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7 **COMPETITION AND MARKETS AUTHORITY**
8 **ENERGY MARKET INVESTIGATION**
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11 **Notes of a hearing with several advice organisations**
12 **held at Competition and Markets Authority, Southampton Row, London**
13 **on Wednesday, 2 September 2015**
14

15
16 *PRESENT:*
17

18 **FOR THE COMPETITION AND MARKETS AUTHORITY**

19 Roger Witcomb - Chairman
20 Lesley Ainsworth - Member
21 Martin Cave - Member
22 Bob Spedding - Member
23

24 **FOR THE STAFF**

25 Erika Lewis - Project Director
26 Marie Clarke - Economist
27 Lucy Beverley - Director, Financial Analysis, Business and
28 Remedies
29 Victoria Balaguer - Legal Adviser
30

31 **FOR THE PARTIES**

32 Audrey Gallacher - Director of Energy, Citizens Advice
33 Gillian Cooper - Head of Retail Energy, Citizens Advice
34 Sarah Beattie-Smith - Consumer Futures Scotland Manager, Citizens
35 Advice Scotland
36 Richard Hall - Director of Strategic Infrastructure, Consumer
37 Futures, Citizens Advice
38 Daniel Walker-Nolan - Policy Manager, Citizens Advice
39 Peter Smith - Head of Policy, National Energy Action
40 Pete Moorey - Head of Campaigns, Which?
41 Norman Kerr - Director, Energy Action Scotland (dialled in)
42 Elizabeth Gore - PR/Information Manager, Energy Action
43 Scotland (dialled in)
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47
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49 Digital Transcription by WordWave International Limited trading as DTI
50 8th Floor 165 Fleet Street London EC4A 2DY
51 Tel No: 020 7404 1400 Fax No: 020 7404 1424
52 Email: ukclient@dtiglobal.eu
53

1 THE CHAIRMAN: Welcome. Good afternoon, everybody. Thank you very much for
2 coming in and thank you too for the contribution you each made to the
3 investigation so far and, in particular, your responses to our provisional findings
4 and notice of possible remedies, which is what we will be focusing on today.
5 If we get through the formalities first, I will start by introducing our side. If you
6 would then introduce yourselves and then I will take you through the procedures
7 and how we propose to take things forward.
8 I am Roger Witcomb. I am one of the five Members of the inquiry group. Three
9 of the other Members are with us today: Leslie Ainsworth, Bob Spedding here
10 and Martin Cave over there. Malcolm Nicholson is the fifth Member. He cannot
11 be with us today but, as we are taking a transcript, he will read that and will
12 know exactly what has been said.
13 Why not introduce yourselves now and then we will take it on from there?

14 A. (Ms Cooper) I am Gillian Cooper, Head of Retail Energy Markets for Citizens
15 Advice.

16 A. (Ms Gallacher) I am Audrey Gallacher and I head up the Energy Programme,
17 Director of Energy at Citizens Advice.

18 A. (Ms Beattie-Smith) I am Sarah Beattie-Smith. I am the Consumer Futures
19 Scotland Manager at Citizens Advice Scotland.

20 A. (Mr Hall) I am Richard Hall. I am the Director of Strategic Infrastructure,
21 Consumer Futures at Citizens Advice.

22 A. (Mr Walker-Nolan) I am Daniel Walker-Nolan. I am a policy manager at Citizens
23 Advice.

24 A. (Mr Smith) Hello, I am Peter Smith from National Energy Action. I am Head of
25 Policy.

1 A. (Mr Moorey) I am Pete Moorey. I am Head of Campaigns at Which?.

2 Q. On the phone?

3 A. (Mr Kerr) On the phone, we have Norman Kerr and Elizabeth Gore from Energy

4 Action Scotland.

5 Q. Welcome.

6 A. (Mr Kerr) Thank you.

7 Q. I also realise I had forgotten to introduce the people who do the work. On the

8 front row, there is Marie Clarke, who is an economist, Lucy Beverley, who is a

9 director of Remedies and Business and Financial Analysis, and Erika Lewis,

10 who is one of the two project directors for this huge project, and Victoria

11 Gallagher, who is one of our legal advisers who keeps us on the straight and

12 narrow and the people who really do the work on the back row, they will

13 introduce themselves if they are involved in the discussion.

14 I understand that all but one would like to make a short opening statement. I

15 think, Norman, you are not wanting to make a statement; is that right?

16 A. (Mr Kerr) That is correct. We are happy to pass on that.

17 Q. That is absolutely fine.

18 A. (Mr Moorey) We also were not planning to make an opening statement.

19 Q. We sent you information about our procedures at hearings and the way we treat

20 evidence. As I mentioned before, we are taking a transcript. We will send you

21 all a copy of that transcript. Check it for accuracy and potential confidentiality

22 issues, if there is anything you would rather did not go into the public domain.

23 Normally, we would publish on our website a summary of a hearing but we

24 thought that would be difficult for us, so what we are actually planning to do is

25 to publish the transcript in its entirety once you have checked it out for accuracy

1 and confidentiality.

2 Finally, on procedures, I have to remind you that it is a criminal offence under
3 section 117 of the Enterprise Act 2002 to provide false or misleading
4 information to the Authority at any time including at this hearing.

5 As to where we are in the investigation, as you very well know, we published
6 our provisional findings and notice of possible remedies back at the beginning
7 of July. We are now holding hearings with a very large number of interested
8 parties. I know you have been in conversation with staff in the past and you
9 are likely to do so in the future as well, so this is not the end of it but it is an
10 important milestone as far as we are concerned.

11 In these response hearings, our main focus of interest is the potential remedies
12 which we identified in the notice and I think your responses have all been
13 around the remedies to do with the retail market, so we will concentrate on the
14 retail market remedies. If there are remedies that are not to do with the retail
15 market that you would like to talk about, then please speak up. But certainly
16 the focus of our interest, as far as we can see, is on the retail market.

17 In terms of progress, we are continuing to analyse and collect fresh information
18 and analyse it. The next step will be a provisional decision on remedies which
19 will come (I think the official timing is now the autumn) as soon as we can. It
20 depends a bit on what we hear from parties in the hearings and where that
21 takes us.

22 Clearly, this is an afternoon hearing, so we will hope that it does not go too far
23 into the evening. I know one of our number has to leave at 5.30 pm but we will
24 take as long as we need to take.

25 Just to say, so we do not have to say it later, that the way we are planning to

1 deal with this is there are about seven remedies in total which we would like to
2 discuss with you. We will take each remedy in turn. We have a batting order
3 for each remedy. It is different depending around, so if you get the first set of
4 questions on the first remedy that does not mean that you necessarily get the
5 first set the next time round. Particularly with that in mind, please do not feel
6 the need, if you agree with what the previous speaker has said to say it again.
7 If I could ask Citizens Advice Scotland.

8 A. (Ms Beattie-Smith) I had not planned on making a statement either.

9 Q. You have not either. Okay, that is fine.

10 A. (Mr Hall) I had not planned to make an opening statement.

11 A. (Mr Smith) Only me that likes to dwell in the exuberance of my own verbosity,
12 so that is great. Rather nervously I will start this painful monologue. Just
13 generally, we obviously welcome the Competition and Markets Authority's
14 energy market investigation. I think it is absolutely critical to build trust in the
15 competitive energy market. NEA's focus is on vulnerable households or
16 vulnerable customers particularly those on low incomes. The regulator, Ofgem,
17 stated that energy is an essential service and, as such, we welcome any
18 targeted steps to enhance access and protections for approximately four and a
19 half million UK households that are struggling to afford the energy they need to
20 adequately heat their homes for their own comfort and wellbeing.

21 It is worth reminding you all that three and a half million of those four and a half
22 million households are vulnerable, i.e. they contain elderly people, children
23 under five, people with long-term disabilities or illnesses.

24 So, the consequence of not acting in that way and in enhancing adequate
25 protections for those most disadvantaged consumers are relatively bleak.

1 Sadly, fuel poverty, we believe, is a bigger contributor to premature mortality
2 than roads, alcohol or drugs abuse combined. Rather worryingly, over the next
3 15 years, we believe without an adequate intervention we may see over
4 125,000 people across the UK sadly dying needlessly as a direct result of living
5 in a cold home. In addition, in England and Wales, we believe that over the
6 same 15-year period we may see hospital services needing to spend in excess
7 of £22 billion on cold-related morbidity. So, not only are there are grave
8 consequences for those directly involved but obviously there are wider costs as
9 well.

10 Moving beyond fuel poverty and simply looking at the sheer indebtedness that
11 we see within the UK energy market at present, £950 million worth of energy
12 debt currently, approximately, from domestic consumers and, again, that has a
13 direct consequence to those households, them not feeling inhibited in making
14 other essential purchases in goods and services, such as food, but equally
15 there is a direct consequence to the economies of those deprived communities
16 where energy debt is acting as a brake on economic activity that could be
17 generated if that income was freed up for other purposes.

18 We also see seven million households on roughly -- perhaps seven million
19 households on pre-payment meters and 80 per cent of those are roughly paying
20 off a debt. Over six million households are also suffering needlessly because
21 of the poor energy efficiency of their buildings whereby they live in particularly
22 energy-inefficient properties and, therefore, the little money that they do
23 prioritise towards consuming for energy is often frittered away through leaky
24 walls and windows. So, we see those issues as being central and should shape
25 the focus of where you prioritise your remedies, we hope at least, and we see

1 this process as a helpful one. Obviously there is a range of -- CMA cannot
2 correct all of that but it can do quite a bit in relation to particularly energy costs
3 and we are looking forward to exploring the detail of that alongside your
4 proposed remedies today.

5 Q. Thank you. Anything coming immediately out of that? We will pick up a number
6 of those issues obviously as time goes on.

7 I will kick off, if I may, talking about remedy 3 which is basically removing the
8 simpler choices component for the RMR rules (shorthand for the four-tariff rule)
9 from the licensees. It is probably fair to say from the responses we have seen
10 that there is a range of opinion on whether or not this rule should be removed.

11 If I could start with you, Norman, in Scotland, Energy Action Scotland, you are
12 the most wholeheartedly in favour of this remedy for the reasons which you
13 have given in your submission. Do you have any feelings of what other tariffs
14 might be introduced and how that would help customers going forward? I think
15 you mentioned micro-renewables but are there other things that are on the
16 market which would benefit from a relaxation of this rule?

17 A. (Mr Kerr) I think what we have seen in Scotland, and it is more prevalent here,
18 is the tariff that is used, the dynamic teleswitch tariff, and both the incumbent
19 suppliers, ScottishPower and SSE, have a large number of people on electric
20 heating on those dynamic teleswitch tariffs. We would like to see more people
21 coming into the market with alternative tariffs to that so that customers can
22 switch over. But, as we said, particularly in micro-renewables, there is no
23 dedicated micro-renewable tariff and things like heat pumps, for examples, run
24 for significantly longer periods of the day. What we have seen is when someone
25 is putting in a heat pump, then it is a close fit where possible but not always the

1 best fit on a tariff. We have seen the restriction in those tariffs down to four
2 core tariffs in some ways stifling the innovation and stifling the opportunity to
3 promote alternatives, particularly as we said around the micro-renewables but
4 also dynamic teleswitch, to give other suppliers the opportunity to provide a
5 better deal for those, particularly in rural areas.

6 Q. Dynamic teleswitching is an issue which is not completely confined to Scotland
7 but largely, is it not, as I understand? I think there are bits of the East Midlands
8 which also have dynamic teleswitching.

9 A. (Mr Kerr) Yes, we understand certainly around, I think, North Yorkshire, et
10 cetera, there are some there. But I think the largest group of people who are
11 on DTS sit within Scotland and it is not particularly an issue outwith the rural
12 areas of Scotland but certainly we see that it is one that probably has a greater
13 resonance with Scottish consumers than it does elsewhere.

14 Q. Do you think having a wider range of tariffs would go a long way to solving those
15 issues?

16 A. (Mr Kerr) I think it would encourage -- if you look again, Ofgem talk about sticky
17 customers particularly in the north of Scotland. There are a few things there.
18 One is a great customer loyalty to the old Hydro board, the SSE. Also the
19 number of people who would like to move but find that no other supplier will
20 offer the same competitive tariff on that. It may be one of the remedies later
21 on, when we talk about that is access to the teleswitch codes, but I think what
22 we are doing just now is suppliers giving the numbers and in Scotland we are
23 talking roughly about 400,000 customers on a DTS tariff.

24 Suppliers are not necessarily encouraged, because of the restrictions on tariffs,
25 to come up with alternatives to that. If you are in the south of Scotland, very

1 much you are never going to switch from ScottishPower and the same if you
2 are in the Highlands, it is unlikely you would ever switch from SSE. No other
3 supplier has an alternative tariff on DTS. They will offer you one of their basic
4 tariffs but that is not going to be enough to encourage people to switch.

5 Q. One of the main reasons why the four-tariff rule came in was that Ofgem was
6 concerned that people were being confused by the proliferation of tariffs. Do
7 you see that as a problem now? The world has moved on, I know, but.

8 A. (Mr Kerr) Certainly, you are right, the world has moved on and I think for
9 campaigners like ourselves, when we talked about 400 tariffs, we would never
10 or I would never, as a consumer, be offered 400 tariffs. But I think it
11 demonstrates that it became much, much more difficult in terms of price
12 comparison to do that read across. I think the world has moved on. Today
13 there was some bits in the press about all the major suppliers dropping their
14 green tariffs. Again, they placed that decision to do so and the blame for that
15 at Ofgem's door in restricting the amount of tariffs that they are able to do.
16 I think we have swung the pendulum to the other extreme and I think
17 somewhere in the middle, as long as we have the ability to have a clear read
18 across which was failing before, then I think that might help significantly in that
19 area.

20 Q. You do not think that just increasing the number of tariffs would do that?

21 A. (Mr Kerr) No because I think, again, if we do that and we set a new ceiling of,
22 say, 8 tariffs or 9 tariffs or 12 tariffs, what we are basing that on, and again
23 would it actually stifle innovation as we move forward over the next 5 or 10
24 years when more micro-renewables are scheduled to come on-stream? As the
25 cost of solar panels and ground source heat pumps reduces, then I think we

1 will see more people wanting to install micro-renewables in their homes and,
2 indeed, if we can encourage suppliers through energy company obligation or
3 indeed in Scotland, the Scottish Government Energy Efficiency programmes to
4 tackle fuel poverty, to have those newer micro-renewable technologies included
5 within the grant programmes it seems a bit perverse that we are doing that but
6 not allowing tariffs to be brought forward.

7 So, I think simply putting the cap on it, we would go back to -- suppliers will
8 come to Ofgem and ask for a further derogation or we will have this
9 conversation in five years' time and I do not think that is particularly useful.

10 Q. If I could move on to National Energy Action, to you, Peter. I think you had
11 some concerns in England about the danger of an increased number of tariffs
12 leading to customer confusion.

13 A. (Mr Smith) Yes. We are certainly aware that suppliers have stated that the core
14 tariffs requirements under RMR have been difficult and the derogation process
15 fairly cumbersome. But we also equally think that it may well be premature to
16 lift the lid and to scrap the RMR reforms, particularly in core tariffs, too early.
17 Simply it is too early to say really whether or not that that proposal has been
18 effective. Certainly, if the suppliers are saying that it is inhibited competition,
19 then clearly the evidence of what is going on in the marketplace at the moment
20 would counter that. We are seeing quite a lot of independents coming into the
21 marketplace and growing their market shares quite comfortably with the pool
22 albeit with the need to have these four core tariffs. So, we think it may be a
23 little bit premature to lift the lid once again and see. The consequence of that
24 could be another further proliferation of tariffs which is why these RMR rules
25 were introduced in the first place.

1 So, yes, a word of caution, I would say.

2 Q. You also suggest in your evidence that suppliers should be required to have
3 socially progressive tariffs for low-income customers. Can you say a bit more?

4 A. (Mr Smith) Yes, certainly. So, this is really building on your other remedy and
5 the back-stop or an effective back-stop tariff or regulated tariff. I believe the
6 rest of the participants here today will want to talk about how that proposal may
7 be reformed or adjusted to be a little bit more targeted on the people who need
8 the most help. But essentially it would be possible for suppliers to provide social
9 tariffs and -- historically suppliers have provided these sorts of tariffs. The
10 reason that we moved away from that initially a couple of years ago and moved
11 to having the Warm Home Discount Scheme, which provides an effective
12 rebate for various low-income households (£140 off electricity bills) was to
13 provide a standardisation across the industry of what the offering was to
14 vulnerable households.

15 So, yes, we believe essentially you could have both. You could have the Warm
16 Home Discount Scheme continue and be expanded for working families but, in
17 addition to that, you could make your recommendation for a back-stop tariff a
18 little bit more targeted and offer relief for, for instance, people on Cold Weather
19 Payment payments.

20 Q. It is a proposition about the way you target the back-stop tariff or what
21 population you address?

22 A. (Mr Smith) Absolutely.

23 Q. That is very helpful. You raised some concerns about smart meters and time-
24 of-use tariffs and increasing complexity in the market. The general consensus
25 is that smart meters are a good thing.

