

Consultation Response

Provisional Findings of the Energy Market Investigation

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Key points

In responding to the Provisional Findings of the Energy Market Investigation by the Competition and Markets Authority, Age UK has focussed on the suggestion of a 'safeguard regulated tariff' - Remedy 11). We also make some comments on the proposal to scrap the four tariffs per fuel per payment method introduced by the Retail Market Review - Remedy 3 - and the various enabling measures suggested to improve customer information and increase the willingness of householders to be more active in searching the market for better deals - Remedies 6, 9 and 10.

Response

1. The safeguard regulated tariff

- a) The long term answer to customers being defaulted onto any tariff when an existing tariff expires or otherwise closes is, of course, to 'nudge' customers more vigorously to become more interested in energy prices and the opportunities in the energy market. Meanwhile, we are where we are. As RMR was implemented, and the four tariff regime was being introduced, we heard from many older householders of their unhappiness about being switched - seemingly arbitrarily - onto tariffs they did not expect or particularly want. The safeguards in place at the time required that the householder be put onto the best deal, but there will always be some greyness around the assessment by one party about what is the best deal for another party. For example, some people are prepared to pay the premium for the certainty of a longer fixed price term: others have particular views on what type of payment method they find comfortable. And because many of these 'new' tariffs were, or were believed to be, more expensive than the 'old' tariff, these unsurprisingly were unhappy customers.

In this situation, despite the caveats above, we support the provision of a transitional safeguard regulated tariff. The CMA acknowledges that there is work outstanding to decide how to calculate it, and who might be reviewing and regulating it, but the intention is obviously to provide the unengaged consumer with a second chance to become more engaged, and make a more positive choice about the energy tariffs on offer. The CMA asks about how long these tariffs might need to last, but their transitional nature might be described in terms of how long they need to last in the market as a whole, and also how long might they apply to an individual customer. The CMA should probably take counsel from behavioural change experts, but Age UK can see a case for providing a customer with this transitional protection for a limited period, and using the period to send more urgent communications about the range of options available, and perhaps urging people to seek third party advice from a trustworthy source. There is also a debate to be had

about whether there is a longer-term role for safeguard tariffs for vulnerable customers, or those on the priority services register.

- b) If this transitional protection is provided to householders individually, the CMA may wish to give some thought to drafting guidelines for energy suppliers about the nature and the frequency of their further communications with these customers during the protected period. Elsewhere in this publication, amongst the proposals for beefing up the enabling measures, the suggestion is mooted that texts and phone calls might supplement written communications. These have apparently worked quite well in terms of some banking and water industry issues. They need to be assessed as to whether they would simply be dismissed as nuisance calls. But if agreed, these would certainly be worth trying - if only on an experimental basis. Remedy 11 also asks about whether all customers might be eligible for this protection, or just a specified minority, and whether all energy suppliers should be obligated in this manner or just the Six Large Energy Firms. It is Age UK's view that on both scores the answer should be universal, both on the grounds of equity, and also on the pragmatic grounds that it simplifies the task (and so the accuracy) of any adviser who might be approached by the customer for support.
- c) A supplier's potential ability to undermine the remedy by encouraging the customer onto a less favourable tariff could be blocked by the guidelines on the nature, frequency and content of the fresh wave of communications during the protected period, as suggested above.

2. The four tariff formula

- a) Age UK has been supportive of the intentions of this RMR innovation, on the basis that it was simpler for customers, and - although a little cumbersome - simpler and more clear for advisers. It certainly was much easier to deal with than the free-for-all which preceded it. In concluding that it has not improved transparency in the market, the CMA might be rushing to a judgement before the new scheme has had time to bed down and make an impact. The evidence that a significant proportion of customers are unengaged with the market has been steady and compelling for some time, and it may be naïve to expect that any single innovation would rapidly transform consumer behaviour.
- b) But Age UK also accepts that the introduction of time-of-use tariffs will render unsustainable the logic of the four tariff formula. At their best, smart meters will be another important tool to drive consumer behaviour towards more engagement with the market, but with their wider application, so will flow the proliferation of new tariff offerings. Remedy 3 thus inquires if all Price Comparison Websites should be obliged to cover 'the whole of the market'. This might be ideal, but the CMA would need to be assured that it could be policed and enforced. A wider consideration is that choose to present only information about tariff offerings from companies with whom they have a financial relationship. A different way forward might be for PCWs to present their information in a more prescribed and uniform way (so eventually more understood and acceptable to consumers). So, for example, the four main payment methods might be the main headings, under which could be

grouped all the relevant tariffs offered in those categories, and other filters could be built in such as green energy only, or Large Energy Firms only, or fixed term deals only. The point is, we need to keep manageable the volume of information a customer may be offered, since this too is well known as a barrier to being an engaged consumer.

- c) Another simplification suggested by the CMA is that all tariff information could be presented in terms of a price per unit consumed only (ie abolishing the standing charge). This would be supported by many older customers, who believe that they are low volume consumers, and so suffer disproportionately from the standing charge regime. Age UK is not sure how well-founded this perception is, but would nonetheless welcome the abolition of standing charges in the name of simplification.
- d) As an interim proposal, the CMA is asking whether if not four tariffs, and if not free-for-all, then how many standard tariffs per fuel per payment method might be acceptable? This idea seems only to add to consumer confusion and distrust of the market - first there were four, then there became twelve, then forty. It is not a tenable way forward. If more tariff choices are inevitable, we need to deal with that imaginatively. The public is probably quite unclear about the distinction between a regulated tariff and an unregulated one – this could be clarified on tariff information. We might wish to regulate the way information is provided (as suggested above), offering more filters to present the options, and to make consumer choices easier. Moving beyond information solutions, there may be headway in trying to build up the ‘treating customers fairly’ guidelines to improve product design, so that firms are not incentivised to increase ‘confusion marketing’ through a range of tariffs..
- e) All this is more difficult for householders without computer access or the confidence to use digitally presented information, and for the time being that will still apply to millions of older householders. But given the complexity of the market, if not just under the four tariff regime but in the future, that seems inevitable. It means that call centres will have to step up their game to help enquirers who want to use the telephone, and advice givers will need to be able to work with a script which mirrors what internet users and call centres will deal with as they present the options and choices.

3. Measures to improve consumer information

- a) The inquiry asks if Ofgem should become a ‘neutral’ PCW. This seems unnecessary if the regulator is involved in reviewing and regulating the existing PCWs which are already active in the field.
- b) The design and presentation of bills has already been partly shaped by the requirements of the RMR reforms – particularly the introduction of the annual statement. Most energy suppliers are looking at the balance between the simplicity with which they present their bills and the amount of information they provide to consumers. The sad fact is that years of attempts to improve information have not really motivated consumers to take action. It certainly doesn’t feel that the answer

is to make the bill even more complex and unwelcome by overloading it with buckets of additional information, but there should be a clear invitation to explore the tariff options which are on the market, and a clear signal about where to start. There is an increasing credibility about behavioural change expertise, Ofgem could be helpful across the whole market by garnering that advice, and issuing it as guidance which its regulatory role could enforce.

- c) As noted above, prompts such as phone calls or text messages could be helpful – but with the caveat that they must not be construed or perceived as a nuisance. The provenance of these is crucial to their credibility and their propensity to prompt action. Energy suppliers are probably in the best place to provide this service since they have the relevant consumer information. They could also prioritise customers on their Priority Services Registers, once Ofgem has deliberated on the reformed construction of these.