



**Energy Market Investigation**  
**Addendum to Provisional Findings and**  
**Second Supplemental Notice of Possible Remedies**  
**Response of E.ON**

**1 INTRODUCTION**

1. On 7 July 2015, the CMA published its summary of provisional findings (the “**Summary of Provisional Findings**”), along with a notice of possible remedies (the “**PRs**”). On 10 July, the CMA published its full report on its provisional findings (the “**PFs**”), along with associated appendices (the “**PF Appendices**”). E.ON responded to all of these documents in its Response to Provisional Findings and Possible Remedies (the “**Response to the PFs and PRs**”) submitted on 5 August 2015.
2. On 16 December 2015, the CMA published an addendum to its provisional findings (the “**Addendum to Provisional Findings**”), along with a second supplemental notice of possible remedies (the “**Second Supplemental Remedies**”). This described a number of additional remedies to address a provisional AEC arising from a combination of features of the GB markets for domestic retail supply of electricity and gas to customers with prepayment meters (the “**PPS AEC**”). This document represents the response (the “**PPS Response**”) from E.ON to the Addendum to Provisional Findings and Second Supplemental Remedies.
3. We reserve the right to submit further comments on the Addendum to Provisional Findings and Second Supplemental Remedies, including taking account of further comments made by third parties, if E.ON considers it appropriate to do so.

**2 EXECUTIVE SUMMARY**

4. The CMA identifies a number of technical constraints which make it difficult for suppliers to offer the full range of tariffs, particularly fixed-term, fixed-price tariffs, to customers with prepayment meters (“**PPMs**”). The CMA has correctly concluded that addressing these using a workaround based on the existing, outdated infrastructure would be costly, complex and unlikely to be proportionate.<sup>1</sup> Therefore the CMA’s comparison of PPM tariffs to fixed-term, fixed-price tariffs, which leads to its conclusion that competition is less intense in the prepayment segment (“**PPS**”), is misplaced. It is the technical constraints,

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<sup>1</sup> Paragraph 49 in Appendix A to the Addendum to Provisional Findings

not a lack of competition, which prevents fixed-term, fixed-price tariffs being offered to PPM customers.

5. In our view, competition in the PPS between suppliers is strong, but it is based around the standard variable tariffs (“SVTs”) that suppliers are able to offer to PPM customers within the technical constraints. We do, however, accept that accessing PPM customers has become more difficult following the withdrawal from doorstep selling by most Suppliers and that levels of switching may have reduced as a result.
6. As a result of these technical constraints and the potential of an under-served market, E.ON has identified the PPS as a commercial opportunity, exactly as a supplier in a competitive market should. However, rather than investing in complex and expensive workarounds based on the existing outdated infrastructure, E.ON has focussed its investment on smart meters. Our smart pay as you go (“PAYG”) pilot will shortly be completed and will be followed in Quarter 1 2016 by the commencement of our full roll-out of this product, supported by a national advertising campaign which has already launched.<sup>2</sup> The CMA is premature in concluding that smart meters will not address the perceived issues in the PPS<sup>3</sup> and are not being prioritised by large suppliers.
7. The CMA does not explore sufficiently the characteristics of customers in the PPS when considering if there is an AEC which justifies the proposed remedies. The CMA highlights that approximately 15% of customers in the PPS are in debt to their supplier. This means that 85% are not and are free to engage in the wider market with a credit meter if they so wish. In addition, the Debt Assignment Protocol (“DAP”) ensures many of those customers who are in debt are also able to benefit from competition. DECC’s latest statistics<sup>4</sup> on fuel poverty show that almost 80% of PPM customers are not considered fuel poor. Before proposing remedies, the CMA should look to understand more about the characteristics of customers who could benefit from a low cost switch, and why they do not switch. Only once this is done can the effectiveness and proportionality of any remedy, particularly a control remedy, be properly assessed.
8. It is E.ON’s view that any AEC could apply only in respect of PPM customers who either cannot access other tariffs in the market or are discouraged from doing so through charges or security deposits.