1 A. (Mr Smith) Absolutely. I think we would reinforce that. In our evidence we try
2 to highlight that we do believe that smart meters, especially for pre-pay
3 customers, could be revolutionary and dramatically enhance their experiences
4 of a failing energy market for that sector at the present time; for instance, not
5 going to the shops late at night, the ability to add credit in automated fashion
6 which means that you are not using emergency credit which can be more dear
7 and a range of other benefits.

8 Q. But you have a concern about time-of-use tariffs?

9 A. (Mr Smith) Just generally if you are a vulnerable consumer, you have got a
10 long-term illness, perhaps your numeracy or your literacy is not great and then
11 you may get hit for six for tariffs which are not explained clearly where
12 customers that -- for instance, our experience at the moment is that a lot of
13 households are on Economy 7 tariffs and do not appreciate it and will continue
14 to use electricity during peak hours of the day and not realise they are getting
15 hit round the head. So, a lot of it is about communication, about given they are
16 on this tariff, what is the best form of activity or behaviour to adopt. But we do
17 have some concerns about the full-scale adoption of time of use tariffs. They
18 can be beneficial to consumers that know what they are doing but obviously if
19 you are a vulnerable consumer they present some risk too.

20 Q. The role of PCWs in this area, price comparison websites, I think you and, as
21 indeed, do Energy Action Scotland say that the rules need to be tightened up a
22 bit.

23 A. (Mr Smith) I think what we felt was perhaps overly burdensome on the
24 consumer was requiring them to check a number of websites to get the better
25 deal, to find out about the best deals. Ideally, there would be one portal by

1 which a recognised organisation like Citizens Advice, for instance - or any other
2 organisation before I start a ruckus - may be able to offer a service which lists
3 every single tariff that is available in the energy market without customers
4 fearing that by want of them not doing a Google search and looking at another
5 price comparison website that they are missing out on a preferential deal. So,
6 yes, we would support a one-stop website where all tariffs were listed by a party
7 that is recognised and trusted, be that Citizens Advice or another.

8 Q. If that were successful, of course, you could argue that would drive all the other
9 ones out of business.

10 A. (Mr Smith) Our interest as an organisation is not with the fortunes (or otherwise)
11 of price comparison websites, it's for vulnerable consumers.

12 Q. That is all right. I am just making the proposition. You basically see price
13 comparison websites as a public service?

14 A. (Mr Smith) They can be helpful in terms of people getting better deals, that is
15 for sure. I think what we are concerned about is that sometimes the choices
16 that people are offered are limited by virtue of which price comparison website
17 you are on. One of the things we are particularly concerned about and would
18 hope that all price comparison websites would highlight is whether or not the
19 choice that they are being offered for the new tariff or new supplier offers
20 assistance like the Warm Homes Discount Scheme where only larger suppliers
21 are obligated to deliver that. There could be a material loss whereby a
22 householder could be benefiting from £150 for switching once but surrenders
23 £140 every year because they take out the Warm Home Discount Scheme.
24 Unless the price comparison website provides that level of information, as I said
25 there is a risk there could be a material loss.

1 A. (Mr Kerr) Yes. I must say I think there is more to be said then about the
2 regulation of the price comparison websites and how they operate in a fair way
3 that makes the information that they give out -- you know, we have spent a lot
4 of time beating the energy companies over the head to provide clearer and
5 fairer information on consumers' bills. That must apply right throughout
6 wherever we give information.

7 Like Peter, Energy Action Scotland is not in the business of ensuring that price
8 comparison websites make a profit or to support them but I think we do in any
9 organisation or company that provides information, I think we need to ensure
10 that the regulation around that means that the advice and information that is
11 given is of a standard, is clear, is in plain English and it can be readily obtainable
12 without having to go back and forwards and back and forward.

13 I do not think it is about keeping the amount of tariffs low because people will
14 not be able to understand them. It is about ensuring that whoever gives
15 information, that is Citizens Advice or any one of the price comparison websites,
16 gives that in a fair manner that is regulated so that there is a code of confidence.

17 Q. That is clear. Could I then move on to Which? and ask what your take is on
18 this particular remedy.

19 A. (Mr Moorey) On the four tariffs?

20 Q. On the four tariffs.

21 A. (Mr Moorey) I think it is important, as you stated, to remember where the four
22 tariffs came from. That was due to the proliferation, the confusion that we
23 certainly saw at Which? that consumers had in terms of the number of tariffs
24 available and the structure of tariffs at the time. I think we also had questions
25 at the time around the value of a lot of what were deemed to be innovative tariffs

1 which really were not innovative at all. You saw a lot of things like charity deals
2 where it would have been better off you giving money to charity and getting a
3 cheaper tariff than actually signing up to a tariff where you somehow thought
4 that you were giving money to charity and similar things like that; football club
5 shirts deals and things like that which really were not particularly innovative at
6 all in and of themselves.

7 Q. Sounds as though they might have been quite innovative but not in the way you
8 thought?

9 A. (Mr Moorey) Not for someone who really wanted the best possible energy deal.
10 Then also I think, thinking about the market at that time as well in that, just as
11 you have now, you have a situation with very many sticky customers on
12 standard tariffs and this proliferation of tariffs have all been targeted at a
13 relatively small number of active, more active consumers.

14 Thinking about that and then thinking where we are today, one of my
15 propositions would be that, is that the four-tariff rule has not really changed that
16 particularly. So, I think the level of confusion that consumers have in terms of
17 the choices that they make is still relatively high, you are still not going to see
18 particularly innovative tariffs on the market and then that critical factor of the
19 fact that you have so many people, as you have identified, sitting on standard
20 tariffs and this very small active market still exists.

21 So, for us, the four-tariff rule in and of itself wasn't really the right remedy to
22 tackle that. We were always more concerned with how you introduce more
23 price transparency so that consumers could make much more effective choices
24 about the best deal for them which is why, during the retail market review
25 proposals, we pressed very hard for reforms around tariff structure and single-

1 unit pricing and have continued to make that case today.

2 So, we would welcome a relaxing of the rules but I think if the CMA is minded
3 to do that, I think we need to think what it is that will be introduced in its place
4 that is going to be any more likely to engage those sticky customers in the
5 market than they were before the rule was introduced, what it is that is going to
6 ensure that people, when they do engage in the market, actually are making
7 decisions that are not only more likely to make them switch but to switch to
8 better deals and the best deal for them.

9 Q. That is very helpful. Which? mentioned on a number of occasions the
10 advantages of having a flat-rate tariff with no standing charge. What do you
11 see as the main benefit of going that way?

12 A. (Mr Moorey) We have done some testing ourselves which we shared with you
13 earlier in this process with EDF Energy where we did some random controlled
14 trials rather than traditional market research. It was based on consumers
15 actually being presented with decisions both in a price comparison website
16 market style but also as if they were looking at energy tariffs in a newspaper
17 just as you can with mortgage deals and insurance deals and banks and so on.
18 What that, I think, showed was not only are people much better able to choose
19 the best deal for them, the cheapest deal on the market very, very easily, but
20 also their propensity to switch increases as a result of that. Perhaps not
21 significantly but then I think we need to remember this is energy and we are
22 dealing with a market where people do not seem to be that willing to switch, full
23 stop. But it was significantly higher.

24 I think there are a number of other additional benefits. I think the particular
25 thing, particularly when we are thinking about the importance of price

1 comparison websites, is the challenge that people seem to have in this market
2 with the information available to them, inputting the right information into
3 websites or, indeed, I think their ability to take that to any different channel,
4 whether that is on the telephone, whether that is through TV advertising or other
5 forms and be able to take that simple piece of information, the price per kilowatt
6 hour, and be able to make a decision in that way. I think it would massively
7 speed up the process for consumers to be able to make the right choice and it
8 would not just, I think, potentially improve their ability to switch but actually to
9 make the right decision when switching which is a challenge that we have seen
10 in the past particularly with things like doorstep selling where switching levels
11 were high and you saw an awful lot of people switching to worse deals.

12 Q. Presumably if you relaxed the four-tariff rule suppliers could offer flat-rate
13 tariffs?

14 A. (Mr Moorey) Some do. Ebico are one supplier who do and obviously we would
15 love to see more suppliers doing it and we know there are suppliers out there
16 who are interested; EDF Energy being the obvious one given the fact that we
17 did that research. But I think having that multiplicity of different tariff structures
18 would reduce the ability of using single-unit pricing as a key means by which
19 we can make choices which obviously was part of the objective of the tariff
20 comparison rate but which we think had a number of flaws particularly because
21 of the fact that it was very dependent on you being a medium energy user. I
22 think there are some other benefits. I have mentioned price comparison
23 websites and smart meters and time-of-use tariffs I think is another area where
24 there are benefits.

25 Q. Over to Citizens Advice. I do not know how you want to play it between the

1 English and the Scottish wings but I will leave it for you to decide. Of the four
2 organisations here, you are the ones who are least keen, shall we say, on
3 relaxing the four-tariff rule.

4 A. (Ms Cooper) We do not think the case has been proven in favour or against as
5 yet. We certainly did not have any expectations that the rules would be
6 delivering significant change in the market in 12/24 months. It was part of an
7 attempt to re-make the market and that is going to take time to deliver in a
8 market where there are traditionally low levels of engagement.

9 Whether we stick with four tariffs or whether we move to a more principles
10 based approach is something Ofgem are looking at in more detail. The
11 outcome we want is not to return to the pre-RMR days where we did have tariff
12 proliferation.

13 I think I am going to agree with the others and say the derogation process
14 probably has not worked as quickly or efficiently as we would have hoped,
15 especially with discussions with suppliers. I think that might have been helpful.

16 I think what we found quite concerning is comments by suppliers in their
17 responses saying that the four-tariff cap had prevented them from delivering
18 these tariffs or providing new tariffs that had been helping their vulnerable
19 consumers and obviously there were derogations available in order to
20 compensate those they wish to bring forward.

21 Q. You were not convinced?

22 A. (Ms Cooper) We were not totally convinced, no.

23 Q. Just going on to the issue of flat-rate tariffs or standing charges, I think we are
24 on a slightly different place. I am not trying to create discord.

25 A. (Ms Cooper) Obviously, from such a shift there will be winners and losers in the

1 process. I think you would need to do a very detailed evaluation of the winners
2 and losers. There are particular concerns for households who tend to use more
3 electricity than average, there is particular subgroup of vulnerable high users
4 who could be negatively impacted.

5 I think the ability to compare prices would be easier. That does not necessarily
6 mean it would translate to increased switching. These are two different things.
7 It is certainly something we have looked at before but we have just chosen to
8 prioritise our efforts on delivering additional tariff support for the more
9 vulnerable consumers in the market.

10 Q. Thank you. Do you want to add anything?

11 A. (Ms Beattie-Smith) Yes, it may be worth saying that from a Citizens Advice
12 Scotland perspective we have joined in the tariff options research together with
13 Citizens Advice. It is a shared position as is the rest of our submission. When
14 you are looking at case evidence coming through Bureaux and our help lines,
15 it is quite an easy position to take instinctively to see how some consumers are
16 suffering from having a standing charge where maybe a few years ago they did
17 not have one. You can see from consumers that were very careful about their
18 usage suddenly having much higher costs. Instinctively it feels like let us just
19 scrap a standing charge but I agree absolutely with Gillian that there are
20 potentially some consequences there and there does need to be more work to
21 map out who are the winners and losers of that kind of move. From that tariff
22 options research that Citizens Advice led on, actually a back-stop tariff has
23 much greater rewards, I think, for consumers. When you are balancing it across
24 the piece, across consumers who win and lose out of that deal, it actually looks
25 a lot better when you are looking at back-stop tariffs.

1 A. (Mr Moorey) Can I respond?

2 Q. Yes, of course.

3 A. (Mr Moorey) I would not completely disagree with those points. Which? has
4 done our own research which has looked in more detail at the winners and
5 losers and lower users, in general, are better off but there are this particular
6 group of customers who would be affected. I guess the question we would ask
7 is how much of that is specifically relevant for a competition inquiry and how
8 much of that is relevant for the Government's social policy to tackle given
9 potential wider benefits for the market. Where I would absolutely agree with
10 Citizens Advice on this, and this is a point we have made throughout our
11 response, is the need for testing. We have done our own random controlled
12 trials with EDF Energy but I think by no means do we see flat-rate tariffs as a
13 golden bullet and I think it is something that the CMA and Ofgem and others
14 should conduct more testing on alongside other remedies to make sure that it
15 really does have the benefits that we think it could potentially have.

16 A. (Mr Hall) If I could, perhaps, jump in and build on a couple of points made
17 earlier. You asked Peter a question in relation to time-of-use tariffs and there
18 has been a general theme around the extent to which innovation could be
19 propagated by the removal of these types of constraints. It is probably worth
20 highlighting that even in a largely pre-smart world where we do not have
21 particularly sophisticated time-of-use tariffs on the market, that there are
22 significant instances of consumers finding it extra difficult to engage even with
23 simple Economy 7 tariffs. So, perhaps to use an example, we did a 2012 study
24 looking at experiences of customers with simple time-of-use tariffs, so Economy
25 7 or Economy 10. That study suggested that 38 per cent of time-of-use

1 customers either did not have storage heating or did not make much use of
2 goods off-peak; so about 2 in 5.

3 A separate recent trial conducted by one of the energy networks looking at the
4 extent to which customers responded to time-of-use signals with smart
5 metering in place is the Customer-led Network Revolution project. They found
6 that 40 per cent of the people participating in the trial paid more on a time-of-
7 use tariff than they would have done on a single-rate tariff, so again about 2 in
8 5. That was on a self-selecting sample. Clearly, with a self-selecting sample
9 in a trial, you may not necessarily get real-world outcomes but there is, I think,
10 an issue with consumers struggling to engage with more complex products.
11 Whilst I think there are a lot of question marks on whether the four-tariff
12 constraint has not created its own unintended consequences, there is a risk
13 that if product design is subject to a free for all it could be quite difficult for
14 consumers to engage in the future.

15 An example of that, perhaps jumping on to smart, is around the extent to which
16 price comparison will be possible where you are dealing with tariffs which have
17 very different features in terms of which are the off-peak or peak windows, how
18 you will manage to do that comparison correctly.

19 A. (Ms Cooper) One other point of clarification too is the four-tariff rule. The rules
20 allow for four tariffs each by meter type and meter mode. So, that does give
21 other flexibility and we have not seen much in the way of innovation beyond
22 Economy 7 type tariffs as yet.

23 A. (Mr Smith) Just to add on from what Richard was saying there about the CLNR
24 trial, because we thought that was an important insight and we did the
25 household interviews for that trial. We found, in addition to -- well, one of the

1 contributory factors to people not benefiting as much under time-of-use
2 arrangements or incentives was just the fact that they can shift their behaviour.
3 So, there is a propensity for vulnerable consumers to be in during the day. But
4 for many working households that are at work, clearly they cannot respond to
5 a pricing rule that is telling them to turn on their washing machine at 3.00 pm if
6 they are not there. There were very much practical considerations as to why
7 people could not benefit. You could say clearly a time-of-use tariff is not going
8 to benefit you and why would you pick it in the first place as was being
9 mentioned about Economy 7. This is about incumbent, a big incumbent
10 supplier that their household is with and the tariff that they are with just when
11 they take over the property. So, quite a lot of it people just do not change
12 because they have more immediate concerns.

13 Q. I should know the answer to this but do we have a copy of that statement? If
14 you could let us have a copy, that would be hugely helpful.

15 A. (Mr Smith) We can send you a copy. I have one quick comment on single-unit
16 rates. Just to say I do not think -- we have been talking about winners and
17 losers of a move to move into a single-unit rate. I do not think we really know
18 enough about the regressive impact of standing charges as is, i.e. what is
19 recovered within them at the present time, so we work to lots of assumptions
20 about how suppliers recover their costs particularly for environmental and social
21 policies. Some of them are recovered on a kilowatt basis, some of them are
22 recovered on a flat rate. There is not that much transparency for consumer
23 groups about how individual suppliers recovered those costs. The fear, I guess,
24 with a move to a unit rate is whilst there would be a clear distributional benefit
25 for households that are consuming little energy and, therefore, would be

1 consuming fewer units, we just do not know how suppliers would look to smear
2 across those standing charges. Unless there was a common approach or a
3 common methodology or a common apportionment of those costs in a clear
4 and transparent way then, as has been said already, there would be clear
5 winners and losers, particularly low-income households that are high usage, we
6 would assume.

7 A. (Ms Gallacher) I think as well on that point there is clearly the geographic
8 element on distribution charges and how that would be dealt with, so either we
9 are going to look at an element of cross-subsidy that does not currently exist in
10 the market (or does not exist in the whole market, the Hydro Benefit
11 Replacement Scheme notwithstanding). So there is a real issue about do we
12 go to a situation with a separate charging for distribution charges so people get
13 two energy bills, what is that going to mean for consumer engagement and
14 potential confusion. So, I think beyond how forcefully apportions are collected,
15 whereas there will be geographic winners and losers if we move to having a flat
16 rate on distribution charges.

17 Q. Thank you. Any more questions on remedy 3? I think we will pass over to Bob.

18 Q. (Mr Spedding) Elizabeth and Norman, for your benefit, I am Bob Spedding. I
19 am going to take over the questioning on remedy 9 and 10.

