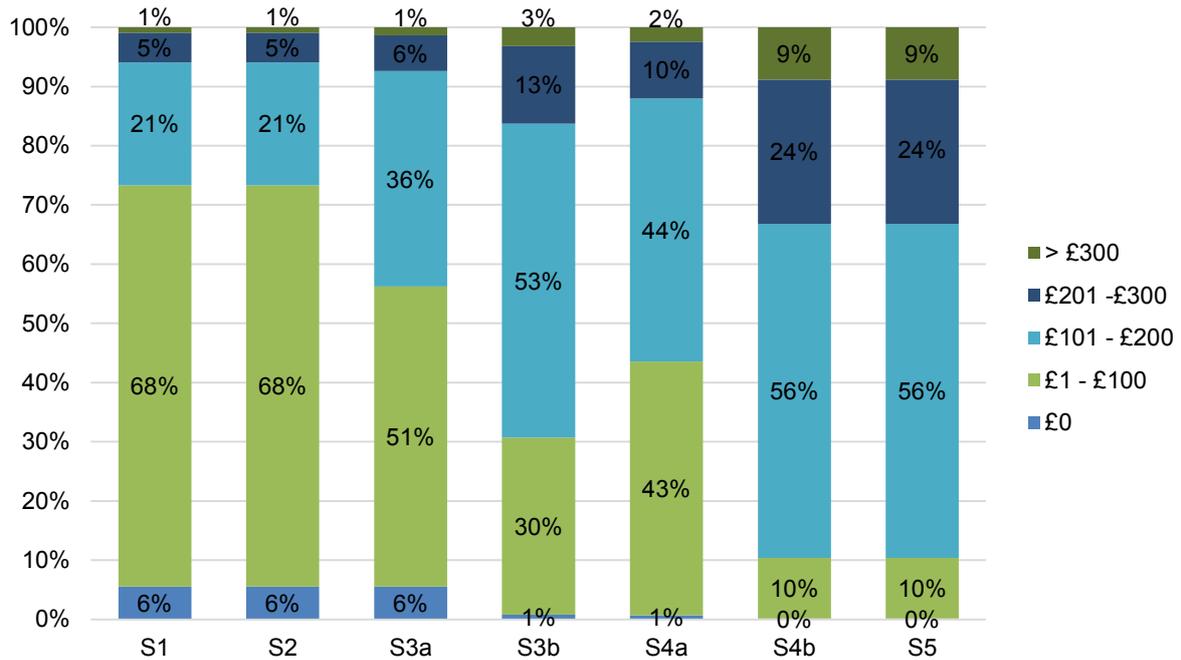
Source: CMA analysis.

Figure 2: Distribution of potential annual savings for dual fuel SVT customers (no prepayment) of the Six Large Energy Firms



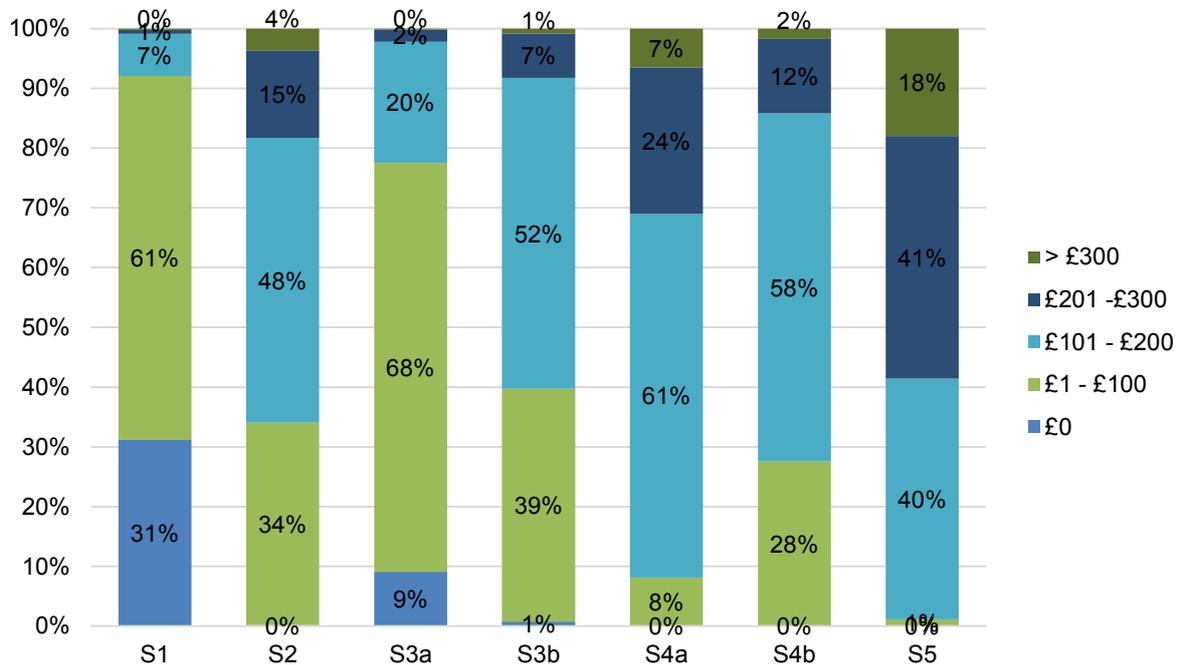
Source: CMA analysis.