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<sup>2</sup> <https://www.eonenergy.com/for-your-home/smart-meters/smart-pay-as-you-go>

<sup>3</sup> Paragraph 38 of the Addendum to Provisional Findings

<sup>4</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/468011/Fuel\\_Poverty\\_Report\\_2015.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/468011/Fuel_Poverty_Report_2015.pdf)

9. Without prejudice to our views on the Addendum to Provisional Findings outlined above, E.ON is not opposed to short term remedies aimed at increasing customers' awareness of their right to switch or to remedies that ensure the switching process is straightforward and low cost (if not cost free) for customers. Such remedies are in the interest of fairness for PPM customers and aligned to E.ON's strategy of being our customers' partner of choice for energy solutions.
10. E.ON is not opposed to sharing data with Ofgem to allow Ofgem itself to prompt PPM customers directly to ensure they are aware of their right to switch. We do not agree that this data should be placed on a cloud database for other suppliers to access as set out in Remedy 19. This approach is not proportionate and has not been justified by the evidence the CMA presents. It also risks customers being inundated by unsolicited marketing which could actually reduce their level of engagement.
11. We agree that remedies to improve the switching process and prevent unfair costs during a switch between suppliers or from PPM to credit meters should be explored. However, we note that many suppliers, including E.ON, do not charge for removal or replacement of meters, nor do many suppliers, including E.ON, require a security deposit for customers who pass the appropriate credit checks.
12. Reforming the protocol for the assignment of debt on prepayment meters has been a high priority for Ofgem, and working with the industry, via Energy UK, many quick wins have already been delivered. It is not clear that additional action or intervention from the CMA, other than ensuring all suppliers follow these new processes, is necessary.
13. E.ON does not believe that a safeguard price cap for PPM customers is either justified or proportionate. A safeguard price cap risks complacency which could reduce customers' demand for smart meters and therefore reduce the commercial opportunity which is currently attracting suppliers like E.ON to offer new solutions (such as PAYG) to this segment. This remedy could therefore conflict with Remedy 5 in the PRs which would require suppliers to prioritise PPM customers in their smart roll-out plans. The CMA should focus on ensuring PPM customers can access the same tariffs as any other customer wherever possible, this is best achieved by ensuring the roll-out of smart meters progresses without delay.

### 3 E.ON'S VIEWS ON THE ADDENDUM TO PROVISIONAL FINDINGS

#### Tariff choices

14. The CMA concludes that “suppliers do not offer competitively priced acquisition tariffs in the PPS”<sup>5</sup>. This conclusion is based largely on the data in Figure 1 of the Addendum to Provisional Findings which shows that the minimum prepayment tariffs offered by all suppliers are generally above the minimum direct debit (“DD”) “acquisition” tariff plus an £80 cost to serve.
15. E.ON believes this comparison is misplaced and should not lead to a conclusion that competition is less intense in the PPS. In the Appendix to the Addendum to Provisional Findings the CMA explores the technical and financial constraints which make it difficult for suppliers to offer multiple tariffs, particularly fixed-price fixed-term tariffs, in the PPS. It is these constraints, not a lack of competition, which make it difficult for suppliers to offer alternative tariffs to the PPS without significant investment.
16. The CMA concludes that it has “not found that the dumb prepayment infrastructure is currently being operated at its technical limits.... We would expect a well-functioning market to offer competitive tariffs close to the limits provided by the technical infrastructure, which we do not see.” In contrast, rather than investing considerable sums in outdated technology, E.ON has prioritised its investment in smart meters to meet the demands of the PPS, the technology of the future. This response is precisely as one would expect from a well-functioning market.
17. Further, as in any competitive market, any individual supplier’s prices will vary depending on its wholesale input costs, its aspirations to grow or maintain its customer base and the quality of its product or service. Therefore the cheapest “competitively priced acquisition tariff” on offer in the market will vary between suppliers throughout the year; we do not accept this as a benchmark against which to compare other tariffs.
18. The aspiration for the PPS should be that PPM customers have access to the same tariffs as non-PPM customers (with an additional cost to serve where appropriate and justified) and that there should be no difference between PPM and non-PPM customers, at least in terms of tariffs they can access. Smart meters remove the technical barriers which have prevented this in the past.
19. E.ON is delivering this aspiration through its smart PAYG proposition which allows PPM customers access to exactly the same E.ON tariffs as any other

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<sup>5</sup> Paragraph 17 of the Addendum to Provisional Findings

customer; PAYG is a priority in our smart roll-out plans from 2016 and we are targeting the proposition at PPM customers. This demonstrates that the PPM market opportunity is attractive and one that suppliers are actively pursuing. The national smart meter roll-out will ensure the vast majority of PPM customers have the ability to access all tariffs in the near future (although we note that other suppliers may or may not choose to make all of their tariffs available to PPM customers).