20 A. (Mr Kerr) Thanks, Bob.

21 Q. (Mr Spedding) Remedy 9 is around information really, whether more, less,
22 different information would assist consumers. I would quite like to start with
23 Citizens Advice because your research project, The Lost Decade report, gave
24 some interesting insights into increasing complexity and quantity of information.
25 Yet, you did not think that was a positive impact. Could you just talk through

1 that?

2 A. (Ms Cooper) Yes. The Lost Decade report, one of the key findings out of it was
3 over the years, as more and more information was added to energy bills, each
4 piece of information was intended to help inform and engage consumers but
5 added together it is complex and I think it is potentially turning some people off.
6 I think some of excess information is particularly around usage. It is not that
7 useful in the pre-smart world. If your bills were accurate, that information about
8 how your usage is changing month to month over a quarter can be quite useful.
9 But if it is based on estimates, it is not that useful if it is not sending you accurate
10 signals.

11 So, in that report we suggested that it was time to take stock of what was on
12 the bill, and have a detailed look at what needs to be on the bill with a view to
13 removing some of the excess content. It is something we tried to do a couple
14 of years ago where we and other consumer bodies, industry and Ofgem
15 established a working group to have a look at what content could be moved off
16 the bill. Unfortunately that was at a time when the RMR process was underway
17 and we were not able to get any traction on the changes. I think it is a fresh
18 time to have another look at it because we are potentially moving in to a world
19 where there is going to be greater personalisation and it is important to look at
20 how different groups of consumers might want to receive that information, what
21 is suitable to provide online versus what is suitable to provide to the millions of
22 people who will continue to get paper bills for years to come. Certainly it is
23 something that we are wanting to have a discussion about.

24 Q. (Mr Spedding) Just before I go into some specifics of what information should
25 necessarily be included, you already mentioned, as did someone else,

1 principle-based regulation. I think it is quite important that I understand what
2 you mean by that and what methods you see. How would you apply that here?

3 A. (Ms Cooper) The RMR rules around bills are really prescriptive; so this [piece
4 of information] needs to be on page 1 in this corner of the bill. Certainly
5 throughout the RMR process, we did suggest there could be more flexibility as
6 long as suppliers could clearly demonstrate that there was a flow to the
7 information, so they were not deliberately hiding key information at the back of
8 the bill. It is whether or not principles-based regulation would ensure suppliers
9 made the relevant information clear.

10 Q. (Mr Spedding) Clear.

11 A. (Ms Cooper) Yes. It is whether or not you could shift to that. You would allow
12 suppliers to tailor things more to their own style and language but at the same
13 time still ensure that consumers had access to comparable information if they
14 want to engage in the market and compare offers. I think there is scope to
15 shift from where we are with these really prescriptive rules.

16 Q. (Mr Spedding) Do you see a benefit in being more principles-based that actually
17 it may be taken a little bit more seriously and, in fact, the boundary may be
18 moved a little bit further because if you say to a supplier be clear, they may be
19 clear with a margin because they do not want to get into trouble rather than just
20 matching it?

21 A. (Ms Cooper) That is the potential. I think the difficulty for us is we do not know
22 how principles-based regulation has worked in the energy sector thus far
23 because we have new standards of conduct but we have not seen the results
24 of any of the enforcement cases that are currently ongoing - there are three
25 cases involving the standards of conduct and none of them are settled yet. So,

1 it is certainly something we are waiting for to see whether or not Ofgem can
2 enforce effectively using the standards of conduct. So, right now, we are
3 exploring around how that might work and it is something we are discussing
4 with Ofgem.

5 Q. (Mr Spedding) But you are hopeful?

6 A. (Ms Cooper) We are hopeful.

7 Q. (Mr Spedding) Can I just go then to what information, what minimum information
8 do you think needs to be there for a customer to have an informed switch?

9 A. (Ms Cooper) A minimum, name of tariff, tariff end date, whether or not there is
10 a termination fee. It is the type of information that is on the tariff information
11 label. That pulls together all the core information. Personal projection, how
12 much you are using. I think the tariff information label has the key information
13 you need.

14 Q. (Mr Spedding) When you mention personal projection, how do you feel about
15 that? You also mentioned investment earlier. How do you feel about personal
16 projection as a basis?

17 A. (Ms Cooper). Obviously the personal projection is useful. It is more useful the
18 more accurate it is. If it is based on a series of estimates it will be less useful
19 to you, but we are moving to the world of where we are going to have smart
20 meters in years to come then personal projections will be accurate. I know
21 there is controversy about how the savings are calculated on price comparison
22 websites involving the personal projection. It is an area where we would like to
23 see more standardisation because I think it is not helpful at the moment where
24 you get different saving figures depending on which site you go to. It is a good
25 idea and it could probably be refined further to make it better.

1 Q. (Mr Spedding) If you are still thinking of switching, what prompts, timing of
2 prompts for switching? I think you made the comment that the bills should make
3 it very clear when someone moves from fixed to SVT, whatever, should there
4 be some warning of that beforehand. I know when I speak to others, others are
5 going to have some views on those prompts. What is your own view?

6 A. (Ms Cooper) If you are moving from a fixed-term tariff on to the regulated back-
7 stop tariff, yes, it should be clear. I think there are certainly facilities for
8 suppliers to use the other standard communication channels they have to warn
9 people. With the cheapest tariff messaging, if that stays on the bill, that is
10 obviously a key area where you could warn consumers and try to give them
11 information to engage.

12 A. (Ms Gallacher) We have had an issue before on the standards of conduct, on
13 the principles-based approach, on things like telling customers the cheapest
14 deal and it links to at what point is it reasonable to say you have done everything
15 you can do and in treating customers fairly what is it reasonable to say you
16 should do about telling the customers that there are cheaper deals available?
17 Sometimes we have been quite concerned about quite a significant level of
18 saving that is available to the customer, we question whether just putting that
19 on the bill, especially customers who only get a bill once a year, whether that
20 fulfils the objective to let them know. Should there be more proactive initiatives
21 and different communication channels? What is the reactive response from
22 suppliers when customers call in? Is it only to incentivise staff to obtain meter
23 readings or should there be something about providing more bespoke
24 information to customers that actively contact them and what should they do on
25 annual cycles and on their annual statement. There is probably a lot more that

1 suppliers themselves could do and that would be an interesting test around an
2 outcomes-based approach that might loop in to the regulation.

3 A. (Ms Beattie-Smith) I think those questions are ones that suppliers are starting
4 to ask as well. Just since we have seen the “treating customers fairly” conduct
5 coming in, I have certainly found that suppliers are doing more to engage with
6 us and to ask us questions and to ask questions of their own consumers to say
7 we have got to meet these new standards of conduct and it is not as prescriptive
8 anymore, we do not have to tick a box anymore. What do you need from us?
9 What support do you need? What can we do differently?

10 I have certainly found through an example -- I chair SSE’s customer forum in
11 Scotland. They have a Treating Customers Fairly forum and it is one of the
12 questions that comes up quite a lot there around what is the support you need,
13 what do you see as a vulnerable consumer, what kind of things would you want
14 to see on a bill. Testing things out with consumers, it feels certainly a little more
15 innovative than when you have simply got a tick box. There is definitely room
16 for further work on principles-based regulation.

17 Q. (Mr Spedding) I was actually going to come to you, Peter, and ask some things
18 that -- actually, if what someone said sparked someone else to want to come
19 in, I am not prescriptive about the order I go round people, so please feel free
20 to dive in. If not, I will move on to Peter. It was about prompts and your own
21 views on prompts.

22 A. (Mr Smith) Just very briefly in terms of what information goes on bills. We have
23 had a clear steer from consumers that we have worked in workshops that they
24 prefer the bill to be kept to a minimum in terms of the information that is
25 presented on the bill and any supplementary communications should be split

1 out and separate channels should be developed for those wider
2 communications. Obviously there is a lot to be said for face-to-face advice and
3 I can talk until the cows come home about the benefits of having energy advice
4 centres or more locally-based advice provision like the Big Energy Saving
5 Network expanding that type of service.

6 In terms of a move to principles-based regulation, there is a difficulty with a
7 move away from standardisation and requirements laid out on standard licence
8 conditions. There is a challenge about communication and about interpretation
9 around principles. One thing that has been fed back to us mainly as a result of
10 Ofgem's moves to move away from a category-based priority services register
11 is around different interpretations that can be taken by different suppliers and,
12 therefore, the strain of that will then put on the advice community.

13 At the moment, an adviser that is out there providing information about what
14 protections energy consumers may have known that there is x standard licence
15 condition which stops all suppliers doing y. Some of the risks around moving
16 to a more principles-based system where interpretation is clearly part of the
17 game there is a risk that many suppliers interpreted different principles in
18 different ways. Without the back-stop of the standard licence condition, there
19 is a fear that that would be very difficult for a front-line adviser to communicate
20 effectively. So, SSE do it like this but npower interpret it in this way, so you just
21 get a proliferation of interpretations.

22 Q. (Mr Spedding) You see that as a particular challenge presumably for the
23 3.5 million vulnerable customers?

24 A. (Mr Smith) That is absolutely right. You need very simple messages and
25 consistent messages and ones that do not change depending on which supplier

1 you are with. Yes, absolutely. It is an impediment for all those people that are
2 most in risk.

3 Q. (Mr Spedding) If I take you back to where you began about splitting the bill
4 from information, but I think the information from your submission you were
5 saying that should be done annually. Are you comfortable with it being an
6 annual statement?

7 A. (Mr Smith) Yes, we think the move to an annual statement is fine, it is fine, yes.
8 Yes.

9 Q. (Mr Spedding) I think, when I moved over to you, I was asking you about
10 prompts and we talked about that. So, what about prompts for -- again, thinking
11 of your customers, there could be prompts for switching, prompts for meter
12 readings, submitting meter readings? How do you feel? I am trying to make
13 the idea of an annual statement with prompts to do things on a more regular
14 basis.

15 A. (Mr Smith) In many instances, a prompt needs to be distinct from an instruction
16 or being told that a customer may face a sanction should they not follow the
17 prompt. There needs to be some differentiation between a householder being
18 told they might benefit from this via a text message and then interpreting that
19 as they need to do that, they need to follow that particular course of action
20 otherwise there will be a risk that there is a penalty. People, particularly with
21 stress and anxiety, will tend to think of the worst possible outcome that could
22 be associated with not following that course of action. It needs to be clear that
23 that is not a binding request, it is just a helpful tip.

24 Q. (Mr Spedding) So, I get the text saying, "Pre-submit your meter reading" sort of
25 thing and I just ignore it or do it or whatever but that could be seen as too abrupt

1 and threatening.

2 A. (Mr Smith) It could be seen as you have to drop everything that you are doing
3 and go and do that. So, there is a risk that people will interpret things in a very
4 narrow way. Again, it is just about what are the really important things that
5 suppliers need to communicate to their customers and why. Surely if there are
6 helpful tips type suggestions, then those can come through in a yearly fashion
7 and there would not be any great problem. For those people that want to opt
8 in and have advice provided on a more frequent basis than that, not a problem.
9 As long as they opt in and it is clear why they are opting in to that service and
10 the fact, again, whatever advice is being promulgated is not binding, it is not
11 necessary to follow, we would not have a problem with that.

12 THE CHAIRMAN: I will just ask across the Panel whether that is what you all think;
13 that over-prompting can cause distress and can be misinterpreted.

14 A. (Mr Moorey) I do not think we know really at all in terms of a lot of these
15 questions actually in terms of prompts and information. I think there is a danger
16 with this process that we make some quite arbitrary decisions about what is
17 best, whether it is an annual statement or something monthly or weekly when
18 actually the research we have to back that up is fairly thin and I think we should
19 be careful about using market research too much as regards to this. I think
20 however much organisations like my own and others use them, consumers will
21 say an awful lot of different things about how they would like to receive
22 information but I think the question is then what is the behaviour that they
23 undertake as a result. Your example of getting the text message about meter
24 readings is classic. I get those and I think we need to recognise that actually
25 suppliers are doing an awful lot of these things already. They are prompting

1 people about meter readings. They are reminding people about the cheapest
2 tariffs available and a whole range of other things. Yes, I do not think we really
3 have the evidence base about which of those are working and which are not.
4 The other thing is that, returning to the RMR, some of the things that were
5 introduced as part of that actually seemed like good innovations to us. The
6 tariff information label has been mentioned. There is a limited amount of
7 information actually that consumers really need to be able to do the critical task
8 of deciding on the best deal or not. I also wonder a bit how much the debate
9 around principles-based regulation is really critical to this given that whatever
10 suppliers do there is a small amount of really critical information they provide
11 all customers.

12 Q. One of our central hypotheses is that there are disengaged customers and a lot
13 of what people have said to us is the way to force people to engage is to give
14 them a bit of a kick. I exaggerate but that is the sort of -- hence the discussion
15 about prompting.

16 A. (Mr Moorey) I think people are getting a lot of kicks and I think they are not
17 responding and I think we do not -- so I think that alone.

18 Q. Kick them some more.

19 A. (Mr Moorey) That alone will not work, though, cannot be the answer itself and
20 I think this is, to be boring, where I come back to the whole point around trials
21 because I think in practice we need to see what it is that makes people respond.
22 I think the other interesting point here is around what else is being done in the
23 markets here because bodies like the FCA are trialling a lot of these things with
24 regard to moments when consumers are going into their overdrafts, about the
25 use of things like last year's premium with your insurance and seeing whether

1 actually putting that on your renewal is prompting them to go out and find a
2 better deal or not and they are testing a lot of those things through random
3 controlled trials to be able to actually understand what it is that shifts consumer
4 behaviour.

5 A. (Ms Cooper) I do not know if you were able to obtain this but it is o something
6 we asked suppliers and Ofgem to collect information on whether there was
7 any difference in consumers acting on the cheapest tariffs prompts and how
8 often they receive a bill. Right now, we have got a variation between some
9 people getting bills monthly, quarterly, some six-monthly, and some yearly. We
10 do not know whether people are more likely to take action if they get the
11 information yearly or if they are getting it every month. That would be really
12 useful because it would give an indication of how often information should
13 appear on bills to be more effective at changing customer behaviour.

14 A. (Mr Hall) On the issue of prompts, I think it is also worth bearing in mind that
15 the prompts that consumers see in relation to their ability to switch or right to
16 switch are not simply constrained to any prompting they get from their supplier
17 through its communications. They are not even necessarily limited to any
18 prompts they might get from consumer groups like ourselves or politicians or
19 other people informing them of their right to switch.

20 To use, perhaps, one example of a constraint which exists here: in the case of
21 tenancy agreements, where we have been talking to members of your team this
22 morning, it is not unusual to see clauses within assured short-hold tenancy
23 agreements which contain a requirement for the tenant to seek the express
24 written permission of their landlord before switching. Sometimes those come
25 with a rider saying, "which may not unreasonably be refused" but there is no

1 clear explanation of what a reasonable refusal would look like. We are also
2 aware of instances where there are terms requiring the tenant to move back to
3 the supplier who was the incumbent when they moved in before moving out.

4 So, these are other prompts which consumers are getting which are, one could
5 argue, saying either do not switch or if you switch it is going to be perhaps more
6 difficult than you might expect. So there is some work that the CMA could
7 potentially do in those areas too. There is some 2005 guidance which I think
8 you have inherited from the OFT which sets out the views of the OFT at that
9 time and what would be reasonable or unreasonable restrictions in these kinds
10 of contracts.

11 An example of a potentially unreasonable prohibition from 2005 related to
12 clauses that prevented a tenant from changing their phone or utility supplier.
13 The OFT's view at that time was expressed as that the tenant should have the
14 choice of supplier although he may be required to keep the landlord informed
15 of any change and to return the account to the original supplier at the end of
16 the tenancy.

17 We would suggest that revised advice to consumers should simply notify them
18 that the tenant should have the choice of supplier and that they have a legal
19 right to switch if they so choose. We think it is probably entirely reasonable that
20 where a tenant switches that they should notify the landlord that they have
21 switched before moving out. That is perfectly reasonable. But we do not think
22 they should need the landlord's permission to switch. I would highlight that
23 within the EU Third Package where it sets out your legal right to switch there is
24 a requirement in there which basically says that member states should ensure
25 that the right to switch within three week is delivered in a way that is non-

1 discriminatory in terms of cost, effort and time. I would argue that those kinds
2 of provisions within rental contracts are clearly discriminatory in terms of effort
3 and time. They make it harder for you to switch.

4 I am trying to make the point that (as a consumer) you are not simply getting
5 prompts from suppliers or from people like us. As a consumer, you are getting
6 a broader range of prompts.

7 In terms of the general view of perhaps we need to give consumers more of a
8 kick up the backside to go and switch, it is worth highlighting that certainly in
9 terms of price differentials if you are a pre-payment customer, for example, you
10 probably have less in the way of achievable savings out there. So, if you like,
11 you may not be failing to switch because you are inert. It may actually be a
12 perfectly rational response to a lack of choice.

13 Q. (Mr Spedding) I know you want to answer me on that but I am straying into
14 remedy 10 and I specifically want to cover off a couple of things on remedy 9
15 before we do that. So, if you do not mind, I would like to come back to Which?
16 on research testing. You made that point throughout your submission but what
17 exactly would you suggest we do or is done in terms of market research, testing,
18 et cetera. How, if you were designing it, what would you be doing?