Figure 3: Distribution of potential annual savings for dual fuel SVT direct debit customers of the Six Large Energy Firms



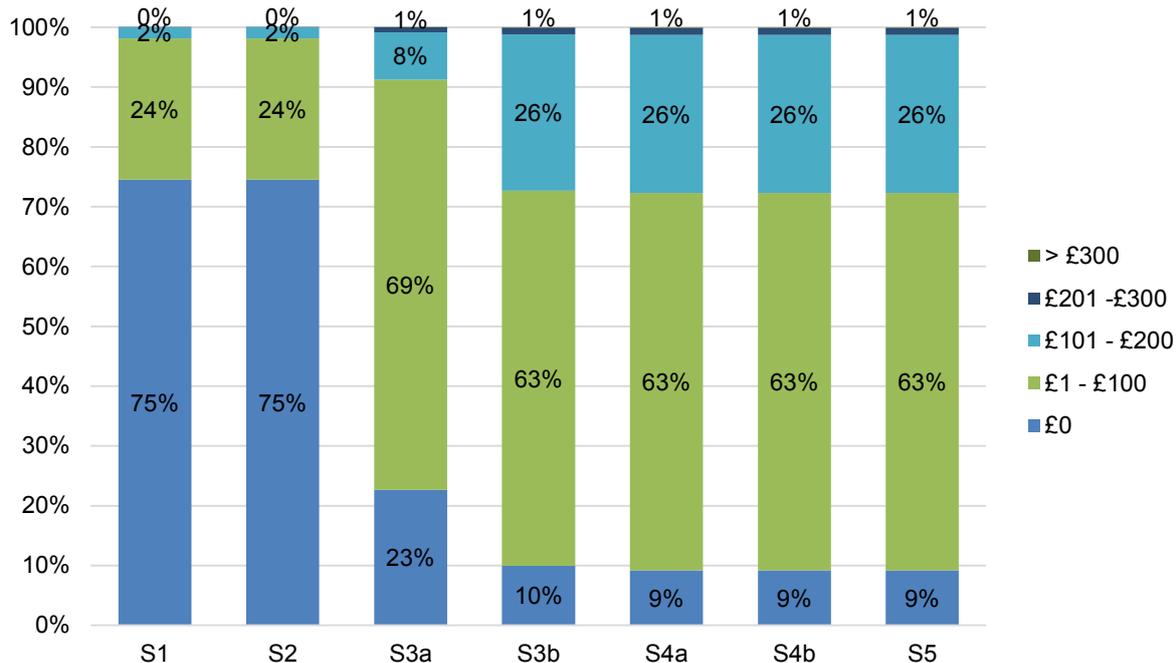
Source: CMA analysis.

Figure 4: Distribution of potential annual savings for dual fuel SVT credit customers of the Six Large Energy Firms



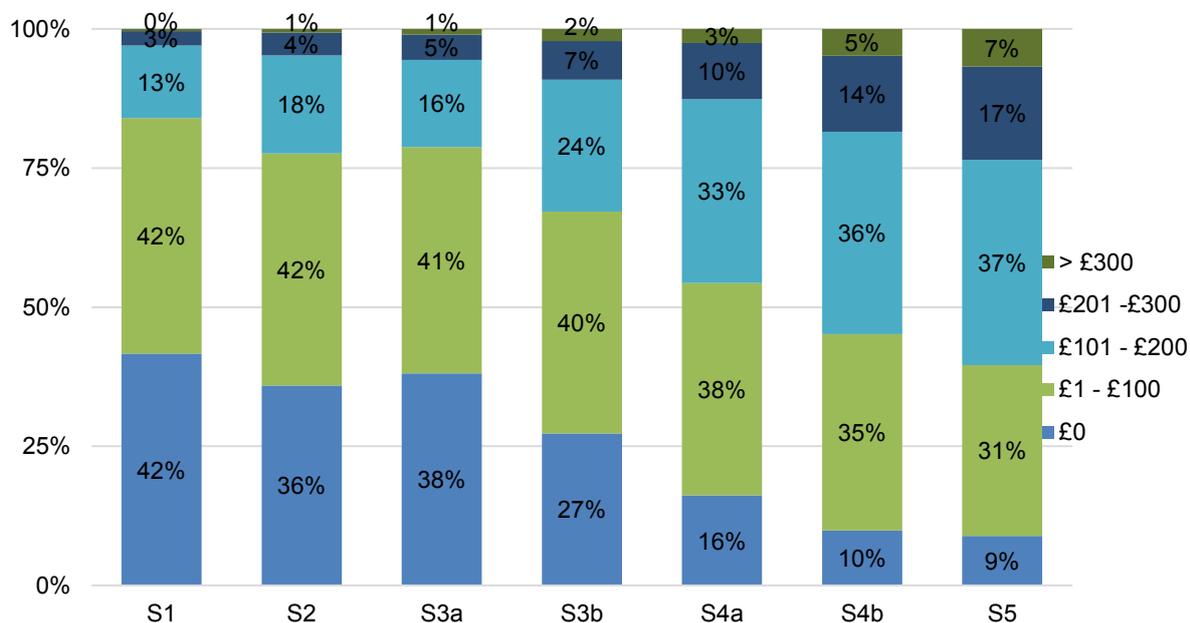
Source: CMA analysis.