### Customers

20. The CMA conducts no analysis or research into the characteristics of customers with prepayment meters. In paragraph 22 of the Addendum to the Provisional Findings the CMA states:

*“We do not know how many PPM customers could benefit from a low cost switch to a credit meter and therefore to a competitive DD segment acquisition tariff.”*

Before proposing control remedies such as a safeguard price cap the CMA needs to explore this question further and understand if there are customers who could benefit from a low cost switch, who these customers are and why they do not switch to a credit meter.

21. DECC’s most recent statistics<sup>6</sup> show that approximately 22% of electricity and 21% of gas PPM customers are classed as fuel poor. Whilst this is a greater proportion of customers than those paying by direct debit (“DD”) (7% electricity, 6% gas) or standard credit (15% electricity, 16% gas) this statistic highlights that the majority of PPM customers are not considered fuel poor.
22. Further, the CMA highlights that approximately 15%<sup>7</sup> of customers in the PPS are in debt to their supplier, meaning that 85% are not and are free to engage in the wider market with a credit meter if they so wish (subject to appropriate credit checks). In addition, the DAP ensures many of those customers who are in debt are also able to engage in the market and benefit from competition. Of the PPS customers who are in debt, in our experience around 60-70% of these engage with us to manage their debt and have agreed voluntarily to have PPM installed. This leaves a very small proportion of customers who are required to fit PPM as a condition of supply.

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<sup>6</sup> Chapter 3.4 of the Annual Fuel Poverty Statistics Report, 2015:  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/468011/Fuel\\_Poverty\\_Report\\_2015.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/468011/Fuel_Poverty_Report_2015.pdf)

<sup>7</sup> Paragraph 47 of the Addendum to Provisional Findings

23. In our experience a number of customers prefer PPM as a payment method and choose to use PPM even though they are aware they could switch to a credit meter. PPMs do have benefits for some customers, they allow closer monitoring of spend on energy and facilitate budgeting; for landlords, they allow more effective management of the risk of debt. We note that tenants still have the right to switch to a credit meter without needing their landlord's consent and that Ofgem has undertaken initiatives to ensure tenants are aware of this. Ofgem's "Go Energy Shopping" website<sup>8</sup> specifically mentions this:

*"Your landlord can't stop you from changing your method of payment – for example, from a prepayment meter to a credit meter."*

24. It is therefore E.ON's view that any AEC, should one exist, could apply only in respect of PPM customers who either cannot access other tariffs in the market or are discouraged from doing so through charges or security deposits.

#### Smart

25. The CMA's Addendum to Provisional Findings details a number of specific and mostly technical reasons why competition in the PPS is perceived to be weaker than in other segments. These include higher acquisition costs of PPM customers, additional barriers for indebted customers and the simpler choices component of Ofgem's Retail Market Review. The CMA notes that smart meters can overcome many, if not all, of these.
26. It is E.ON's view that smart meters can remove completely any perceived concerns in the PPS. E.ON's smart PAYG proposition allows any PPM customer to access the same tariffs as any other domestic customer. With this proposition there is no distinction between PPM and non-PPM customers in terms of tariffs available. In addition, our meters offer inter-operability so there is no technical reason why other suppliers cannot also offer all of their tariffs to these customers.
27. The CMA observes that the penetration of smart PPM is low, at around 11% of the PPS<sup>9</sup>. The CMA also asserts that "*only very few suppliers (and none of the Six Large Energy Firms) have focussed their strategy in the PPS on installing smart meters with a view to offering cheaper tariffs [footnote: subject to E.ON's recent trial]*". E.ON has confirmed it is currently undergoing a pilot with a number of active PAYG customers ahead of commencing a full roll-out from Quarter 1 2016. This full roll-out is not conditional on the results of the pilot, as the term "trial" might suggest, and is supported by a national advertising campaign which

<sup>8</sup> <http://www.goenergyshopping.co.uk/en-gb/tenants>

<sup>9</sup> Paragraph 36 of the Addendum to Provisional Findings

has already been launched<sup>10</sup>. This demonstrates that the CMA's conclusion that few suppliers (and none of the six large energy firms) are focussing on installing smart in the PPS is premature. Indeed, we are specifically focussing on PAYG as a smart meter proposition with a view to offering cheaper tariffs to the PPS.

28. The CMA is correct that the penetration of smart PAYG is currently low but it is growing with the national roll-out of smart meters. E.ON has responded to a market opportunity by focussing its smart roll-out on the PPS, exactly as one would expect in a competitive market. We have identified an under-served market (the PPS) and have decided to roll-out smart PAYG proposition early, with the precise intention to target this market. This is a perfect illustration of how a competitive market, aided by developments in technology, responds to a commercial opportunity and benefits customers. As we highlight in our response below, control remedies such as a safeguard price cap risk interfering with this market response and slowing down the delivery of the market's solution (smart meters).