19 A. (Mr Moorey) On information remedies?

20 Q. (Mr Spedding) Yes.

21 A. (Mr Moorey) I do not think I could probably talk through specific tests here and
22 now. There are probably already tests in terms of prompts from other
23 behavioural insights work that you could draw on, so one of the classics is
24 around tax returns and a lot of work HMRC have done about actually how you
25 write the letters to people, like your tax return, and what different format of

1 wording, length, et cetera, when you send it, how that then results in people
2 responding to their tax return.

3 So, in the behavioural insights we are seeing now there are an awful lot of those
4 tests particularly in the prompt space and information remedy space that has
5 been going on particularly by the Government on things like tax returns but also
6 around financial services. At the moment, certainly on things like insurance
7 where a number of insurance providers have been looking at that whole point
8 about certain key information on renewal and whether actually it does prompt
9 people to act or not.

10 But, yes, the point that I would make is to think about doing that not necessarily
11 in the classic market research way of asking consumers simply what it is that
12 they would like on bills because you might find a response which actually gives
13 you a tick box on absolutely everything that you could have on a bill. Instead
14 you should present different billing formats to people and then, in a live
15 environment, ask them to go through a process where they then have to make
16 a decision and to then have some understanding of what they did, this is what
17 we did with the EDF research on single-unit pricing where we basically gave
18 people a live example and said you are about to switch your supplier, and gave
19 it to them in the style of a price comparison website and then asked them to
20 make their decision and similarly gave them a newspaper advert and said make
21 a decision on the basis of this. So, I think you have to do it in part in those live
22 formats so that you actually understand how consumers behave.

23 Q. (Mr Spedding) Can I just go to you, Norman, and then Elizabeth? Before I ask
24 my question, can I just check whether you are able to hear all the discussion
25 around the room?

1 A. (Mr Kerr) There is a lot of background noise coming through but we are picking
2 up most of the conversation.

3 Q. (Mr Spedding) I think it is probably the transcript writer typing and his keyboard
4 could not be any further away from the microphone without us putting him in a
5 different room which defeats the object.

6 A. .

7 Q. (Mr Spedding) We are going to have to ask you to persevere but if anything is
8 particularly bad, ask and we will move the microphone.

9 A. (Mr Kerr) Thanks very much for that.

10 Q. (Mr Spedding) Going to your written submission, there were some details
11 actually. You had concerns about the tariff comparison right, some comments
12 on the tariff information label which Pete mentioned earlier. Can you just talk
13 through that a bit?

14 A. (Mr Kerr) I think it is all about how you bundle stuff up and I think, if I go back
15 to you were talking about a tariff earlier that had no standing charge, you know,
16 in that, suppliers will need to bring in the cost of transmission, billing and all of
17 those other things. It is how you lay that out in the tariff. What does the standing
18 charge include? What does it not include? What does the tariff include? What
19 does the tariff not include? Suppliers, I think Audrey made the point, that the
20 suppliers will want to provide some information but it may be that we have got
21 to have two prices that people look at. There is the price per unit and that is
22 based on whether it is time-of-use unit or it is a dynamic teleswitch unit or
23 whatever and then there is actually the course of the standing charge and what
24 the standing charge includes and how that is broken up.

25 So, it is back to this more consistent information across and whether that is on

1 a price comparison website or whether it is a supplier when you are phoning up
2 to speak to them but I think we need to provide more of that detailed information
3 so that we can. If it is just a simple -- and I know we have said not in this
4 submission but in previous submissions you can drive down the high street in
5 your car, you can look at a garage and the garage will say x pence per litre for
6 diesel or x pence for unleaded and that is a dead simple price comparison
7 because all of the stuff is bundled into that, the price of transportation to the
8 garage, the cost of the person at the pump serving you, all of that is bundled in.
9 I think if we are going to have a tariff that is there that people can read across,
10 it has got to be very clear what is actually in it and what is excluded from it. I
11 think that is simply the point we are making.

12 Q. (Mr Spedding) You also made what I thought was a really interesting point
13 about smart meters coming in and making a lot of effort now to prompt
14 customers to supply meter readings. How long do you need to carry on doing
15 that because once smart meters are in you will not need to be dealing with it?
16 So, could you just talk to me about that?

17 A. (Mr Kerr) I think there is some stuff around just now about how do we prompt
18 customers. We talked in our submission about striking the balance about
19 getting information and verging on harassment. If my supplier is going to come
20 to me every quarter and really harangue me to provide a meter reading or to
21 engage in some way, none of my other service providers do that - why should
22 my energy supplier do it?

23 It is about that balance. You are right - smart metering will take that away and
24 people will provide or have that opportunity not to have estimated readings, et
25 cetera. But I think if we are going -- and the point we make about annual

1 statements, we believe that is the best prompt. When the annual statement
2 comes along, irrespective of what type of meter you have, the annual statement
3 should give you something that says we want you to go and check that with the
4 meter that you have got. Have we got this information right? Here is some
5 information about your tariff. We believe that there is another tariff that would
6 be better for you or there is another payment method that would be better. I
7 think it is that once a year when -- and again somebody mentioned shopping
8 around for car insurance or home insurance, there are things you would do on
9 an annual cycle. I think that is the point. To get the engagement, that annual
10 statement from suppliers, we believe, is a very appropriate point in which you
11 can really engage someone by giving them actually a fair amount of information.
12 A bit of the conversation earlier was about stripping back the amount of
13 information that you give customers and I think that is where people like Sarah,
14 working with SSE, actually speaking to customers about how much information
15 you need and you will get extremes of the spectrum.

16 I did a customer group with SSE who were using electric heating up in
17 Inverness. There was one person in particular who wanted to know the times
18 that her dynamic teleswitch tariff kicked in every day. She wanted that on a
19 daily basis. She wanted to know the codes and when she could expect that
20 when she went to a meter the red light would be on to show her that she was
21 getting energy in. She did not need to know that but that was the level of
22 information that she wanted whereas others simply wanted to know once a year
23 is it still the best deal for me.

24 I think on consumers it will vary quite a lot on the level of information. We
25 believe the annual statement is the key. Get the amount of information in that

1 right and you will engage customers.

2 The point Audrey made earlier I would back up. There comes a point when you
3 have got to say we will provide it as much as we can. If the customer does not
4 want to be engaged, in short of turning up on their doorstep there is very little
5 that you can do.

6 Q. (Mr Spedding) I think we have nicely strayed into remedy 10 which is good.
7 What I was going to propose is we spend five or ten minutes on anything that
8 we need to cover for that. Daniel, before we do that, I am not sure whether I
9 stopped you rudely from things on remedy 9 or you are the first to go on remedy
10 10. We rehearsed it earlier.

11 A. (Mr Walker-Nolan) What I would say is that in terms of prompts, I think we need
12 to bear in mind low trust in the industry. I think that has a real bearing on
13 people's propensity to actually believe their supplier with their messages, the
14 savings that are on offer and things like that. So, there might potentially be an
15 opportunity to have a look at who actually gives the message as quite a lot of
16 energy suppliers are now actually partnering with local authorities because they
17 are seen as more trusted intermediaries to provide energy supply services and
18 things like that. So, maybe something like that needs to be looked in to more
19 in terms of you might be prompted by your supplier but if you do not trust them
20 then you are simply not going to engage anyway.

21 Q. (Mr Spedding) Remedy 10 is quite specific about prompting customers who are
22 locked on the SVT tariff to move. I think rather than just go round in the order
23 of my questions, I will just ask you individually whether there is anything more
24 to add to what you have already said because I think we have strayed in to
25 remedy 10.

1 A. (Mr Kerr) I have covered most or all of what we have said and Ben as well, so
2 I have got nothing more to add from this point.

3 A. (Mr Smith) Just very briefly, adding on from the question that you had asked
4 about how long do we need to persist with lots of information going in the annual
5 statements until we get smart metering and then that do it all for us, just to flag
6 a general concern, I guess, about the accuracy of smart information that
7 consumers will get out of smart meters, one of the greatest benefits as we all
8 will recite endlessly is an end to estimated billing. There is concern that even
9 with the roll-out of smart meters that we will still see customers taking a very
10 keen look at their usage information and then that not tallying with the bill that
11 they are sent at the end of the day because of this unknown around the standing
12 charge. So there is a concern there that the information that customers will get
13 about their usage will not tally with the end bill because of what is not included
14 in terms of standing charge. So, I just thought I would flag that here.

15 Q. (Mr Spedding) Is it also, looking back to your written submission, you were
16 concerned, I think, about data being passed around on customers who have
17 not switched.

18 A. (Mr Smith) This generally blacklisting type issue? I cannot recall the detail of
19 that.

20 THE CHAIRMAN: I think it is a broader question about obviously the more people
21 who know what your energy circumstances are, the more likely it is you are
22 going to be given helpful prompts but that obviously comes at a cost in terms
23 of making personal information available which is a wider issue. I am just
24 wondering what your thinking is on that. There is the Midata programme. There
25 is all sorts of other information which could be given to, say PCWs or to other

1 bodies to give a targeted prompt.

2 A. (Ms Cooper) I think we are concerned if you did that then PCWs would target
3 those consumers who they felt were more likely to switch and focus their efforts
4 on that. So, you would have a lot of consumers who, again, would be ignored.

5 A. (Ms Gallacher) Prompts or information remedies will work well for some
6 consumers and we have already spoken at length about some of the testing
7 and trialling that needs to be done to determine what works best. But there are
8 always going to be consumers for whom information remedies are not important
9 and who are not interested in engaging, how do you get over that kind of, "I am
10 not interested in engaging" and it might mean that you move to more -- whether
11 it is additional data, whether it is new generation intermediaries where you give
12 over power of attorney and somebody does it for you. For some consumers, it
13 might actually have to be as interventionist as that because they are never
14 going to react to the information that was given and the prompts that were given.
15 It just has to be taken out of their hands.

16 A. (Mr Moorey) On data more generally, particularly with regard to Midata, I think
17 there is an awful lot more that needs to be done and I welcome the focus on
18 that as part of the interim remedies. I think our experience of running switching
19 sites suggests that there are an awful lot of people who go through that process
20 and who drop off very quickly through a lack of good information to hand and
21 then there is the concern of those people who do have information to hand and
22 put it incorrectly. I think Midata could considerably improve that situation
23 particularly given the importance that you are placing on PCWs as part of this
24 inquiry. But it will have to be significantly better than where we are at with
25 banking currently given that that process requires you to do quite a laboured

1 process of downloading the CSV file and there is only one switching site that is
2 actually engaged with the process. I think there should be an opportunity for
3 energy to go further faster on that but that will require a much better approach
4 whereby, effectively, PCWs will be able to access or you will be able to access,
5 via PCWs, your data very quickly, get it downloaded into a PCW with all the key
6 information and be able to switch as a result, which obviously does raise other
7 data questions but I propose those can be resolved given the benefits.

8 Q. (Mr Spedding) Just one final question and then I suggest we move on. Peter, I
9 will ask you but anyone, I guess, can come in. The reason DECC-sponsored
10 switching campaign seemed to unlock things and maybe other initiatives like
11 that, switches or whatever, how do you feel about those as an alternative?

12 A. (Mr Moorey) You mean the most recent advertising campaign?

13 Q. (Mr Spedding) Yes.

14 A. (Mr Moorey) That did seem to be successful. I think that is an awful lot of
15 Government money to throw at a problem in the market. If this was an effective
16 market, you would not expect the Government to have to step in for however
17 much it was - I do not know how much it was, £5 million or something - to throw
18 at boosting, switching on an annual basis. I think we are very supportive of
19 initiatives like Big Energy Saving Week which Citizens Advice and NEA take a
20 leading role in and I think they definitely got a role to play and I think collective
21 switching has got a role to play. I guess my caveat towards that is for all the
22 benefits that they have shown, I do not think they have accurately tackled the
23 issues in the market but there have been valiant attempts by probably all of us
24 to try to desperately engage consumers in this market until people get a better
25 deal. But I do not think we can keep -- you would not expect an awful lot of

1 other markets to have to keep running initiatives of that kind to ensure that that
2 consumer has got a good deal.

3 A. (Mr Walker-Nolan) I would be interested in seeing the demographics of the
4 people that switched above and beyond who normally switches as a result of
5 that campaign. I suspect the group might still be the homogenously engaged
6 rather than the disengaged.

7 A. (Mr Smith) Just on that, there was an evaluation of the Big Energy Saving
8 Network which supported the general messages about switching and that has
9 got lots of information about who has benefited, who has gone on to switch,
10 what the demographics are and stuff. I am sure we could dig that out for you
11 and take that away as an action. Just to declare an interest, NEA provide the
12 training for the Big Energy Saving Network, so anything that we say about its
13 merits or otherwise should be viewed through that prism.

14 Q. (Mr Spedding) Understood. Anyone else want to?

15 A. (Ms Beattie-Smith) If we are wrapping up on information remedies, it may be
16 just worth saying that we have talked quite a lot about broadcast of messages
17 to consumers. All of us in this room and on the phone are consumers ourselves.
18 I think we know in our own lives how it feels to be broadcast at. You imagine it
19 is walking down the street minding your own business getting on with your life
20 and there is someone on the other side that keeps shouting at you, telling you
21 you should be doing something, quite often that is how it feels to the consumer
22 when these messages are coming at you.

23 What, I think, is a lot more successful is a conversation rather than a broadcast
24 and that conversation has to take place at a time and in a way and with a reason
25 that makes sense to the consumer. That makes it really difficult for suppliers

1 to have a blanket policy but I think we need to treat consumers as human beings
2 and understand that they have complex and differing lives.

3 I think we need to understand that there are different triggers that might prompt
4 consumers in different groups with different kind of experiences to think about
5 switching or to think about saving and how much you are spending, and those
6 might be things like when you move house. You set up your energy supplier
7 when you first move house. It might be something like you have just lost your
8 job. You turn up at the Job Centre and they say you have got a bit less money
9 now. Do you want to maybe check that you are on the right tariff? Let us refer
10 you on to someone that can help you through that.

11 I think that is the kind of approach that, as the Citizens Advice Service, we are
12 trying to take as we are finding people at the times when they are coming to us
13 for advice quite often about something like benefits or debt where some other
14 thing in their life is changing. At that point, through things like the Energy Best
15 Deal programme, Energy Best Deal Extra, we are taking them through a
16 process and checking about their own energy usage, making sure they are on
17 the right tariff, that they are on the right payment method with the right company,
18 supporting them to understand the information.

19 It has to be relevant and I think a concern that I think we probably all had from
20 the beginning of this investigation was that we would just come out saying there
21 need to be more information remedies.

22 So, I think I would steer us away from a broadcast information remedy and be
23 much more understanding, that we are talking about human beings with
24 complex lives.

25 A. (Ms Cooper) Just to go back to the point, I think campaigns like the ones we

1 have done ourselves (like Energy Best Deal) are extremely helpful but they
2 have got to have the simple messages for consumers, which is why we would
3 like to see a change to the guidance around unfair terms and ASTs. "If you are
4 responsible for paying an energy bill you are entitled to switch supplier. You do
5 not need to ask anyone for permission, it is your right." That is a much easier
6 message than you could switch but then you need to switch back" that turns
7 people off. The same goes with using a price comparison website. It is very
8 easy to have a message saying to go to any of the Ofgem-accredited price
9 comparison websites, you will get consistent results, you will get the whole of
10 the market results. If you have a message that suggests you check a couple
11 of sites, people are going to drop out of the process because you have just
12 made it difficult. So, a simple message is very important to stop a lot of people
13 dropping out.

14 Q. (Mr Spedding) Thanks all of you. I got a lot out of that.

15 A. (Mr Kerr) Can I make a point just before you move on? We have continually
16 talked about price comparison websites but representing vulnerable
17 consumers, not every consumer has access to the internet and there are large
18 swathes of the population in Scotland who do not have that access. So, for
19 them to shop around it is not as easy as going on to a price comparison website.
20 For a number of customers, they still want to pick up the phone and phone
21 somebody and have that one-to-one conversation that Sarah was talking about
22 there. It is not just trawl through the websites, get your information then. We
23 need to actively consider the people who are not connected to the internet, who
24 are not happy using the internet, who are not digitally aware. So, when we are
25 talking about vulnerable consumers, they fall into that category. I will just leave

1 that one. That is probably for another conversation but I do not think we need
2 to be fixated solely on price comparison websites where people will get their
3 information. They will get it from a lot of other sources and those sources need
4 to be compliant with giving good information that people will trust and up-to-
5 date information.

6 THE CHAIRMAN: That is a very strong point.

7 A. (Ms Beattie-Smith) Just a very final point on that. I think in terms of where
8 people get their information, Norman is absolutely right to raise the issue of the
9 internet from work we did a couple of years ago. We found that only half of
10 benefit claimants that came to CAB had internet access at home.