Figure 5: Distribution of potential annual savings for dual fuel SVT prepayment of the Six Large Energy Firms



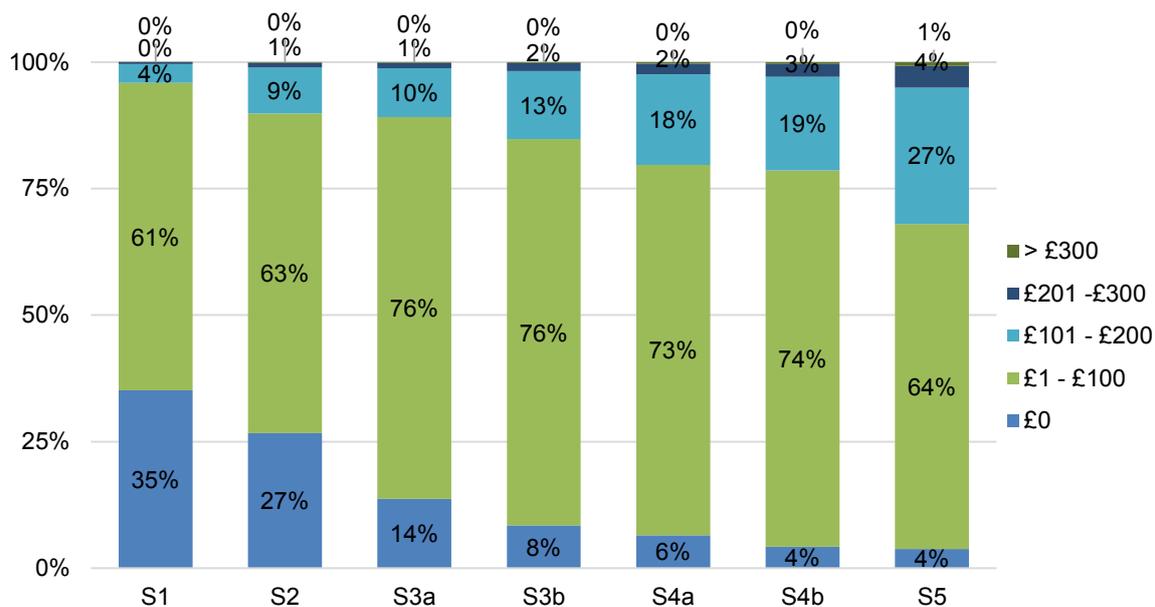
Source: CMA analysis.

Figure 6: Distribution of potential annual savings for dual fuel non-standard customers of the Six Large Energy Firms



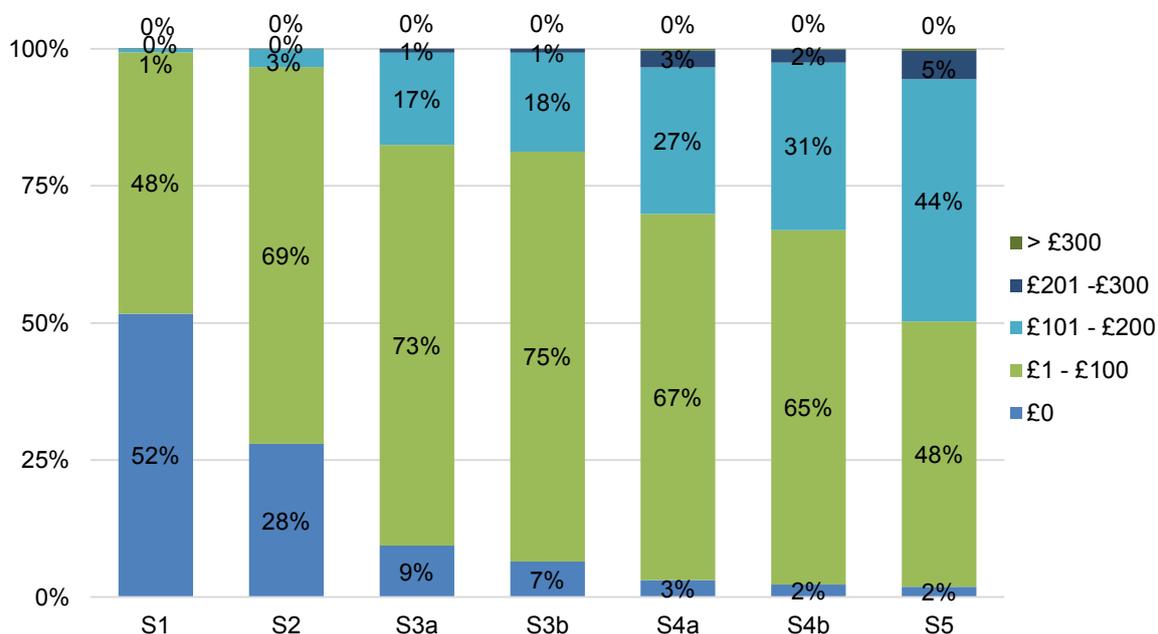
Source: CMA analysis.

Figure 7: Distribution of potential annual savings for single fuel electricity customers of the Six Large Energy Firms



Source: CMA analysis.

Figure 7: Distribution of potential annual savings for single fuel gas customers of the Six Large Energy Firms



Source: CMA analysis.

Figure 8: Distribution of potential annual savings for dual fuel customers of the Six Large Energy Firms in scenario 1

[✂]

Table 1: Distribution of potential annual savings for dual fuel customers of the Six Large Energy Firms: average proportions across firms and quarters

	%				
	£0	£1–100	£101–200	£201–300	>£300
S1	33	51	13	3	0
S2	26	46	22	6	1
S3a	20	54	22	4	1
S3b	11	40	39	8	2
S4a	7	38	41	11	3
S4b	5	30	45	15	5
S5	5	24	42	21	8

Source: CMA analysis.

Table 2: Distribution of potential annual savings for dual fuel SVT customers of the Six Large Energy Firms: average proportions across firms and quarters

	%				
	£0	£1–100	£101–200	£201–300	>£300
S1	29	55	12	3	0
S2	20	48	24	7	1
S3a	11	60	25	4	1
S3b	3	40	46	9	2
S4a	3	38	45	12	3
S4b	2	27	50	16	5
S5	2	20	44	24	9

Source: CMA analysis.

Table 3: Distribution of potential annual savings for dual fuel SVT customers (no-prepayment) of the Six Large Energy Firms: average proportions across firms and quarters

	%				
	£0	£1–100	£101–200	£201–300	>£300
S1	15	65	16	3	1
S2	3	55	31	9	2
S3a	7	58	30	4	1
S3b	1	33	53	11	2
S4a	0	29	51	15	4
S4b	0	16	57	20	6
S5	0	7	50	31	12

Source: CMA analysis.