#### 4 E.ON'S RESPONSE TO SUPPLEMENTAL REMEDIES

##### 4.1. Remedy 19: facilitating sharing of data relating to prepayment meter customers

###### **(a) Would this remedy be effective and proportionate in increasing competition for non-smart prepayment meter customers?**

29. It is important that any marketing activity is fully compliant with data protection legislation. Subject to this, E.ON is not opposed in principle to sharing information with Ofgem to allow Ofgem to prompt customers directly. We note that, if implemented in this way, this remedy is effectively the same as Remedy 20(c) therefore implementing both Remedy 19 and 20(c) may be unnecessary.
30. However, we disagree that this information should be placed on a secure cloud database for other suppliers to access and use for targeted marketing. This creates a risk that customers will be inundated by unsolicited communications and their engagement could actually reduce as a result. This proposal has not been supported by any evidence that it would address any perceived concerns and we do not believe it is proportionate.
31. The CMA highlights that a similar mechanism exists in France where GDF is required to share data with its competitors. This condition was imposed on GDF based upon a suspicion of abuse of a dominant market position and even then included an opportunity for customers to opt out of data sharing. Such

<sup>10</sup> <https://www.eonenergy.com/for-your-home/smart-meters/smart-pay-as-you-go>

conditions do not exist in the UK and the CMA does not claim that they do. Therefore this comparison is not appropriate.

**(b) Are there additional legal considerations that are relevant to this remedy (eg under the Data Protection Act 1998 or the Privacy and Electronic Communications (EC Directive) Regulations 2003)?**

32. The CMA outlines its understanding of the legal implications in paragraph 25 of the Second Supplemental Remedies. We are not aware of any additional considerations but would encourage the CMA to consult appropriately with legal experts to ensure any remedy is fully compliant with data protection legislation.

**(c) Is Ofgem the right party to have oversight of this process?**

33. We agree that Ofgem should have oversight of this process, if it is implemented.
34. However, as highlighted above we do not believe the data should be shared with other suppliers. If implemented, Ofgem should use the data to prompt customers to engage in the market and ensure they understand their rights.

**(d) What limitations would need to be imposed to ensure that the data was disclosed and used appropriately?**

35. A decision to engage in the market should come from informed customers themselves, the focus of this remedy should be to ensure customers are fully informed. Sharing personal data with other suppliers could lead to unsolicited marketing which is likely to result in more disengaged customers.

**(e) When should the continued need for this remedy be reviewed?**

36. As we highlight throughout this response, we believe the roll-out of smart meters will address any perceived concerns about competition in the PPS. This and any other PPS remedy should therefore be removed upon substantial completion of the smart meter roll-out.
37. We agree with the CMA that this remedy, if implemented, should be reviewed after five years or earlier, upon substantial completion of the smart meter roll-out.

**(f) What might be a suitable frequency with which to share customer data?**

38. As new PPM installations will increasingly be smart meters, where this remedy is not necessary (see answer to part (g) below), any update to the data is likely to reflect simply a reduction in the number of customers with non-smart prepayment meters.

39. As customers in the PPS move away from PPMs to smart meters it is important that data is updated to prevent the marketing of non-smart PPM tariffs to smart customers. We believe this further highlights why sharing data on a cloud database could lead to inappropriate contact from suppliers to customers.

**(g) Should this remedy apply to prepayment meter customers with smart meters?**

40. No. As we highlight throughout this response, smart meters allow prepayment customers to access the market as any other customer would. E.ON's own smart PAYG proposition does exactly this, allowing PPM customers access to the same tariffs as any other E.ON customer. Therefore PPM specific remedies are not necessary for customers with smart meters.

**4.2. Remedy 20: removing the barriers that prepayment meter customers without a debt face when attempting to switch to a credit meter**

**4.2.1. Remedy 20a – prohibit the charging of a security deposit in circumstances when a customer is not in debt and has not incurred any fines, charges or interest for late payment in the last six months**

**(a) Would this remedy be effective and proportionate in removing the barrier to switching that security deposits can pose?**

41. On the assumption that a supplier still has the right to refuse a request from an existing prepayment customer to have a credit meter installed, where that refusal is objectively justified, we support this remedy. A refusal could follow an unsatisfactory credit check result, or because the PPM was originally fitted for that particular customer due to previous non-payment.
42. E.ON operates a policy where a security deposit would not be requested from an existing PPM customer who passes our credit check. Should an existing PPM customer who passes our credit check request credit arrangements we would install a credit meter with no installation cost and no requirement for a security deposit.