11 A. (Mr Kerr) Yes.

12 A. (Ms Beattie-Smith) And three-quarters of them would not feel confident, even
13 looking for jobs, applying jobs online never mind something as complex or
14 seemingly complex as switching energy. I think we need to bear that in mind.
15 I think it is really worth saying there is going to be a tipping point at some point.
16 We know that there is a tiny proportion of the market, of consumers that actually
17 switch. The more that do, gradually the more that word of mouth spreads and
18 the more that trust between people is actually effective in building a positive
19 experience. We need to make sure that the back end -- completely away from
20 information remedies, that the experience of switching is a good one because
21 there are so many people that come through our doors who have had a terrible
22 experience, who have ended up paying more, having a worse deal and ending
23 up with worse customer services, missing out on a Warm Homes Discount, all
24 sorts of issues just as a result of switching and they will never do it again. We
25 need to make sure that that process is right and that is separate from

1 information remedies.

2 Q. We shall come on to that, do not worry.

3 A. (Mr Smith) Just to give you a flavour of the issue, the scale of the issue that
4 Norman mentioned in terms of internet access, so it is approximately four
5 million GB households have not got any internet access and about 32 per cent
6 of those are because they do not have the money to pay for that type of service.

7 Q. I think that is the number we have got as well. It sounds about right. Can I
8 suggest we take a ten-minute break?

9

10 (Adjournment)

11

12 Q. (Mr Cave) I am going to ask you some questions about - it is rather a mouthful
13 - the transitional safeguard regulation tariff. If I may, I will begin with Citizens
14 Advice. You broadly support some kind of price regulation. That is how I
15 understood you, correct me if I am wrong. But there is obviously a difficult
16 question involved in this case about what the coverage of it should be. The
17 starting point in the remedies notice was coverage of SVT customers and I
18 know that you have made some other proposals in your response relating to
19 those that with Warm Home Discount, and extending also to another group of
20 people to whom payments are available. I wonder if you would just like to clarify
21 what your view is of our proposal -- on what we have listed, I should say, not
22 our proposal; it is in a list. Also elaborate a bit upon the alternatives that I have
23 mentioned.

24 A. (Mr Walker-Nolan) Firstly, I think we very much welcome the acknowledgement
25 that some form of price intervention may be necessary in the market to

1 rebalance the order and potentially as a sort of temporary measure to get
2 people engaged.

3 I think what we would say about the proposal that has been put forward by the
4 Authority is that it is quite wide but quite shallow whereas what we would want
5 is something that is quite narrow but quite deep. We think that you could have
6 an intervention that could look at the dual issues of non-switching and where
7 that causes the greatest detriment.

8 At the moment, I think that targeting non-switchers, whilst I think that is a valid
9 thing to do, I think you are not actually getting at where the non-switching
10 causes a material detriment to the consumer; so it causes homes with
11 excessive cold, people not turning on the heating, not having enough energy
12 potentially to heat their homes or warm their food.

13 So, we would say that actually if you make that intervention more targeted at
14 vulnerable consumers, vulnerable non-switchers, then you get a bigger overall
15 benefit. There were already a suite of other measures that can tackle that sort
16 of more general disengagement, that lack of trust. We talked about barriers to
17 switching and that sort of thing. But the hardcore vulnerable, disengaged
18 people that will not have the internet or might be very reticent to engage, we
19 think you may need to tackle them in a bit of a different way. The suggestion
20 that we put forward is a sort of back-stop tariff. This was due to a couple of
21 things. We did some polling and asked people who they thought should be
22 eligible for special, cheaper tariff. On top were the pensioners, over 70 per cent,
23 people on disability benefits and DLA recipients who were over 50 per cent as
24 were families on low incomes. We took that as a starting point because there
25 was public support there. Then we looked at what you could potentially do for

1 those consumers. So, we went with an approach that was more or less the
2 path of least resistance. If you keep these people potentially with the same
3 supplier, can you not just switch them to the cheapest deal with that supplier,
4 what impact would that have?

5 I would say that we managed to bring out a proxy group for those vulnerable,
6 disengaged consumers and we landed on the Cold Weather Payments Group
7 which is a cohort that basically get a special payment if the weather drops under
8 a certain temperature in their area for a certain number of days in a row in the
9 winter. We looked at that group and it did appear as they had certain
10 vulnerabilities. A lot of them were in the poorest 20 per cent of the population,
11 people with disabilities who are over 70 in the house and that sort of thing. They
12 were for the majority of non-switchers. 66 per cent of them were non-switchers.
13 So we said if you basically give that group, which is about 12 per cent of
14 households in the UK, if you give them entitlement to that special discounted
15 tariff, how much will it save them. The options that we landed on would give
16 them a material discount. I think the different ways we modelled it, it was
17 between £100 and £152 potentially depending on how you actually set the
18 requirements on how you would get it.

19 At a very small cost to other consumers. So, the way we did it was that the cost
20 would be re-socialised across the customer bases of the energy suppliers. So,
21 the cost would be ranging between £11 and £20 for the rest of households. We
22 thought that would be a good way of targeting the price support where detriment
23 is greatest.

24 The second suggestion that we made, and this was our fallback proposal if the
25 introduction of back-stop tariffs were not accepted, was an extension of Warm

1 Home Discount. It is seen as quite a successful policy, I think it is fair to say.
2 It is currently administered to about two million consumers but there are certain
3 issues with it in terms of its social support. Some people have already gone
4 through these already. It is not offered by all suppliers, so small suppliers do
5 not have to offer it. The benefit is only administered automatically to a core
6 group of consumers and that is pensioners on pension credit guarantee, so
7 poorer pensioners. There is a wider cohort that are eligible for it but them
8 getting it is contingent on them knowing about it and then applying for it.

9 What we said is given it is being seen as a good policy, what you could do is
10 just extend it out to everyone who is eligible for it as an automatic entitlement
11 and you can get at those sort of vulnerable, disengaged consumers in the same
12 way that a back-stop tariff would. Our calculation on that is that if you socialise
13 the cost of extending that across all consumers, it would be £135 discount (for
14 those that qualify) at a cost of £5 for every household. So, basically part of the
15 cost would be borne by people who already get it.

16 We thought that potentially those solutions could work side by side with
17 information remedies as well. With Warm Home Discount, what I should say is
18 if you broaden who it goes out to, then those people can also achieve a better
19 deal in the market at the same time. So, that kills two birds with one stone.

20 Q. (Mr Cave) Just in relation to the format of the proposal, it was not quite clear
21 to me whether those eligible would be switched to the lowest tariff of any
22 supplier or whether they would receive a subsidy which would make them pay
23 the equivalent of the lowest tariff.

24 A. (Mr Walker-Nolan) No, they would be switched automatically on an opt-out
25 basis.

1 Q. (Mr Cave) That would be an expense that fell to the company which supplied
2 them. Subsequently, they would get less revenue from these customers?

3 A. (Mr Walker-Nolan) Certainly and we would expect them to re-socialise the cost
4 across the rest of their customer base. I think that we wanted in the research
5 to reflect the fact that public spending was going to be very difficult to achieve
6 with the current climate of austerity. So, we thought that the suggestion
7 whereby it was borne by the suppliers, the cost was more realistic.

8 Q. (Mr Cave) That is very helpful. Thank you for helping to explain that. If I might
9 just go back to the proposal that is listed in the remedies notice, when you made
10 some remarks about the difficulty of implementing it, they did revolve to some
11 extent, I think, about the difficulty of working out a bottom-up process, and that
12 led you to suppose it might be better to tie the maximum tariff to existing tariffs.
13 Could you just explain how that would work?

14 A. (Mr Hall) I think the difficulties we see around a cost-plus approach seem to us
15 to be the building of your costs from the bottom up. The costs of the suppliers
16 are certainly heavily disputed, as you will know from the evidence they are
17 giving you. We do not know how able a central regulatory body, whether that
18 be yourselves or Ofgem, if you task Ofgem to do it, would be to set a cost-plus
19 tariff in such a way that there wasn't a risk that an erroneous view of costs could
20 result in the tariff being locked in at too high a level or too low a level. So, we
21 think that the cost-plus approach could be difficult to implement in practice.

22 Around what level you would set the margin on for that product, again that gets
23 you into thorny issues. For example if it is set as a product with quite a
24 significant margin on it then how are you actually helping that consumer by
25 putting them on that product. But if it is a product with a narrow margin, then

1 why on earth would they ever switch away from it if you are trying to encourage
2 engagement? I do not know how you balance those difficulties to come up with
3 a product which is delivering consumers a better deal than they would be
4 currently getting from the market without the risk of embedding their
5 disengagement going forward.

6 In terms of making reference to an achievable -- or making reference to a tariff
7 which is already in the market or a tariff benchmark that is already in the market,
8 given that suppliers will tend to tell us that they do not sell at below cost, they
9 will always tell us that, but we notice that there is quite a significant disparity in
10 the differentials applied to different consumers. We think that it should be
11 possible to set a benchmark for the tariff based on attractive deals which are in
12 the marketplace which are significantly lower than what those customers
13 currently pay through their standard variable tariff.

14 I am not sure how to go beyond that at this stage.

15 Q. (Mr Cave) That is fine. That is very helpful. My own understanding is that when
16 safeguard caps have been used in other sectors in a regulated context,
17 because they contain, almost by definition, some kind of headroom, the
18 necessity to fix to a tenth decimal place the level of cost is not quite as acute
19 as it would be if you were trying just simply to set a purely cost-based tariff. So,
20 to some extent, whilst obviously having the headroom raises the problem that
21 you mentioned latterly, it may obviate to some extent the first of the problems
22 you mentioned which is cost accuracy. Do you think there is anything in it?

23 A. (Mr Hall) It is possible. Where I struggle with the headroom approach is that if
24 you effectively say there is a cap on what you can charge these customers and
25 that cap is being set by the regulatory authority, the suppliers in response to

1 that are likely to think I know I can price at that level because the regulatory
2 authority has told me that that is where the cap is set. Further to that, I know
3 these customers are disengaged because that is why they are qualifying, so
4 they are unlikely to move away, if I do not undercut the cap. I cannot really see
5 why you would not price at the cap. If you have effectively got regulatory
6 permission that you can have up to an x per cent margin why would you choose
7 to do x per cent minus a bit, you might as well do x per cent?

8 THE CHAIRMAN: But that would be less than SVT by hypothesis.

9 A. (Mr Hall) Potentially. That is the hypothesis. We would obviously love to see
10 the detail of where it would be set and that could affect our views on it going
11 forward.

12 Q. (Mr Cave) Perhaps I could turn to Pete because you are less hospitable to the
13 notion of this price cap. You mention, in particular, two things that we have
14 already discussed. One is the fact that the notion, as described in the remedies
15 notice, contains some headroom. The second thing is the question of targeting,
16 whether there might be a narrower target at which it could be directed, thus
17 having more limited consequences as far as the currently disengaged are
18 concerned. Would you like just to expand a little bit upon that?

19 A. (Mr Moorey) I think it is important to say, firstly, that whatever remedies are
20 developed there should be attempts both to stimulate engagement in the
21 market but also to protect vulnerable consumers. Therein lies the rub, does it
22 not? We share some of the concerns that Richard has outlined in terms of the
23 regulated tariff as proposed with headroom. We do think that legitimises
24 allowing incumbents to make excess profits and are concerned about the
25 potential for suppliers to drift to the regulated tariff.

1 I think the critical thing is the relationship between the safeguard tariff remedy
2 and the engagement remedies and ensuring that any such remedy, in terms of
3 the safeguard, does not have a genuine effect on the ability of the other
4 remedies to actually increase engagement and switching in the market.

5 So, with the information that we have in the interim remedies, we would like
6 more clarity around the transitional nature of it, what we think it is transitioning
7 from and to. So, what are the success measures that we should be setting for
8 ourselves for the market to understand the point by which you then remove the
9 safeguard tariff. What we suggest as an alternative approach actually is not
10 introducing it at this stage but, instead, focusing significantly on the
11 engagement measures particularly via testing, as I have mentioned on a
12 number of occasions, and setting very tough measures for what we think
13 success in the market should look like, whether that is the number of people
14 who are on SVTs, whether that is the level of overpayment that collectively all
15 consumers appear to be paying as a result of a lack of competition in the
16 market. And, for the CMA and Ofgem, to have the ability to return to the market
17 after those measures have been tested and to see whether actually, as a result
18 of those things, we are seeing an increase in engagement; whether actually
19 people are switching and switching to better deals and consumers, as a result,
20 therefore, are suffering less as a result of a more competitive market. At that
21 point, if none of those measures have been met, that is the point by which you
22 introduce the safeguard tariff. Yes, as we have stated, focused on a more
23 targeted group of consumers.

24 I do not think we would necessarily disagree too much with the range of options
25 that Citizens Advice have set out with both Warm Home Discount customers

1 with the caveats that Daniel has made and Cold Weather Payment recipients
2 are a good place to start.

3 So, we think that approach actually would be better to ensure that actually by
4 introducing this you did not undermine the other attempts that the CMA might
5 want to make in terms of engagement.

6 Q. (Mr Cave) Do you think that if the suppliers had the sword of Damocles of price
7 regulation hanging over them, they would, so to speak, intensify their efforts or
8 redirect their efforts to get people off the standard variable tariff.

9 A. (Mr Moorey) That would be one of the critical tests and that is what we would
10 have to see over those two years; whether actually that threat did persuade
11 them to do that and I do not know the answer.

12 Q. (Mr Cave) Obviously you have identified, as the remedies notice identifies, the
13 antithesis between the price competition aspect of the matter and the price
14 regulation aspect. The question of finding either a compromise between those
15 two objectives or, alternatively, some way of making them complementary
16 rather than contradictory is one that quite a lot of people have raised. You have,
17 it seems to me, come up with something that might possibly be a way of doing
18 it.

19 A. (Mr Moorey) We think it is an alternative approach if we are serious about really
20 trying to increase engagement. I think that is why, turning back to the
21 information remedies, but if we are serious about that we need to go beyond
22 the prompts and other attempts that we have made previously. Otherwise, I
23 think, we are concerned that you will not see that significant increase in
24 engagement.

25 Q. (Mr Cave) Peter, can I turn to you?

1 A. (Mr Smith) Yes.

2 Q. (Mr Cave) Have you got any observations to make about the targeting issue?

3 Clearly, your concern is for the customers.

4 A. (Mr Smith) Yes.

5 Q. (Mr Cave) Have you got any targeting suggestions or observations in
6 connection with this price regulation?

7 A. (Mr Smith) I think the first thing I would like to flag is a risk that we do look at
8 your proposal for a back-stop tariff is similar terms to the targeted provision that
9 is out there for the Warm Home Discount scheme. Whilst we absolutely agree
10 with what Dan said and Citizens Advice's position that we would like to see that
11 scheme (WHDS) extended to all Cold Weather Payment recipients. We would
12 like all suppliers to be obligated to deliver it and we would like the policy to run
13 out over a CSR period and not the yearly peaks and troughs that we currently
14 have in terms of the future of the policy.

15 Unless we secure equivalent value for customers that would receive this new
16 safeguarded tariff, and that is directly equivalent to and is bankable as the
17 Warm Home Discount scheme, we should not be talking about these things in
18 the same breath and we should pull the two apart.

19 I think that leaves you with the big issue that you have been discussing about
20 how you target that safeguarding tariff in a more effective way so you are not
21 rewarding people that have options to switch for a better deal but just simply
22 enact it for a various range of reasons which could be addressed by the other
23 remedies that we have been talking about today.

24 In terms of using the Cold Weather Payment proxy as a demographic to do that,
25 it does capture the right people, it does help channel your interventions towards

1 those people that are likely to have very much a range of reasons for their
2 inaction within the energy market and, therefore, it could be a useful proxy. As
3 I said, we would like to see the two things separated out, if at all possible.

4 But if you, for instance, decided within your final remedies that the safeguarding
5 tariff was a good idea but is it unworkable for various reasons, we would like
6 you to say something about the extension of the Warm Home Discount scheme
7 providing an opportunity to provide some targeted provision for households or
8 low income working households in the way that the current policy does not.

9 A. (Mr Hall) It is helpful to build on that point and perhaps the references to
10 equivalency in there. I think it would be helpful if you were aware of the degree
11 of sensitivity around the pending lapsing of the Warm Home Discount amongst
12 consumer groups and the way that that may influence certainly some of our
13 views in relation to back-stop tariffs. The Warm Home Discount is currently due
14 to lapse in 2016. There is no replacement in place. I'm not quite sure how to
15 phrase this given I am talking about conversations other organisations have
16 had but certainly I have had conversations with quite senior figures within
17 DECC. I think other people round the table have done too which have
18 suggested that DECC may well use any implementation of a back-stop tariff by
19 the CMA as a justification for removing the Warm Home Discount. That is
20 certainly quite a strong impression we have been left with.

21 So, you will find a degree of anxiety about the prospect of the CMA perhaps
22 introducing a slightly cheaper standard variable tariff for everybody and the
23 Government using that as an opportunity to whip away £140-worth of support
24 per year for the most vulnerable in society.

25 If you have DECC in for evidence sessions, I would strongly encourage you to

1 query them on this point but they are certainly sending out signals which are
2 creating anxiety. Again, that is feeding through to our desire to see something
3 that comes through that actively supports the most vulnerable in society from
4 the back stop because we think the Warm Home Discount may go.

5 I guess I am warning of the risk of collateral damage from anything that is
6 implemented here in terms of how it may affect wider Government policy.