Table 4: Distribution of potential annual savings for dual fuel SVT direct debit customers of the Six Large Energy Firms: average proportions across firms and quarters

	%				
	£0	£1–100	£101–200	£201–300	>£300
S1	6	68	21	5	1
S2	6	68	21	5	1
S3a	6	51	36	6	1
S3b	1	30	53	13	3
S4a	1	43	44	10	2
S4b	0	10	56	24	9
S4	0	10	56	24	9

Source: CMA analysis.

Table 5: Distribution of potential annual savings for dual fuel SVT credit customers of the Six Large Energy Firms: average proportions across firms and quarters

	%				
	£0	£1–100	£101–200	201–300	>£300
S1	31	61	7	1	0
S2	0	34	48	15	4
S3a	9	68	20	2	0
S3b	1	39	52	7	1
S4a	0	8	61	24	7
S4b	0	28	58	12	2
S5	0	1	40	41	18

Source: CMA analysis.

Table 6: Distribution of potential annual savings for dual fuel SVT prepayment customers of the Six Large Energy Firms: average proportions across firms and quarters

	%				
	£0	£1–100	£101–200	£201–300	>£300
S1	75	24	2	0	0
S2	75	24	2	0	0
S3a	23	69	8	1	0
S3b	10	63	26	1	0
S4a	9	63	26	1	0
S4b	9	63	26	1	0
S5	9	63	26	1	0

Source: CMA analysis.

Table 7: Distribution of potential annual savings for dual fuel customers subscribed to non-standard tariffs of the Six Large Energy Firms: average proportions across firms and quarters

	%				
	£0	£1–100	£101–200	£201–300	>£300
S1	42	42	13	3	0
S2	36	42	18	4	1
S3a	38	41	16	5	1
S3b	27	40	24	7	2
S4a	16	38	33	10	3
S4b	10	35	36	14	5
S5	9	31	37	17	7

Source: CMA analysis.

Table 8: Distribution of potential annual savings for single fuel electricity customers of the Six Large Energy Firms

	%				
	£0	£1–£100	£101–£200	£201–£300	>£300
S1	35	61	4	0	0
S2	27	63	9	1	0
S3a	14	76	10	1	0
S3b	8	76	13	2	0
S4a	6	73	18	2	0
S4b	4	74	19	3	0
S5	4	64	27	4	1

Source: CMA analysis.

Table 9: Distribution of potential annual savings for single fuel gas customers of the Six Large Energy Firms

	%				
	£0	£1-£100	£101-£200	£201-£300	>£300
S1	52	48	1	0	0
S2	28	69	3	0	0
S3a	9	73	17	1	0
S3b	7	75	18	1	0
S4a	3	67	27	3	0
S4b	2	65	31	2	0
S5	2	48	44	5	0

Source: CMA analysis.

Table 10: Distribution of potential annual savings for dual fuel customers of the Six Large Energy Firms in scenario 1 (average proportions across quarters in scenario 1)

	%				
	£0	£1-£100	£101-£200	£201-£300	>£300
Centrica	[X]	[X]	[X]	[X]	[X]
EDF Energy	[X]	[X]	[X]	[X]	[X]
E.ON	[X]	[X]	[X]	[X]	[X]
RWE	[X]	[X]	[X]	[X]	[X]
Scottish Power	[X]	[X]	[X]	[X]	[X]
SSE	[X]	[X]	[X]	[X]	[X]

Source: CMA analysis.

Average annual potential savings

Table 11: Average potential savings available to dual fuel SVT customers across the Six Large Energy Firms

	£			%		
	Min	Max	Avg	Min	Max	Avg
S1	31	74	52	3	6	4
S2	52	122	82	5	10	7
S3a	39	103	75	3	9	7
S3b	76	142	116	7	13	11
S4a	79	161	127	7	14	12
S4b	104	165	143	9	15	13
S5	124	197	171	11	17	15

Source: CMA analysis.

Notes:

1. The minimum and maximum correspond to the firms with the lowest and highest average savings respectively.
2. The average is a simple average across the quarters and uses consumption at different levels of the consumption distribution.
3. Base: all customers.

Table 12: Average potential savings available to dual fuel SVT (no-prepayment) customers across the Six Large Energy Firms

	£			%		
	<i>Min</i>	<i>Max</i>	<i>Avg</i>	<i>Min</i>	<i>Max</i>	<i>Avg</i>
S1	45	89	64	4	7	5
S2	74	147	104	6	12	9
S3a	47	114	86	4	10	7
S3b	88	156	131	8	14	12
S4a	92	184	144	8	16	13
S4b	125	190	166	11	16	14
S5	151	228	202	13	19	18

Source: CMA analysis.

Notes:

1. The minimum and maximum correspond to the firms with the lowest and highest average savings respectively.
2. The average is a simple average across the quarters and uses consumption at different levels of the consumption distribution.
3. Base: all customers.

Table 13: Average potential savings available to dual fuel SVT direct debit customers across the Six Large Energy Firms

	£			%		
	<i>Min</i>	<i>Max</i>	<i>Avg</i>	<i>Min</i>	<i>Max</i>	<i>Avg</i>
S1	43	117	81	4	9	6
S2	43	117	81	4	9	6
S3a	56	133	95	5	11	8
S3b	93	173	137	8	14	11
S4a	77	155	123	6	12	10
S4b	138	215	183	11	17	15
S5	138	215	183	11	17	15

Source: CMA analysis.

Notes:

1. The minimum and maximum correspond to the firms with the lowest and highest average savings respectively.
2. The average is a simple average across the quarters and uses consumption at different levels of the consumption distribution.
3. Base: all customers.