7 THE CHAIRMAN: It could fairly be characterised as an unintended consequence.

8 Q. (Mr Cave) I go to Norman now if I may. Norman and Elizabeth, it is clear from
9 your response that you are not much in favour of this remedy but do you have
10 any views on the targeting question that has been wrapped up in the discussion
11 of remedy 11 so far?

12 A. (Mr Kerr) I think we found it very difficult to outline everything that we wanted to
13 say there. So, you will note our response is relatively short on that one. I do
14 not think we have got the targeting right on Warm Home Discount. I think we
15 have got the core group who are very easy to identify, not all of them vulnerable
16 and we have excluded a whole range of vulnerable consumers within that. I
17 think the difficulty then becomes how do you identify the new vulnerable group.
18 Who do we put in? The point that Richard just made there about unintended
19 consequences, it may not be the best thing that we have got but if we start to
20 think forward something else, I am sure the Government would remove that
21 because they would see that as a burden on DWP and other people. The Warm
22 Home Discount would be removed and we would be left with this safeguard
23 tariff of back-stop which I think would be very difficult to construct and I know
24 some of the earlier commentary was around equalising that across the rest of
25 consumers. We are already having a similar conversation in terms of

1 distribution costs of the north of Scotland which we will not go into here because
2 it is a different conversation. But we cannot do it for one thing and not for
3 another.

4 So, I think if we are going to put people on to a back-stop tariff, it would be
5 further disengaged from the market. It will not need to do anything. If they
6 know it is the cheapest tariff that their supplier can give them, why would they
7 want to shop about, why would they want to become engaged because
8 someone else has taken that need for action, that choice away from them and
9 they are simply being told now this is the cheapest thing for you and that is fine,
10 I do not need to do anything else.

11 Q. (Mr Cave) Can I just take your views on the proposal that some suppliers have
12 made, so to speak, to reduce the numbers on the SVT? That is that the
13 customer at the end of his or her fixed tariff would not be shoved back onto the
14 SVT but put somewhere else. This is a way of obviously in the long term of
15 reducing the numbers on SVT because you are getting rid of, so to speak,
16 episodic switchers, but it may confine the SVT increasingly to people who are
17 fully disengaged.

18 Does anybody have any views on that?

19 A. (Ms Cooper) Yes, it is something that came up during the RMR process. I think
20 provided you put someone on a fixed-term tariff that did not have an exit fee,
21 then that is fine, as long as it is cheaper than the SVT. If you wanted to put
22 your (customer) -- so if you have got someone on an attractive tariff that, they
23 are rolling off, if you put them on, in effect, a no exit fee tariff and it is cheaper
24 than the SVT, I do not see the problem because they are still free to switch
25 away and they are on a better deal than they would have been otherwise.

1 Q. (Mr Cave) Would you regard that as a kind of paternalistic competition, so to
2 speak?

3 A. (Ms Gallacher) We did question about how is it different from the SVT. So the
4 key is going to be on how much it actually costs and there are probably some
5 comparisons to be made in the non-domestic sector where there are some kind
6 of roll-overs and stuff. It is what happens around the weights that are put in
7 place. So, I think we would have to see a lot more analysis from the companies.
8 Some of the companies have brought that proposition to us. In some respects,
9 it looks quite attractive because there is quite an obvious trigger, a prompt for
10 action if you are at the end of your annual fix and then they are going to put you
11 on to another annual fix which means that you are going to get another prompt
12 next year whereas if you are on the standard variable rate you are never going
13 to get that prompt again arguably and that direct prompt from the supplier.
14 So, there are some attractive elements to it but it just depends on what the price
15 is because otherwise it is just standard variable by any other means with an
16 additional annual prompt.

17 Q. (Mr Cave) It would be hard to see how the remedy would work if it led to a
18 situation in which the supplier chose the SVT minus a tiny amount.

19 A. (Mr Hall) Off the cuff, because I think most of the responses to the provisional
20 remedies have actually been published today, so I only know what one of the
21 large suppliers' proposals is. I am not sure that I am familiar with the one that
22 you are outlining and, therefore, it is not something that I have necessarily given
23 thought to.

24 The one which I am aware of is coming from one of the six large energy firms
25 which was effectively to phase out the standard variable tariff, replace it with a

1 fixed-term but not fixed-rate tariff which would last for 12 months and which has
2 variable rates.

3 The only observations I would have on that are that under that proposal you
4 would get a prompt at the end of the year telling you that your tariff is lapsing
5 and that if you do not switch you will be put on to another one. But if you are
6 currently on a standard variable rate tariff you get an annual prompt anyway,
7 an annual statement and if you do not switch you get rolled and you carry on.
8 So, it looks like, effectively, the standard variable rate re-badged as something
9 else but, effectively, it is still a standard variable rate.

10 Q. (Mr Cave) I would say that if anything strikes you when you read these other
11 proposals, I am sure it would be possible for you to let us know.

12 A. (Mr Hall) We would be glad to.

13 A. (Ms Cooper) I have a bit more sympathy with this idea because we have had
14 discussions with suppliers relating to the standards of conduct where they've
15 said "I know I have got someone rolling off a fixed-term tariff. I have actually
16 got a more attractive fixed-price offer that does not have a termination fee that
17 I would like to offer them but I cannot, I am banned under the RMR rules and I
18 have got to roll them on to my less attractive SVT tariff."

19 So, I do have sympathy for that and as long as it is very clear to the customer
20 that they can switch away at any point, which they can because there is no
21 termination fee, and you are still getting the regular prompts on your bills. Yes,
22 it is potentially paternalistic but it does put the consumer in a better situation.

23 THE CHAIRMAN: I think the argument put to us was that the message which says
24 your tariff is coming to an end is more of a prompt than what is currently on the
25 annual bill which is just something that is on the annual bill. I think that was

1 really what was driving the idea. It is actually the more effective nudge.

2 A. (Mr Hall) It is possible. I think the only thing I would highlight here is where the
3 annual prompt comes up, it often comes up as car insurance or home insurance
4 is used as a comparator quite often when we have these discussions. For me,
5 the big difference is if you let your car insurance or home insurance lapse,
6 something happens and you are significantly exposed whereas if you do not
7 act on a prompt for energy you are still covered. So, there is quite a
8 fundamental difference in the nature of the prompt with those other products. It
9 is do something or your coverage will change.

10 That is not really the case with energy and, therefore, I am not sure that those
11 other sectors will necessarily provide you with that much direct comparability
12 on how consumers might behave in this circumstance. But it is not switch or
13 else. In energy, the “else” is you carry on as you were before.

14 A. (Mr Moorey) Telecoms would probably be the most comparable. Once you are
15 off your 24-month contract, then you are effectively usually on a £20 fee and
16 yet people do continue to sit with their mobile provider at the end of that
17 24 months and do not get their upgrade and plenty of people do that. What is
18 it that mobile companies are doing that they do this?

19 A. (Mr Kerr) Sorry, we lost a bit on telecoms there. Could you repeat that?

20 A. (Mr Moorey) Sorry, I was just saying the mobiles is probably a more similar
21 situation in that at the end of the 24 months you continue to pay but not for a
22 very good deal.

23 A. (Mr Kerr) Yes.

24 Q. (Mr Cave) I think, if I may, I will move on to my next duty which is remedy 6
25 unless anybody has got anything they are burning to say.

1 A. (Mr Walker-Nolan) Can I just make one more point? In terms of encouraging
2 inactivity for consumers and the back-stop tariff, all that I would say is that we
3 have had the privatised energy market in the UK for almost 15 years now and
4 still over half of consumers self-report that they never switched. I think at a
5 certain point we may need to acknowledge that and see where the detriment is
6 greatest in those non-switching households and actually tackle it. That is why
7 I think we favour the back-stop tariff approach.

8 Q. (Mr Cave) That is very helpful. We have already spoken quite a lot about price
9 comparison websites but what I would like to focus discussion on now is remedy
10 6, which is that Ofgem would provide an independent price comparison service
11 for domestic and/or business customers. If I could begin with you, Peter, you
12 do not regard this as having much incremental value?

13 A. (Mr Moorey) No, we do not. You can see this two ways, I guess. On the one
14 hand, I think the most likely outcome is that it will simply be ineffective in that
15 we have a very active, in many respects, price comparison website market with
16 an awful lot of big players. I think whilst it is entirely possible that in consumer
17 research you will get a response from people and they would say that they
18 would trust an Ofgem site over and above any others just as they might say
19 that about a site provided by Which? or Citizens Advice or others. But actually
20 given the significant marketing budgets of the big players in the PCW market,
21 actually the likelihood is that we think very few people will probably go on and
22 use it. I think even by doing things like putting prompts on bills, given the debate
23 we have had about billing, it is unlikely to really prompt people to use that
24 service. That is one scenario.

25 I guess that the other scenario is actually that it is very effective. Then we would

1 have concern about the impact that has on the price comparison website
2 market more generally. Perhaps unlike Peter, we would have a concern about
3 that from our perspective because we think these are very positive institutions,
4 businesses in society that allow consumers to do an awful lot of good things
5 and make better choices by and large albeit that problems exist. So, I think if it
6 then is successful, then I think actually it does have good potential then to
7 undermine.

8 Either scenario is far from positive from our perspective and then there is the
9 big question about whether it is an appropriate role for Ofgem to hold, whether
10 it actually distracts them and what their competencies should be and, indeed,
11 whether there are any conflicts of interest that it presents in terms of their role
12 as a regulator in the market.

13 Q. (Mr Cave) Norman and Elizabeth, my understanding is that you are not
14 particularly won over by this proposal but clearly it can be formulated in two
15 ways, either as a price comparison site which is just purely informational or as
16 a price comparison site which also creates transactions or facilitates
17 transactions. Do you have any views about the relative merits of those two
18 alternatives?

19 A. (Mr Kerr) Again, we were not particularly won over, I think, back to what is the
20 public perception of Ofgem, do they know them, do they know who they are or
21 are they just another price comparison website or are they the Government's
22 price comparison website. Not sure. Again, I think there is a cost to that. If
23 Ofgem are doing that, how do they recoup their costs? As we know, price
24 comparison websites will recoup their costs from suppliers who, in turn, recoup
25 the cost from the customer. Do we have something in Ofgem that does the

1 same? Are we just simply continuing to clutter the market there?

2 I think what is useful though is when someone is engaging in a price comparison
3 website and they have someone to hold their hand through that process and
4 are able to take them through that process and do that on their behalf, just
5 getting -- it is that level of independence, I think, that people are looking for.

6 As I say, I am not convinced that Ofgem are the right way to go but I think
7 people do need lots of reassurance. We have done a number of consumer
8 surgeries across the country and we know that when we are talking to people
9 about their energy bills they need a lot of hand-holding even just to get through
10 the price comparison website so that somebody can explain that to them and
11 then they really want us to sit with them while they press the buttons to change
12 supplier. So, I think there is a merit either way.

13 Good independent advice from trusted sources. Also an element of hand-
14 holding where it needs to be. Again, if we are back to vulnerable consumers,
15 they will need that and I do not know -- Sarah may well, had I been sat beside
16 her now, kicked me under the table. But if someone was to walk into Citizens
17 Advice Bureau with a fuel debt, is that a role for Citizens Advice moving forward
18 while they are able to take someone through that process and actually help
19 them press the buttons to swap over as they go.

20 People trust Citizens Advice. They are a well-trusted brand on the high street,
21 independent, not attached to anybody. I think people are looking for that
22 independence and level of hand-holding. Again, the point I made earlier about
23 everyone not having access is the internet and the price comparison website.

24 How do those people switch supplier? What is the route for them to do that?

25 Is it phoning some independent organisation, getting a level of advice and

1 service that that person can switch then with their authority? Not sure on this
2 one.

3 Q. (Mr Cave) I think that slightly prompts me to ask Citizens' Advice its views on
4 this question. Norman has set you up, so to speak.

5 A. (Mr Kerr) Sorry, folks.

6 A. (Ms Gallacher) Citizens Advice is planning to launch a price comparison tool
7 and that is in response to the level of demand from our network. We also run
8 some programmes for DECC and Ofgem on energy issues. We have seen
9 some real limitations to the current suite of internet price comparison websites
10 that are available. We have some real issues ourselves about potentially giving
11 people information that was not wholly accurate because even our own
12 advisers did not know how to press the right filters to make sure they get the
13 full results. So, we are acting on a demand that came from our network to
14 provide services that help consumers and it is part of the wider strategy on
15 energy advice and support.

16 I think there are also some limitations. So, the internet channel has been
17 spoken about at length this afternoon in terms of people that do not have online
18 access or do not have digital capabilities. What we would hope to do is provide
19 information through different channels over the phone and face-to-face for the
20 more vulnerable consumers. Right now, there is no source of independent
21 advice for people that are not online, so you cannot -- you can phone up some
22 price comparison services, I do not know how easy it is to find them. Right now,
23 there is no independent pricing information, independent in terms of pricing
24 information that is not predicated on commercial payment. So, we are hoping
25 to address that.

1 We have said that we would welcome additional sources of help and advice for
2 consumers but we would also question whether Ofgem is the right organisation
3 to provide a price comparison service given its role. We think an independent
4 price comparison service it would be a valuable tool for consumers and
5 particularly consumers that are not served by the current arrangements with
6 commercial price comparison websites.

7 Q. (Mr Cave) That is very interesting. I guess it is quite possible we might be
8 knocking on your door to ask you a bit more about the details of that in the
9 course of time.

10 Q. (Ms Ainsworth) Can I just ask one question? Is that going to be one where you
11 can actually switch through your website or is it going to be information only?

12 A. (Ms Gallacher) At the moment, it is going to be information only. That is
13 because there are obviously some questions around that have been raised
14 about how this will be funded but also what are the consumer redress and
15 protections that we could put in place, around something like that. What does
16 it mean for the role of Citizens Advice as an independent charity? I think those
17 questions could be true for Ofgem as well. But as a first step, it is definitely
18 about getting information made available. We know as well from the internet
19 price comparisons that are carried out online currently on the commercial sites,
20 I think between about 6 and 25 per cent of consumers actually switched. We
21 know the majority of people do use them as a comparison service rather than
22 a switching service, so if we take that as a first step and then understand what
23 the consumer experience is and what the impact has been, and make sure
24 there is the right protections around it. I think at some point we could move to
25 a more transactional basis.

1 A. (Ms Cooper) The other thing we are going to monitor extremely closely is
2 whether or not we are reaching the group of people who are traditionally
3 disengaged because through our wider work as an organisation, we do have a
4 good appeal to those groups of consumers. We want to understand whether
5 this new digital approach and, our existing outreach programmes are capable
6 of reaching these consumers and encouraging people to engage in the market.

7 A. (Ms Gallacher) I think one other point, the proposition that you are putting
8 together for consumers, again based on feedback from advisers who are
9 dealing with people face-to-face is that there is a real -- people really want to
10 save money on their energy bill but they are not even remotely interested in
11 switching because it has happened before and they have been burned or they
12 are worried about what it might do to payments. So, there are real issues about
13 wanting a better deal but not wanting to switch supplier. One of the things that
14 we are offering is what was the cheapest deal for the supplier you are currently
15 with, which kind of leads into some of the things that we were speaking about
16 earlier and the supply of cheapest deal and how you can get prompts and
17 engagement and get people off the bog standard variable rates. There will be
18 a specific feature in that which right now does not exist in any way, shape or
19 form on commercial sites because there is no commission in transferring
20 somebody within the supplier side but we want to make that option fully visible
21 to consumers that do not want to switch supplier but want a better deal.

22 Q. (Ms Ainsworth) Will you be able to get information from suppliers?

23 A. (Ms Cooper) No, we don't need to because we will be operating a white-label
24 site. There are currently a few suppliers who do not have prices displayed on
25 other commercial price comparison websites. We have had discussions with

1 these suppliers and they have said that they would welcome putting their prices
2 on our site.

3 THE CHAIRMAN: [✂]

4 A. (Ms Gallacher) [✂]

5 Q. (Mr Cave) Peter, coming to you, last I am afraid.

6 A. (Mr Smith) I mentioned earlier that we would support an independent price
7 comparison website. It is great that Citizens Advice are already planning
8 something similar. We would absolutely underline the lever of Home Service
9 or some form of other outreach service to support that not only to address the
10 people, the four million GB households that do not have the internet but equally
11 people that use the internet, got the internet but do not feel comfortable making
12 or looking and reviewing financial information on that format. As has been said,
13 we would certainly underline the fact that all offers should be listed. It should
14 not be transactional. It should be information-based.

15 The final thing that has not been mentioned but I think has been referenced in
16 despatches elsewhere is about suppliers or any tariff offer for a particular
17 supplier should categorically state whether or not that supplier is able to offer a
18 social or environmental programme such as the Warm Home Discount Scheme
19 or the Energy Company Obligation, Energy Efficiency Policy, for instance. We
20 think that is very important in terms of helping customers understand what they
21 are switching to and making sure there is no material loss.

22 Q. (Mr Cave) I think, if I may, I will stop there, as we continue with remedy 4a.

23 Q. (Ms Ainsworth) Then we will come back to barriers to switching. The results
24 of our consumer survey are, I think -- paradoxically that those who have
25 switched, in general, have found it is was a reasonably good experience but

1 there is a huge reluctance to switch and a perception that the problems are
2 greater than they actually are. Can I start with Citizens Advice? I think you
3 said that you did not have any evidence that the time taken to switch is a major
4 barrier to switching.