Table 14: Average potential savings available to dual fuel SVT credit customers across the Six Large Energy Firms

	£			%		
	<i>Min</i>	<i>Max</i>	<i>Avg</i>	<i>Min</i>	<i>Max</i>	<i>Avg</i>
S1	19	64	37	2	6	3
S2	115	200	141	10	18	13
S3a	25	104	71	2	9	7
S3b	74	153	121	8	14	12
S4a	133	227	179	13	20	17
S4b	93	176	139	9	16	14
S5	187	278	232	18	24	22

Source: CMA analysis.

1. The minimum and maximum correspond to the firms with the lowest and highest average savings respectively.
2. The average is a simple average across the quarters and uses consumption at different levels of the consumption distribution.
3. Base: all customers.

Table 15: Average potential savings available to dual fuel SVT prepayment customers across the Six Large Energy Firms

	£			%		
	<i>Min</i>	<i>Max</i>	<i>Avg</i>	<i>Min</i>	<i>Max</i>	<i>Avg</i>
S1	0	38	11	0	4	1
S2	0	38	11	0	4	1
S3a	6	77	39	1	8	4
S3b	35	109	67	5	12	8
S4a	37	110	69	5	12	8
S4b	37	110	69	5	12	8
S5	37	110	69	5	12	8

Source: CMA analysis.

Notes:

1. The minimum and maximum correspond to the firms with the lowest and highest average savings respectively.
2. The average is a simple average across the quarters and uses consumption at different levels of the consumption distribution.
3. Base: all customers.

Table 16: Average potential savings available to dual fuel customers subscribed to non-standard tariffs across the Six Large Energy Firms

	£			%		
	<i>Min</i>	<i>Max</i>	<i>Avg</i>	<i>Min</i>	<i>Max</i>	<i>Avg</i>
S1	14	84	44	1	7	4
S2	18	98	56	1	8	5
S3a	9	113	54	1	9	5
S3b	25	146	79	2	12	7
S4a	22	151	101	2	13	9
S4b	52	192	124	5	16	11
S5	59	207	137	5	17	12

Source: CMA analysis.

Notes:

1. The minimum and maximum correspond to the firms with the lowest and highest average savings respectively.
2. The average is a simple average across the quarters and uses consumption at different levels of the consumption distribution.
3. Base: all customers.

Table 17: Average potential savings available to single fuel electricity customers across the Six Large Energy Firms

	£			%		
	<i>Min</i>	<i>Max</i>	<i>Avg</i>	<i>Min</i>	<i>Max</i>	<i>Avg</i>
S1	21	45	26	3	8	5
S2	33	63	43	6	11	8
S3a	29	72	47	5	12	8
S3b	38	82	59	7	14	11
S4a	46	89	68	9	16	13
S4b	50	94	71	9	16	13
S5	64	104	86	12	18	15

Source: CMA analysis

Notes:

1. The minimum and maximum correspond to the firms with the lowest and highest average savings respectively.
2. The average is a simple average across the quarters and uses consumption at different levels of the consumption distribution.
3. Base: all customers.

Table 18: Average potential savings available to single fuel gas customers across the Six Large Energy Firms

	£			%		
	Min	Max	Avg	Min	Max	Avg
S1	0	25	15	0	4	2
S2	3	60	32	1	10	5
S3a	10	70	59	2	11	9
S3b	20	80	69	5	14	12
S4a	28	100	87	6	16	15
S4b	32	102	88	7	17	15
S5	43	122	107	9	20	18

Source: CMA analysis

Notes:

1. The minimum and maximum correspond to the firms with the lowest and highest average savings respectively.
2. The average is a simple average across the quarters and uses consumption at different levels of the consumption distribution.
3. Base: all customers.

Table 19a: Weighted average potential savings (£s) available to dual fuel customers of the Six Large Energy Firms

	£					
	Centrica	EDF Energy	E.ON	RWE	Scottish Power	SSE
S1	[£]	[£]	[£]	[£]	[£]	[£]
S2	[£]	[£]	[£]	[£]	[£]	[£]
S3a	[£]	[£]	[£]	[£]	[£]	[£]
S3b	[£]	[£]	[£]	[£]	[£]	[£]
S4a	[£]	[£]	[£]	[£]	[£]	[£]
S4b	[£]	[£]	[£]	[£]	[£]	[£]
S5	[£]	[£]	[£]	[£]	[£]	[£]

Source: CMA analysis.

Notes:

1. The average is a simple average across the quarters.
2. Within each quarter the weighted average are calculated using data on the distribution of consumption and the weights reflect the number of accounts that belong to each tariff.
3. Base: all dual fuel customers.

Table 19b: Weighted average potential savings (£s) available to dual fuel SVT customers of the Six Large Energy Firms

	£					
	Centrica	EDF Energy	E.ON	RWE	Scottish Power	SSE
S1	[£]	[£]	[£]	[£]	[£]	[£]
S2	[£]	[£]	[£]	[£]	[£]	[£]
S3a	[£]	[£]	[£]	[£]	[£]	[£]
S3b	[£]	[£]	[£]	[£]	[£]	[£]
S4a	[£]	[£]	[£]	[£]	[£]	[£]
S4b	[£]	[£]	[£]	[£]	[£]	[£]
S5	[£]	[£]	[£]	[£]	[£]	[£]

Source: CMA analysis.

Notes:

1. The average is a simple average across the quarters.
2. Within each quarter the weighted average are calculated using data on the distribution of consumption and the weights reflect the number of accounts that belong to each tariff.
3. Base: all dual fuel SVT customers.

Table 19c: Weighted average potential savings (£s) available to dual fuel non-SVT customers of the Six Large Energy Firms

£

	<i>Centrica</i>	<i>EDF Energy</i>	<i>E.ON</i>	<i>RWE</i>	<i>Scottish Power</i>	<i>SSE</i>
S1	[X]	[X]	[X]	[X]	[X]	[X]
S2	[X]	[X]	[X]	[X]	[X]	[X]
S3a	[X]	[X]	[X]	[X]	[X]	[X]
S3b	[X]	[X]	[X]	[X]	[X]	[X]
S4a	[X]	[X]	[X]	[X]	[X]	[X]
S4b	[X]	[X]	[X]	[X]	[X]	[X]
S5	[X]	[X]	[X]	[X]	[X]	[X]

Source: CMA analysis.

Notes:

1. The average is a simple average across the quarters.
2. Within each quarter the weighted average are calculated using data on the distribution of consumption and the weights reflect the number of accounts that belong to each tariff.
3. Base: all dual fuel non-SVT customers.

Table 19d: Weighted average potential savings (£s) available to dual fuel direct debit SVT customers of the Six Large Energy Firms

£

	<i>Centrica</i>	<i>EDF Energy</i>	<i>E.ON</i>	<i>RWE</i>	<i>Scottish power</i>	<i>SSE</i>
S1	[X]	[X]	[X]	[X]	[X]	[X]
S2	[X]	[X]	[X]	[X]	[X]	[X]
S3a	[X]	[X]	[X]	[X]	[X]	[X]
S3b	[X]	[X]	[X]	[X]	[X]	[X]
S4	[X]	[X]	[X]	[X]	[X]	[X]
S4a	[X]	[X]	[X]	[X]	[X]	[X]
S4b	[X]	[X]	[X]	[X]	[X]	[X]

Source: CMA analysis.

Notes:

1. The average is a simple average across the quarters.
2. Within each quarter the weighted average are calculated using data on the distribution of consumption and the weights reflect the number of accounts that belong to each tariff.
3. Base: all dual fuel direct debit SVT customers.

Table 19e: Weighted average potential savings (£s) available to dual fuel credit SVT customers of the Six Large Energy Firms

£

	<i>Centrica</i>	<i>EDF Energy</i>	<i>E.ON</i>	<i>RWE</i>	<i>Scottish Power</i>	<i>SSE</i>
S1	[X]	[X]	[X]	[X]	[X]	[X]
S2	[X]	[X]	[X]	[X]	[X]	[X]
S3a	[X]	[X]	[X]	[X]	[X]	[X]
S3b	[X]	[X]	[X]	[X]	[X]	[X]
S4	[X]	[X]	[X]	[X]	[X]	[X]
S4a	[X]	[X]	[X]	[X]	[X]	[X]
S4b	[X]	[X]	[X]	[X]	[X]	[X]

Source: CMA analysis.

Notes:

1. The average is a simple average across the quarters.
2. Within each quarter the weighted average are calculated using data on the distribution of consumption and the weights reflect the number of accounts that belong to each tariff.
3. Base: all dual fuel credit SVT customers.

Results of the search of the best tariff available

Table 20: Proportion of dual fuel customers for whom suppliers offered a cheaper deal in each scenario (simple average across quarters Q1 2012 – Q2 2014)⁴⁷

	%										
	RWE	SSE	EDF Energy	First Utility	Ebico	Co-op Energy	Centrica	Scottish Power	Ovo Energy	E.ON	Other
S1	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S2	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S3a	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S3b	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S4a	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S4b	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S5	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Source: CMA analysis.

Note: Base: customers who can gain from switching.

Table 21: Proportion of single fuel electricity customers for whom suppliers offered a cheaper deal in each scenario (simple average across quarters Q1 2012 – Q2 2014)⁴⁸

	%										
	RWE	Centrica	EDF Energy	Co-op Energy	Ebico	Scottish Power	First Utility	Ovo Energy	E.ON	SSE	Other
S1	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S2	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S3a	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S3b	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S4a	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S4b	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S5	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Source: CMA analysis.

Note: Base: customers who can gain from switching.

Table 22: Proportion of single fuel gas customers for whom suppliers offered a cheaper deal in each scenario (simple average across quarters Q1 2012 – Q2 2014)⁴⁹

	%										
	EDF Energy	RWE	Scottish Power	Ebico	SSE	Centrica	Utility Warehouse	Sainsbury's Energy	E.ON	Co-op Energy	Other
S1	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S2	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S3a	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S3b	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S4a	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S4b	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]
S5	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Source: CMA analysis.

Note: Base: customers who can gain from switching.

⁴⁷ The average includes all quarters including those quarters where suppliers might have not offered the cheapest deal.

⁴⁸ See footnote 47

⁴⁹ See footnote 47

Table 23: Top 5 cheapest tariffs available to dual fuel customers under scenario 5 in Q2 2014

<i>Supplier</i>	<i>Gas tariff</i>	<i>Electricity tariff</i>
First Utility	isave fixed August 2015	isave fixed August 2015
First Utility	isave everyday	isave fixed August 2015
Ovo Energy	ovo payg energy plan (pre 31/07/2014)	ovo payg energy plan (pre 31/07/2014)
Ebico	equidual	equidual
First Utility	isave everyday prepayment	isave everyday prepayment

Source: CMA analysis.

Note: Base: customers who can gain from switching.

Table 24: Top 5 cheapest tariffs available to dual fuel customers under scenario 4b in Q2 2014

<i>Supplier</i>	<i>Gas tariff</i>	<i>Electricity tariff</i>
First Utility	isave fixed August 2015	isave fixed August 2015
First Utility	isave everyday	isave fixed August 2015
EDF Energy	blue+price promise February 2016	blue+price promise February 2016
Ebico	equidual	equidual
Ovo Energy	ovo payg energy plan (pre 31/07/2014)	ovo payg energy plan (pre 31/07/2014)

Source: CMA analysis.