5 A. (Mr Walker-Nolan) I think what we said is that it is one of a number of barriers
6 including, obviously, trust (whether people believe they can actually get the
7 deals out there in the market or whether they make the savings that are
8 advertised and things like that). So, it is part of a suite of problems. I think we
9 would very much welcome any moves to get the time to switch down but it
10 needs to be tackled in parallel with other issues as well.

11 Q. (Ms Ainsworth) I think you said that the introduction of smart meters might
12 actually make switching more complex.

13 A. (Ms Gallacher) I think that is more during the transition phase where we were
14 running dual systems. So, we are going to move through a couple of rough
15 years.

16 Q. (Ms Ainsworth) So, you are not undermining the benefits of smart meters?

17 A. (Ms Gallacher) Yes, no. I think ultimately in the future smart meters will make
18 things easier. It is just there is going to be a couple of rough years, particularly
19 where we have got a lot of SMETS 1 meters out there which need to be
20 upgraded in time.

21 Q. (Mr Cave) That does cause a short-term barrier potentially, SMETS 1 meters?

22 A. (Ms Gallacher) Yes.

23 A. (Mr Walker-Nolan) They will lose functionality if you switch. They will lose the
24 wider area network, most of them. So, you won't get remote reads anymore
25 and you won't get that pounds and pence reflection of the energy you are using.

1 So, that could be quite a dichotomy for some consumers who actually want
2 both.

3 Q. (Ms Ainsworth) We will come back to SMETS 1 when we get on to customers
4 with pre-payment meters. One of the things we had raised was the possibility
5 that PCWs should get access to the ECOES database to assist in switching.
6 We have had a variety of views on that. Some support for it, some people
7 saying it might help a bit but actually not significantly. Do you have any
8 evidence on that?

9 A. (Ms Cooper) We do not have any evidence. We would be broadly comfortable
10 with accredited price comparison websites gaining access to ECOES. We
11 understand there are a limited number of switches that get cancelled because
12 of sites being unable to cross-check the data.

13 A. (Ms Gallacher) There is probably a wider point about some of the stuff that
14 Peter raised earlier about consumers who are in receipt of social support and
15 what we can do through data initiatives and the data that is made available to
16 the price comparison websites in doing comparisons. Right now, it is very much
17 predicated on, "you must tell us if you are doing this" or, "you should be aware
18 of". Price comparisons themselves say that the more questions and barriers
19 you put in as you go through the comparison process, the more people drop
20 out. So, anything that can automate what the customer currently gets, including
21 probably more widely, would be helpful but clearly that is a huge undertaking.

22 Q. (Ms Ainsworth) But maybe there are not huge gains.

23 A. (Ms Cooper) There is work ongoing at transferring information about whether
24 or not a customer is priority services-registered but that would transfer to the
25 new supplier, so it could be linked. Obviously if someone is on the Warm Home

1 Discount that is another ...

2 A. (Mr Kerr) Sorry, we are losing whoever that is that is speaking just now. It is
3 very faint.

4 A. (Ms Cooper) Sorry. I was just saying that there is a separate project ongoing
5 looking at how to transfer information about whether or not someone is on the
6 priority services register to their new supplier.

7 A. (Mr Kerr) Okay. Thanks, yes.

8 Q. (Ms Ainsworth) That maybe ties in to the Midata project where that rolls into it.
9 You made reference to new generation intermediaries. Do you want to tell us
10 about that?

11 A. (Ms Cooper) Back when we were Consumer Futures, we did a project on next
12 generation intermediaries. It is basically the next generation of price
13 comparison websites. We are not aware of any in existence at the moment, I
14 think, but what it would be is you basically hand over power of attorney to a site
15 that you trust, where that there are appropriate protections in place and they
16 would just basically take control. So, if you were able to set your preferences,
17 it is about how you want to engage the market, how often, what your triggers
18 are and that would basically take the work out of searching for better deals
19 going forward. But obviously there is a lot of work to be done on data protection,
20 on building trust and ensuring that these sites, when they do emerge, that
21 consumers are ready to hand over and share their data them.

22 It is very much there needs to be clear to consumers, appropriate protections
23 and the ability to get out if you do not like what happens. We think the market
24 will move that way in the future but do not know when it will happen though.

25 Q. (Ms Ainsworth) But that is not something you are looking to us to provide as a

1 | remedy?

2 | A. (Ms Cooper) No, it is going to have to be market-led.

3 | Q. (Ms Ainsworth) Elizabeth and Norman, if I could turn to you, I think you had

4 | raised concerns about whether smart meters would actually help the DTS

5 | customer. Can you just explain that?

6 | A. (Mr Kerr) It is back to access to the code itself. The meter will simply record

7 | the amount of energy used within the home and make sure that your supplier

8 | gets that. But in terms of the time-of-use tariff and SSE or ScottishPower

9 | continue to hold those codes, then the new supplier, the supplier who wants to

10 | take over, will still need access to that code to ensure that they are able to

11 | accurately record when the energy is going in and when it can be billed.

12 | I know Ofgem looked at code access before and kind of put it in the, “too hard

13 | to do box” but I still think that the metering itself, unless we misunderstand smart

14 | metering, would not give the new supplier access to the code and that is what

15 | they will need to make the tariff work for them.

16 | Q. (Ms Ainsworth) That is a problem for the future but the lack of access to those

17 | codes is presumably also the reason people aren’t rushing to offer extra tariffs

18 | now; is that right?

19 | A. (Mr Kerr) Yes, that is correct.

20 | Q. (Ms Ainsworth) I think you took a rather different view on access to the ECOES

21 | database and indeed Midata. Do you want to just talk about that?

22 | A. (Mr Kerr) Certainly. The access to the database, we did not see the price

23 | comparison website having access to that would greatly enhance or reduce the

24 | number of failed switchovers. We do not have the evidence of that. In our

25 | mind, it simply gave more data that a price comparison website may use for

1 other things, you know, to them from the consumer. So, we were not convinced
2 on that. That was simply the reasoning behind that.

3 Q. (Ms Ainsworth) I think, Peter, you had similar concerns.

4 A. (Mr Smith) Yes, we just said it should be opt in. Yes, price comparison
5 websites should not automatically be given that information because there is
6 not a clear proportional benefit.

7 Q. (Ms Ainsworth) And opt in on a repeated basis, opt in for a limited time?

8 A. (Mr Smith) Yes, opt in every time.

9 Q. (Ms Ainsworth) Let me talk about cooling-off periods.

10 A. (Mr Smith) I have got something to add on that. Again, for the vulnerable
11 segments of the market there is a clear need to ensure that any appetite to
12 speed up the switching process does not leave people with buyers' remorse
13 and that is clearly important for all customers but very important for types of
14 customers that may not be particularly numerically literate, et cetera. Often
15 carers and customers that nominate carers, family members, et cetera, are
16 nominated to represent the best interests of the energy customer through the
17 priority services register and other things. It is important that person is brought
18 into the loop and a suitable cooling-off period is essential. So, the carer or the
19 person, the nominated spokesperson for that customer is brought into the
20 process and is able to kick the tyres on whatever deal the person has struck.

21 Q. (Ms Ainsworth) Are you in favour of having a cooling-off period; like, the
22 conventional cooling-off period where no switch happens until after the cooling-
23 off period or one where the switch takes place but could then be switched-back?

24 A. (Mr Moorey) That would be my view. I think that happens in lots of other
25 markets and I think the ambition to have 24-hour switching is a good one but I

1 think there is no reason why the cooling-off period could not be retained without
2 the ability for people to switch back. It would be interesting to look at the
3 experience, therefore, from seven-day switching in banking, particularly given
4 that actually a lot of those switches are much quicker than seven days. I am
5 sure there are people who go through that process and then decide they want
6 to move back. That is fine under that system. So to see how that is working in
7 practice would be interesting.

8 A. (Mr Walker-Nolan) One issue, if I may, is the current licence condition around
9 switching is actually quite ambiguous. It is a 21-day requirement but actually
10 that could exclude, in theory, the cooling-off period. So, if the supplier wanted
11 to follow the letter rather than the spirit of the law, they could still take 35 days
12 to switch a consumer and they would not be breaching their licence conditions.
13 So, I think that is something that you might well want to look at in terms of
14 getting the switching times down. There are voluntary initiatives from Ofgem to
15 mandate 17-day switching but not every supplier has signed up to that and not
16 all of them have actually given data on whether they are complying with it. So,
17 we do think more can be done. We know that the general direction from Ofgem
18 and the industry is towards one-day switching but in the interim there are still
19 things that can be done to try to tighten up those measures.

20 Q. (Ms Ainsworth) Is that a real or a theoretical problem?

21 A. (Mr Walker-Nolan) Given the lack of data, anecdotal. Anecdotally, some
22 switchers still take quite a long time, quite a long time beyond 21 days so we
23 think that is probably a material aspect to it. That is why, again -- I know you
24 will probably come on to compensation but we think that is an absolutely great
25 idea.

1 A. (Mr Hall) I am tempted to add to that. I think some of the data you published
2 in the provisional findings records itself states that Ofgem was saying that, was
3 it, 20 per cent of electricity switches and 80 per cent of gas switches were not
4 taking place within five weeks. That is a 2013 figure which, I think, is in your
5 report. Clearly, that is now two years out of date but that does suggest that
6 quite a lot of switches may not be taking place within the mandated period.
7 On the cooling-off period, if I can add a further point on this, a consumer's
8 overwhelming reason for switching tends to be to save money. Polling data
9 tends to support that. During the period whilst you are waiting for your switch
10 to happen, you are stuck on your old tariff which is presumably worse value
11 than the one you are trying to switch to. So, in effect, during the cooling-off
12 period, that is extending a period during which you are worse off.
13 In most markets that I am aware of cooling-off periods tend to be ex-post rather
14 than ex-ante. It is your right to return a good or to cancel a service that is not
15 functioning in quite the way that you expect it to. At the moment, because it is
16 ex-ante rather than ex-post in energy, it is probably more likely to be having the
17 effect of delaying a saving for customers in the majority of cases. I would
18 question whether it could actually be ex-post rather than ex-ante to preserve
19 the general principle of cooling-off periods being there to protect consumers
20 and to allow some confidence to try before you buy. I suspect the suppliers'
21 argument against that kind of approach would be yes, but a fraction of switches
22 will be cancelled and there would be consequences in terms of sorting out those
23 failed switches.
24 I would simply observe that that kind of cancellation of a transaction after it
25 takes place is a feature of most markets and most other markets seem to cope

1 with it as a cost of doing business. It is also generally a minority of cases. So,
2 if you like, causing the totality of customers switching to suffer significant delay,
3 significant in terms of the timescale for switching, in order to deal with a minority
4 of cases where there is a change of mind, I am not sure that is in the consumers'
5 interest and I think that can be looked at.

6 Q. (Ms Ainsworth) Just looking back to the prospect of removing the four-tariff
7 rule, in regards to switching it has been suggested to us there is a potential
8 concern about the supplier that is about to lose their customer coming in with
9 inducements of one kind or another to retain the customer. Is that something
10 we should be worrying about?

11 A. (Mr Moorey) By removing that?

12 Q. (Ms Ainsworth) Well, at the moment it is difficult to do but if we remove the four-
13 tariff rule.

14 A. (Mr Moorey) Again, I think that is quite a natural part of most markets that
15 people will be used to experiencing and some people, in that instance, will think
16 actually I can get a better deal with my existing supplier and it is going to be
17 hassle free, so I am not going to have to switch and a range of other factors.
18 So, I do not think -- we do not perceive that to be a problem. We notice it is a
19 not gaining feature quite often in the telecoms market where there is provider-
20 led switching but often the argument will come back and say in the energy
21 market before the four-tariff rule it happened.

22 A. (Mr Walker-Nolan) You would need to look into the trust issues, potentially, if
23 that were to happen, if you were to allow losing suppliers to potentially win back
24 customers; whether consumers actually do not really want to hear from this
25 point. It is different to other markets in that energy is an essential service.

1 A. (Mr Hall) If I could add something on this point too, I should probably declare
2 an interest here. I worked on cases relating to alleged misuse of the objections
3 process during a previous part of my career working at Ofgem and there was a
4 case. There was a supplier who is no longer in existence called [redacted] who were
5 serving business consumers. They came to Ofgem, [redacted], and their allegation
6 was that every time they gained a customer from [redacted], that triggered off the
7 various different industry flows telling the old supplier you have just lost this
8 customer, they are moving to someone else, and that they were finding that an
9 extremely large number of their customer acquisitions were almost immediately
10 cancelled because, effectively, that flow was going to the losing suppliers
11 saying you have lost this site, and one losing supplier was immediately
12 phoning the customer and saying we love you really, we can offer you a much
13 better tariff and do not leave us, we can change.

14 I think, from recollection, where Ofgem landed on that case was that they took
15 quite a similar view to the one Peter elucidated. If you like, that it is a natural
16 focus of a competitive process. We would want people to be shown that degree
17 of commercial aggression to try to retain customers, to offer them a better deal.
18 I think the concerns would come in around the extent to which that kind of
19 behaviour was foreclosing the market to new entry. [redacted]

20 So, for the current market we have, because it does not appear to us that the
21 standard variable tariff is the acquisition tariff anymore in the way that perhaps
22 it once was, any new entrant to the market is likely to be competing probably
23 on fixed-term, online direct debit tariffs. Within the current market that would
24 be the model. My slight concern with allowing that win-back approach would
25 be that if you are a large incumbent, if you know that most of your customer

1 base is safe, they are fundamentally sticky, a small proportion of them are likely
2 to shop around, and that the small proportion who are likely to shop around are
3 the only available business to new entrants that you could end up with a degree
4 of predatory behaviour around win-back, based on responding to change of
5 supply or data flows for those active customers with better offers while broadly
6 ignoring everyone else because they are safe, we have got them for ever.

7 A. (Mr Moorey) It is something that we experienced when we did the Big Switch.
8 So, the primary winning supplier in that switch was Co-operative Energy who
9 at the time had 25,000 customers and as a result of the Big Switch they went
10 to 50,000 customers but we know a lot of people actually went through the
11 process of switching and said that particularly from some of the larger suppliers
12 there was a big win-back operation going on. . So, I think it is an interesting
13 point.

14 Q. (Ms Ainsworth) Can I stay with you, Pete? You talk about having a central
15 switching agency that is going to make switching easier. Can you explain what
16 you had in mind?

17 A. (Mr Moorey) No, not in any more detail, I am afraid, which is why you will see
18 it is just a line in the response. We do not have a fully worked-up proposal.

19 Q. (Ms Ainsworth) Is this someone who is going to control the data flow or oversee
20 the process?

21 A. (Mr Moorey) I think someone actually who would have a mandate for switching
22 in the market who effectively would be there to promote switching and to
23 basically engage with suppliers and to get them to engage in activity, to get
24 people to switch. Beyond that, I am afraid, at this stage we have no proposal
25 on this.

1 Q. (Ms Ainsworth) Not something that Ofgem could do?

2 A. (Mr Moorey) I think it would be a difficult function for them to do given their
3 regulatory role. What we were thinking was not something akin to the price
4 comparison website role. I think it is something that would need a bit more
5 exploration and looking at what exists in other markets.

6 Q. (Ms Ainsworth) If you have any further evidence, it would be useful to know.
7 Compensation? I am happy to hear from anybody and perhaps start with Pete.

8 A. (Mr Moorey) Only really to add to Daniel's point which is that we also welcomed
9 the focus in the provisional remedies on penalties and compensation to
10 consumers when switching is not processed smoothly. I think we would agree
11 with the research that you had done which is that, by and large, people's
12 experience of switching is broadly positive but anecdotally we hear of an awful
13 lot of experiences as an organisation of people where there are problems and
14 where there are problems that go way beyond the five, ten weeks into the
15 months and months of extended issues between two suppliers. So, I think fines
16 for firms where this is a problem should be introduced. I think the measures
17 that Ofgem and the Government have already introduced to ensure that fines
18 go back to consumers rather than Treasury has been a very positive one and
19 obviously some money going to Citizens Advice on occasions as well which
20 has been very positive. I think ensuring that that whole process is as
21 straightforward for consumers as possible and is as automatic as possible is
22 important. Again looking at something like the financial services market you see
23 in a lot of compensation redress schemes, quite an onus on consumers to go
24 through the process of seeking out compensation themselves - obviously PPI
25 being the most famous. That is not the only one and there is a big

1 compensation scheme that has been going through on ID theft Insurance, for
2 example, as well. The response from consumers is obviously much lower,
3 where there is that onus and then you get the associated problems in those
4 markets with claims management companies and the associated problems that
5 you then have with nuisance calls and texts. I think tackling that in a way which
6 ensures that, as much as possible, it is an automatic process whereby
7 consumers receive funding in that way is something that should be explored.

8 Q. (Ms Ainsworth) Would it be necessary to look at whose fault it is? Do you have
9 a view on that?

10 A. (Mr Moorey) Between suppliers or the consumer?

11 Q. (Ms Ainsworth) Yes, or indeed the consumer that just put the wrong data into
12 the system. That is one of the difficulties.

13 A. (Mr Moorey) Obviously that is where the role of the ombudsman comes in
14 particularly and it seems to us that we broadly have an effective energy
15 ombudsman who is adept at resolving these issues and I think they would be
16 the appropriate place to resolve any disputes between people in those
17 situations.

18 A. (Mr Walker-Nolan) Adding to that, I would echo everything that Pete said
19 actually. I think it is really important. I think it is long overdue given how long
20 switches have historically taken.

21 I think in terms of how you administer it, the guaranteed standards, we would
22 expect something potentially to be put in there so it could be, as Pete said again,
23 as automatic as possible. When you have had a delayed switch, you should
24 get a set amount on guaranteed standards. If it is sort of egregiously delayed,
25 then perhaps another party would look at that again and see whether you were

1 due additional compensation.

2 In terms of assigning error, that is very important but I do not think it is beyond
3 the wit of suppliers to come up with a system whereby you can assign that. You
4 would probably need to carve out objections based on debt because they might
5 take slightly longer to go around and erroneous transfers as well, so obviously
6 they would be excluded.

7 The final thing I would say is that I think maybe suppliers that come in here will
8 say nothing to see here because they are working on a switching guarantee
9 and that might include compensation. But I would be wary to take that at face
10 value for a number of reasons. It would be voluntary, so it will not have full
11 market coverage. You will have concerns over compensation for those in the
12 scheme and those outside the scheme. Also, in terms of actually including a
13 clause of compensation, I think it might be too much for industry to do
14 voluntarily. I think it is going to hit their bottom line. It might need to be handed
15 down to them rather than them generating it themselves.

16 Q. (Ms Ainsworth) Anybody else want to comment on that issue? Norman,
17 Elizabeth, do you want to say anything on compensation?

18 A. (Mr Kerr) No, nothing to add to that. We do not have a view on what the penalty
19 should be but I think the only comment I would make is the question 4a down
20 to point d, you said should the penalty go to the customer as compensation and
21 we would certainly say yes rather than simply being swallowed back into the
22 coffers of the Treasury.

23 A. (Mr Smith) The distinction between penalties and compensation is the
24 important thing. One supplier will pay at the expense, arguably, of their existing
25 customer base and that will then go to Treasury and business as usual.

1 Compensation, however it is divided out, will go back to the household be that
2 a reduction, a direct reduction in the bill, which is one way of doing it, their final
3 bill, or just a bill.

4 Q. (Ms Ainsworth) But on money that would otherwise go to the Treasury you
5 would like to see that spread back to customers in some way?

6 A. (Mr Smith) I should say again another interest that NEA received some of the
7 redress fines from failure to meet the CESP and out of the CESP, the
8 Community Energy Saving Programme target that some of the generators that
9 were obligated to deliver, that money, not as a direct result of the intervention
10 of Ofgem or the Government, but that money has gone back to us to do things
11 with.

12 A. (Ms Beattie-Smith) If I may, Chair, I think it is very important that consumers
13 actually understand what the language around compensation actually means.
14 So, there is always something in the news about fines on energy companies
15 and they will be very used to hearing things, I think as Pete rightly points out,
16 around PPI and paying compensation to consumers. I think if we were to make
17 any changes in this area we will need to be very clear to consumers, there
18 needs to be a communication piece around what we mean by compensation.
19 What are the scenarios in which that happens? What does a penalty or a fine
20 look like?

21 I think we also need to be careful that we have got some companies that will
22 give guarantee payments. If you ask to speak to a manager and you cannot,
23 you will get £20 back, what is the difference between that and compensation?
24 Just to be very clear.

25 A. (Mr Kerr) Good point.

1 Q. (Ms Ainsworth) Unless there is anything else on remedy 4, I am going to move
2 on to remedy 5.

3 A. (Ms Beattie-Smith) Sorry, I am really good at coming in right at the end. I just
4 wanted to add to some of the things that Norman really usefully picked up on
5 DTS customers. I was going to jump in earlier but he was making such good
6 points. I think it is really important that we recognise where DTS customers are
7 and different vulnerabilities that that group of customers faces. Some of the
8 numbers that we have been looking at recently in Citizens Advice Scotland is
9 looking at -- we are trying to support some of our Bureau in Highland Council
10 to do a bit of work around fuel poverty. They found that 69 per cent of
11 pensioners in Highland Council area are in fuel poverty. That is half of all
12 consumers in Highland Council are in fuel poverty. Pretty astonishing figures.
13 But when you then look at the number of people in the north of Scotland in
14 Highland Council who are on DTS, and who have no option to switch, or even
15 to look around for what might be a comparable tariff, I think it is very clear that
16 there is a potential vulnerability there. So, I would urge a view of DTS
17 customers as potentially falling into a group of consumers that is not just
18 vulnerable because there is a funny kind of meter they are on and, therefore,
19 they might have limitations on switching. They are also facing additional
20 barriers and additional costs.

21 Q. (Ms Ainsworth) Am I right in understanding that is not just a question of
22 switching the meter? It is the whole house?

23 A. (Ms Beattie-Smith) Yes, it is your entire home and, particularly, if you are
24 looking at pensioners, at vulnerable people that whole prospect of re-wiring
25 your house is very scary and if you are told that is what you have got to pay,

1 and you will have to pay for that out of your own pocket, that is another barrier
2 to ever really engaging in the market because you feel like it is beyond my
3 control, there is nothing I can do about it. The potential is if we do not do
4 something to help those customers, as Norman says, there are between maybe
5 350,000 and 400,000 of them, in Scotland alone, then the chances are that
6 when we get smart, when we get further down the road, those customers are
7 going to be so disengaged in the market and so disempowered that they will
8 never engage in it.

9 Q. (Ms Ainsworth) Is your preferred solution a solution relating to the tariff offered
10 to them or a solution relating to access the codes so that they can switch?

11 A. (Ms Cooper) I think it is a difficult one because we do not necessarily see smart
12 as a solution to the DTS issues. If customers are going to get a DTS smart
13 meter that still relies on new suppliers coming in and wanting to offer DTS tariffs.
14 It is limited to certain geographic areas. I think it would be unrealistic to expect
15 there would be a number of suppliers willing to come into that market given all
16 the difficulties. The DTS tariffs are there for the benefit of the network. They
17 are not there for the benefit of the consumer.

18 A. (Ms Gallacher) All that notwithstanding the obvious issue is why did they
19 canvass each area and not offer -- why did ScottishPower and SSE not
20 compete for each other's customers in that area given that they have -- there
21 have been arguments that we do not have a billing system that can support
22 tariffs. There are real issues that we have just never got to the bottom of over
23 the last 15 years. I think the real issue, and Sarah got to the nub of it, is that
24 this has persisted for so long it would be almost impossible to try to re-engage
25 these consumers in a market because they have been told for the last 15 years

1 there is nothing here for you and although some of them have managed to
2 switch, they have ended up paying considerably more.

3 A. (Mr Kerr) Yes.

4 Q. (Ms Ainsworth) That is very helpful. Thank you. Remedy 5: we have identified
5 concerns about customers on pre-payment meters and one of the ideas that
6 was floated was to accelerate the roll-out of smart meters to those customers.

7 Norman, shall we start with you?

8 A. (Mr Kerr) Yes.

9 Q. (Ms Ainsworth) Your thoughts on this. I think you were not entirely enthusiastic
10 about this proposal.

11 A. (Mr Kerr) No, I think there was a couple of things. I think the early days of the
12 roll-out of smart metering when those suppliers already have, in Scotland
13 anyway, you know, Scottish Gas are forging ahead with their roll-out, SSE are
14 not far behind them, I am not sure that by targeting pre-payment customers, if
15 you like, to act as guinea pigs, if there are going to be some hiccups in the early
16 days, then, you know, should we be putting that on to pre-payment customer,
17 should we iron that out? To be honest, we have not really got what I would
18 have looked to in terms of a roll-out of smart metering. It is not regional down
19 to individual suppliers. So, if Scottish Gas are going to do a whole street in the
20 middle of Glasgow, why would they do the pre-payment customers and not do
21 the rest of the customers at the same time? I think we really need to -- in terms
22 of encouraging the take-up of smart metering, it is about people talking about
23 them, irrespective of what kind of meter they have got just now, irrespective of
24 what kind of tariff they are on just now, it is about the benefits of smart metering.
25 We can do that in the most obvious way then. I think that is the way -- I am

1 very reluctant to say let us target pre-payment meter customers. There may
2 well be some technical challenges around that as well depending on where they
3 stay, if it is high-rise blocks or other blocks that technically, in terms of getting
4 the signal to and from, is going to be quite challenging and we have already
5 seen that in parts, particularly, as I say, high-rise blocks where all the meters
6 are at the bottom of the block and you have got a meter in the house.

7 I am not convinced that by targeting pre-payment customers, who are already
8 on a restricted number of tariffs anyway, that they are actually going to get a
9 better deal. I am not saying it is a red herring but I think we are trying to solve
10 a problem that may not exist. I think it is important that we get smart metering
11 out in the optimum way, not necessarily using one particular set of consumers
12 above any other.

13 Q. (Ms Ainsworth) I should, at the outset, say that we have taken on board
14 concerns about them not being given SMETS 1 meters.

15 A. (Mr Kerr) Yes.

16 Q. (Ms Ainsworth) And, indeed, the issue of high-rise blocks, to which those
17 currently, I understand, there is currently no technical solutions, I understand
18 that that is not a great idea. But even if we waited until that solution had arrived
19 and we have SMETS II, you are still not enthralled about the idea?

20 A. (Mr Kerr) No. I think if we are going to do -- and our argument was it should
21 have been done on a regional basis, it would have been back to the days of
22 switching away from town gas to natural gas. It floods an area. Everybody gets
23 it and we think if it continues to roll along there will be a great deal of confusion
24 amongst and across all consumers who will wonder why their next door
25 neighbour got one and they are not getting one and they may not get one for

1 several months or a year or two. So, if we are then going to complicate that
2 and say they are getting it because they have got a pre-payment meter. We
3 are going to help de-stigmatise customers as well.

4 Q. (Ms Ainsworth) Does anybody else have any further thoughts?

5 A. (Ms Gallacher) So, I think for us probably it is around the definition of
6 prioritisation, so it is the majority of what Norman says around these customers.
7 If there is a problem, they are off supply and it is really quite extreme. Our issue
8 is that these consumers should not be left until last and I think it seems as if
9 that might happen.

10 I think it is really important before getting back on anything to do with
11 recommendations around this. We need to know what your cost benefit is.
12 There needs to be a proper impact assessment. We know it is a huge
13 programme. There is already loads of risk built in and there is a chance of costs
14 escalating trying to do it, a whole range of reasons from how much it will cost
15 to employ installers right down to consumer experience.

16 So, there does have to be impact assessments of this but I think we are
17 absolutely determined that these consumers should not be left until last. Not
18 principally because of the issues that we have got in that segment of the market
19 at the moment, lack of choice, poor service. Smart is going to be almost be
20 held up as panacea to sort out the problems of people with meters, so naturally
21 we would want that as quickly as possible.

22 I think another reason is that we know that these customers are already well-
23 attuned to energy consumption. They are least likely to get the energy
24 reduction benefits from smart meters and they will be paying for it from the get
25 go, so they have to get the wider benefits and we definitely do not want to be

1 left until last paying additional charges for worse service for such a long time.
2 So, it is all around that definition of prioritisation along with an impact
3 assessment.

4 A. (Ms Beattie-Smith) I would echo all of those issues. I think I have got again a
5 lot of sympathy for what Norman is saying. I think we are saying the same
6 things but with slightly different conclusions. I think it is a question of not de-
7 prioritising them.

8 A. (Mr Kerr) I think that is right. What I am saying is we should not tear them apart
9 either way so there should not be last, should not be first. Part of the roll-out,
10 and irrespective of whether myself or my next door neighbour or a supplier, one
11 of us has a smart, one of us has a pre-payment meter, the other one does not,
12 we should both be done at the same time irrespective of where we are. Just
13 keep that momentum going. I think it is going to be a hard enough job as it is.

14 A. (Ms Beattie-Smith) The issue is if we leave it just to the market, just to suppliers,
15 PPM customers will be stigmatised and left to last and treated as a different
16 group just because they are harder to treat, harder to see than the rest of the
17 market. There has to be some level of intervention. We have to make sure
18 that whatever intervention comes in is not causing further detriment to an
19 already vulnerable group in many ways. So, for example, we talked a lot about
20 an extra help scheme, actually making sure that customers understand how to
21 use their smart meter once it is installed. We are seeing a few cases trickling
22 in already where that is not really happening, it is quite often very cursory advice
23 that is given. We have got people who are effectively retrained meter readers
24 installing meters saying right, do you understand that? Right, I am going. That
25 sort of thing we have to be very, very careful with. If we are going down a

1 prioritisation route, let us not leave it until last, let us make sure we have got
2 that safeguarding in place as well. Does that make sense?

3 Q. (Ms Ainsworth) Yes, it does. Are there any specific thoughts how one might
4 tackle it?

5 A. (Mr Smith) Absolutely. That might be a nice way for us to come in. NEA did a
6 report for Citizens Advice about what an extra help scheme might look like to
7 support the smart meter roll-out. We are happy to provide you with that report
8 and we would just echo the sentiments everybody else has said. We do not
9 want pre-payment customers to be the last to benefit.

10 THE CHAIRMAN: That has come to the end of our questions. There are obviously a
11 number of other remedies, as I said at the beginning, which are not around
12 retail and I think Citizens Advice have made some comments which obviously
13 we will take into account but I was not proposing to ask any specific questions
14 about them unless you want to say anything.

15 I guess the one remedy which is the location pricing issue is the one which
16 holds a particular interest for consumer groups generally as there is a
17 distribution impact. We recognise that. Our provisional point of view is that
18 there would be a reduction in overall cost, while recognising that it does have
19 distribution consequences, but we are not in a position to say, to take a view on
20 whether these distributional effects are good or bad. We are a competition
21 authority, so is there anything that you want to say specifically about why we
22 should pay particular attention to distribution impacts.

23 A. (Ms Beattie-Smith) I will let Richard give you the proper well-considered
24 answer. I think to give you the political answer, obviously this is an area of
25 concern in Scotland. The Scottish Government is concerned about the impact

1 of locational charging on the transmission, distribution and final costs for
2 consumers.

3 I think from where I understand things, the whole system of locational charging
4 is very opaque. I am sitting in a consumer organisation advocating on behalf
5 of energy consumers. For your average consumer, it looks and feels like an
6 unjust system. I think that, in itself, may be a barrier, there may be a difficulty
7 in the market. Perhaps that is where some information remedies might be
8 helpful. Perhaps that is just where the conversation opens. I do not think we
9 have advocated one particular solution one way or another in our submission
10 to you but I think beyond recognising that there is a look and feel here and that
11 there are political pressures you need to be aware of.

12 Q. We will read your submission even more carefully.

13 A. (Mr Hall) I probably could not add a great deal beyond what we said in our
14 written submissions. So, we recognise there are distributional impacts in
15 relation to moving from flat, national transmission losses to locational losses
16 and that those distributional impacts are probably broadly inverted between
17 generation and supply. In general terms, we recognise the arguments that
18 locational losses could bring down costs at GB level and that within the
19 consumption redistribution, that there would be flows of cash effectively from
20 consumers in the south towards consumers in the north and Scotland. As those
21 are areas which have higher levels of fuel poverty than GB averages, we can
22 see some potential benefits in terms of ameliorating fuel poverty. It is probably
23 worth highlighting, given the materiality of transmission losses in your total
24 £1,300 average bill, it is not going to have massive effects on fuel poverty.

25 In terms of locational signals, despatch signals, locational signals we do think

1 it is more plausible to think that it will affect the location of generation than
2 demand. On the demand side, your proximity to family, proximity to work, the
3 availability of infrastructure, I honestly do not think that many families are going
4 to be--.

5 Q. I think we share those views. I do not think we need to go any further on that
6 one.

7 A. (Mr Hall) The only final observation to make on losses is we do note, and again
8 I have some personal unfortunate experience of this in past jobs, locational
9 losses has been subject to relentless legal disputes, bickering, all sorts of
10 issues over the last two decades. We would seek some comfort that if you are
11 minded to introduce something here, that you find a way to do it so that if it gets
12 challenged, because it probably will, that it does not cause delay to the rest of
13 the package.

14 Q. It was an issue when I joined the industry in 1990. Anything else that you would
15 like to say to us? We are incredibly grateful to you for coming and giving us all
16 this time both here and in Scotland. Thank you, Norman and Elizabeth. That
17 has been really useful for us and a helpful session. I hope we may continue to
18 consult you as and when.

19 A. (Mr Kerr) Absolutely. We look forward to it. Thank you for your time.

20 Q. Thanks very much. Thank you.

21

22

23

Key to punctuation used in transcript

--	Double dashes are used at the end of a line to indicate that the person's speech was cut off by someone else speaking
...	Ellipsis is used at the end of a line to indicate that the person tailed off their speech and didn't finish the sentence.
- xx xx xx -	A pair of single dashes are used to separate strong interruptions from the rest of the sentence e.g. An honest politician – if such a creature exists – would never agree to such a plan. These are unlike commas, which only separate off a weak interruption.
-	Single dashes are used when the strong interruption comes at the end of the sentence, e.g. There was no other way – or was there?