Note: Base: customers who can gain from switching.

Table 25: Top 5 cheapest tariffs available to single fuel electricity customers under scenario 5 in Q2 2014

<i>Supplier</i>	<i>Electricity tariff</i>
First Utility	isave fixed August 2015
Ovo Energy	ovo payg energy plan (pre 31/07/2014)
Ebico	equipower
Scottish Power	online fixed price energy July 2015
Centrica	standard

Source: CMA analysis.

Note: Base: customers who can gain from switching.

Table 26: Top 5 cheapest tariffs available to single fuel electricity customers under scenario 4b in Q2 2014

<i>Supplier</i>	<i>Electricity tariff</i>
First Utility	isave fixed August 2015
EDF Energy	blue+price promise February 2016
Ebico	equipower
Ovo Energy	ovo payg energy plan (pre 31/07/2014)
Scottish Power	online fixed price energy July 2015

Source: CMA analysis.

Note: Base: customers who can gain from switching.

Table 27: Top 5 cheapest tariffs available to single fuel gas customers under scenario 5 in Q2 2014

<i>Supplier</i>	<i>Gas tariff</i>
EDF Energy	blue+price promise February 2016
Scottish Power	online fixed price energy July 2015
Ebico	equigas
Scottish Power	help beat cancer fixed price energy September 2016
RWE	price fix August 2015

Source: CMA analysis.

Note: Base: customers who can gain from switching.

Table 28: Top 5 cheapest tariffs available to single fuel gas customers under scenario 4b in Q2 2014

Supplier	Gas tariff
EDF Energy	blue+price promise February 2016
Scottish Power	online fixed price energy July 2015
Ebico	equigas
Scottish Power	help beat cancer fixed price energy September 2016
RWE	price fix August 2015

Source: CMA analysis.

Note: Base: customers who can gain from switching.

Composition of the electricity and gas fixed customer base

Table 29: Composition of electricity fixed customer base in Q2 2014

	Total	With term at launch 1 year (%)	Term at launch 1–2 years (%)	Term at launch of more than 2 years (%)
Centrica	[X]	[X]	[X]	[X]
EDF Energy	[X]	[X]	[X]	[X]
E.ON	[X]	[X]	[X]	[X]
RWE	[X]	[X]	[X]	[X]
Scottish Power	[X]	[X]	[X]	[X]
SSE	[X]	[X]	[X]	[X]

Source: CMA analysis.

Table 30: Composition of gas fixed customer base in Q2 2014

	Total	With term at launch 1 year (%)	Term at launch 1–2 years (%)	Term at launch of more than 2 years (%)
Centrica	[X]	[X]	[X]	[X]
EDF Energy	[X]	[X]	[X]	[X]
E.ON	[X]	[X]	[X]	[X]
RWE	[X]	[X]	[X]	[X]
Scottish Power	[X]	[X]	[X]	[X]
SSE	[X]	[X]	[X]	[X]

Source: CMA analysis.

GB gas and electricity customer characteristics

Table 31: GB domestic gas customers of the Six Large Energy Firms by tariff, fuel and payment type, Q2 2014

Tariff type	Single or dual fuel	Payment type	Percentage of total domestic GB gas customers (%)			
Standard variable	Dual		68			
				52		
		Direct Debit			27	
		Standard Credit			13	
		Prepayment			11	
		Other			1	
Non-standard	Single		16			
				16		
		Direct Debit			5	
		Standard Credit			7	
		Prepayment			4	
Standard variable	Dual		32			
				29		
		Direct Debit			25	
		Standard Credit			4	
		Prepayment			1	
Non-standard	Single		2			
				2		
		Direct Debit			1	
		Standard Credit			1	
		Prepayment			0	
Total			100	100	100	

Source: CMA analysis of Six Large Energy Firm tariff data.

Note: Numbers in columns may not add up to 100% due to rounding.

Table 32: GB domestic electricity customers of the Six Large Energy Firms by tariff, fuel and payment type, Q2 2014

Tariff type	Single or dual fuel	Payment type	Percentage of total domestic GB electricity customers (%)			
Standard variable	Dual		70			
				44		
		Direct Debit			22	
		Standard Credit			11	
		Prepayment			10	
Non-standard	Single		26			
				26		
		Direct Debit			9	
		Standard Credit			10	
		Prepayment			6	
Standard variable	Dual		30			
				24		
		Direct Debit			21	
		Standard Credit			3	
		Prepayment			1	
Non-standard	Single		6			
				6		
		Direct Debit			4	
		Standard Credit			2	
		Prepayment			0	
Total			100	100	100	

Source: CMA analysis of Six Large Energy Firm tariff data.

Note: Numbers in columns may not add up to 100% due to rounding.

Annex G: Methodology and detailed output of the regression analysis

1. To calculate the difference between potential gains available to SVT customers and gains available to other customers, controlling for potential differences in customer mix, we estimate the following linear regression model:⁵⁰

$$gains_i = \alpha_i + \beta_{1i}SVT_i + \beta_{ki}control_variables_i + \varepsilon_i$$

2. The dependent variable, *gains*, is expressed as pounds per customer per year. Where customers have negative or no gains (meaning that they are already on the best tariff), this is expressed as a zero value.⁵¹ Observation *i* is a customer group that is defined by the tariff and characteristics of the tariff they subscribe to, their payment method, region, level of consumption and quarter of observation. Consumption is observed at certain levels of the consumption distribution (see Annex B). We excluded from our baseline specification customer groups with consumption falling in the tenth or 90th percentiles of the consumption distribution.
3. The explanatory variable of interest is the SVT indicator, which takes the value of 1 for customer groups subscribing to the SVT tariff. Control variables in our baseline specification include consumption, indicators for the region, online tariffs (wide definition), current supplier, payment method and Economy 7. The error term includes differences in the potential gains available to customer groups that are not explained by the explanatory variables.
4. We performed the analysis separately for dual fuel, single fuel gas and single fuel electricity customer groups. In presenting the results we focus on the Core scenario and dual fuel customers.
5. Table 2 below presents the detailed output for our baseline specification for scenario S5. The estimated coefficient of the SVT indicator can be interpreted as the average difference in potential gains available to customers subscribing to the SVTs, and customers subscribing to other tariffs, controlling for differences in customer mix (regional, payment type, tariff structure and similar) between these two groups. The average is an average across all Six Large Energy Firms and all quarters in the Relevant Period. The estimate

⁵⁰ We use Ordinary Least Squares. Standard errors are clustered by tariff.

⁵¹ An alternative approach would be to measure negative gains with a negative value instead of zero. This approach is likely to produce a larger difference between SVTs and non-standard tariffs, as negative potential gains tend to occur for customers subscribing to competitively priced non-standard tariffs.

shows that the average difference amounts to around £34 per customer per year.

6. To assess the robustness of our result above to the precise specification of the equation and the data used we conducted a number of sensitivity checks:
 - (a) Adding back the tenth and 90th consumption percentiles.
 - (b) Expressing the dependent variable as a percentage value rather than pounds.
 - (c) Including a dummy variable indicating tariffs with a contract longer than 24 months.
 - (d) Including the exit fee as a control variable. This would control for the possibility that a customer on a non-standard tariff is currently paying less (and has less to save) because they have committed to pay a fee if they switched.
 - (e) Estimating a weighted regression. This means that each tariff received a different weight in the estimation, where the weights are based on the number of customers subscribing to that tariff.
 - (f) Including a dummy variable indicating the two quarters in 2014. This controls for the possibility that the offerings in the market changed following the implementation of the RMR.
 - (g) Estimating the difference between SVT and non-standard customer gains separately for the period before and during 2014.
 - (h) Including dummy variables for each quarter. This controls for the possibility that the average result is driven by specific quarters (for example, dates just before or after an SVT price change).
 - (i) Estimating the difference between SVT and non-standard tariff gains separately for each quarter.
7. Table 1 summarises the results of these checks for dual fuel.⁵² Overall, we find that on average the estimated difference between SVT and non-standard tariff customer potential gains does not depart materially from our baseline result. We notice that the difference varies materially across quarters, and the most recent quarters (in 2014) show the highest average difference. However, we consider our baseline approach to be more robust in that it uses more

⁵² The results for scenarios S2, S3a and for single fuel are not reported for brevity. They were broadly consistent with what we have observed for dual fuel.

information than any quarterly or annual result, and is less likely to be affected by errors in measurement in any particular quarter (arising, for example, from an unusually cheap tariff being available at a particular snapshot date for a short period of time).

Table 1: Summary of the results of sensitivity analysis: coefficient estimates of the SVT dummies using different specifications

	<i>S1</i>	<i>S3b</i>	<i>S4a</i>	<i>S4b</i>	<i>S5</i>
Baseline	21.51	42.53	32.75	34.47	34.45
a) 10th and 90th consumption percentiles included in the data	22.0	46.9	34.8	36.4	36.2
b) Dependent variable in %	0.016	0.033	0.024	0.025	0.024
c) Contract length dummy included	24.0	38.7	37.5	38.7	39.1
d) Exit fee included	20.2	29.1	27.7	29.6	29.6
e) Weighted regression	17.9	47.5	30.1	34.3	36.1
f) Dummy for 2014 included	21.5	42.5	32.7	34.4	34.3
g1) Before 2014	19.9	50.7	29.4	30.5	30.5
g2) Only 2014	30.0	2.3	45.7	48.2	49.4
h) Quarterly dummies included	21.0	42.3	31.9	33.7	33.3
	[7.7 ;	[-10 ;	[15.2 ;	[17.3 ;	[16.6 ;
i) Quarterly Regressions	33.3]	62.9]	46.5]	49.5]	49.9]

Source: CMA analysis.

Table 2: Baseline regression output for scenario S5 (coefficients of regional dummies are not reported)

Variable	Coefficient (standard error)		
	Dual fuel	Single fuel electricity	Single fuel gas
SVT	[X]	[X]	[X]
EDF Energy	[X]	[X]	[X]
E.ON	[X]	[X]	[X]
RWE	[X]	[X]	[X]
Scottish Power	[X]	[X]	[X]
SSE	[X]	[X]	[X]
Electricity consumption	-0.00 (0.00)	0.02*** (0.00)	
Gas consumption	0.01*** (0.00)		0.00** (0.00)
Electricity consumption squared term	0.00 (0.00)	-0.00*** (0.00)	
Gas consumption squared term	-0.00*** (0.00)		0.00 (0.00)
Online tariff (wide definition)	-36.95*** (6.04)	-19.54*** (3.27)	-16.29*** (4.91)
Economy 7	0.87 (8.05)	-10.39 (7.53)	
Payment type – credit	78.13*** (4.74)	37.24*** (2.04)	39.24*** (2.19)
Payment type – prepayment	-66.73*** (6.93)	-30.41*** (6.37)	-14.23 (9.48)
Constant	[X] [X]	[X] [X]	[X] [X]
Observations	671,218	446,871	227,195
R-squared	0.37	0.32	0.36

Source:

Notes:

1. Robust standard errors in parentheses.
2. Regional dummies not reported.
3. Omitted categories are Centrica, Direct Debit and East Anglia.
4. P-values reported as: *** p<0.01, ** p<0.05, * p<0.1