**(b) Are these the right criteria to apply in determining circumstances in which suppliers can charge a security deposit?**

43. In principle we agree with these criteria but we do see some difficulties in implementing the proposed remedy. Where a request for credit terms is as a result of a change of supply or change of tenancy event it is not always apparent at the point of sale if the customer has a debt. This could be due to the customer choosing not to disclose this information or being unaware they are repaying a debt.

44. Similarly, a new supplier would be unable to confirm if the customer had incurred any fines, charges or interest for late payment from their current supplier (for a change of supply) or their previous supplier (for a change of tenancy) at the point of sale.
45. Therefore it may not be possible to determine if a deposit request is reasonable or not at the point of sale.

**(c) What are the potential unintended consequences of being explicit about when customers can be charged a security deposit?**

46. Whenever a customer requests a credit arrangement the supplier needs to assess the risk of agreeing to the request. A supplier may mitigate some of this risk by requesting a security deposit, any removal of this right may have unintended consequences. For instance, the supplier may decide that without payment of a security deposit the risk is too great and therefore decline the customer's request for credit terms, requiring them to install a PPM instead. This may result in a customer being denied access to alternative tariffs that are unavailable to prepayment customers. We note that the roll-out of smart meters will ultimately eliminate this issue.
47. If any remedy prevents suppliers requesting security deposits in justifiable circumstances this simply increases the risk (and cost) of bad debt.
48. For a new customer with an existing credit meter (following either a change of supply or change of tenancy event), E.ON may request a security deposit where the customer returns an unsatisfactory credit check result and is unwilling to have a PPM installed. If the proposed remedy is implemented and changes made to SLC 27.3 to restrict the use of security deposits, we would not expect this to be extended to this scenario.

**(d) Is there a preferable alternative way of mitigating detriment arising from the impediments to switching posed by the potential need to pay a security deposit?**

49. We believe the roll-out of smart meters will mitigate the detriment.
50. A customer making a request to switch from a classic PPM is likely to do so in order to save the inconvenience of topping up or to provide them with access to other tariffs. In 2016 we will be fully rolling-out of smart PAYG meters which can satisfy customers' requirements without the need to request credit terms, especially as it will introduce a wider and more convenient way to top-up.

**(e) Should the CMA implement this remedy itself, or should the CMA make a recommendation to Ofgem to do so?**

51. Ofgem has an existing mechanism for making changes to the Supply Licence so we would suggest that any changes made are delivered through this.

**4.2.2. Remedy 20b – suppliers are prohibited from charging customers upfront for the cost of a new meter when switching away from prepayment**

**(a) What length of time is reasonable and appropriate to allow the recovery of the cost of the meter and installation?**

52. We do not request any payment from our customers to have a prepayment meter either installed or exchanged for a credit meter; we do not believe such payment is necessary or fair.
53. Therefore we do not have a view on what would be an appropriate period of time for suppliers who do charge to recover their costs.

**(b) Is this a proportionate remedy given the number of cases in which suppliers charge for removal of a prepayment meter?**

54. Ofgem has published its findings from a recent request for information that specifically asked which suppliers charged for the installation of a credit meter. We note that these findings indicate that many of those suppliers who did charge have either very recently ceased to charge, or are shortly due to cease charging.
55. Although the industry is voluntarily moving towards a no charge model, we would support this becoming an explicit obligation which would level the playing field for all customers.

**(c) Is there an equally or more effective alternative way to reduce the costs of prepayment meter removal and replacement?**

56. As highlighted above, E.ON does not charge for prepayment meter removal or replacement. Therefore we are not aware of an alternative way to reduce the costs to the customer.

**(d) Should the CMA implement this remedy itself, or should the CMA make a recommendation to Ofgem to do so?**

57. In line with our response to remedy 20a, Ofgem has an existing mechanism for making changes to the Supply Licence; we would suggest that any changes made are delivered through this.

**4.2.3. Remedy 20c – require suppliers to provide annual notifications to prepayment meter customers setting out their right to switch and highlighting any potential restrictions or charges that may be payable**

**(a) Would this be an effective means of facilitating switches away from prepayment meters?**

58. We agree with the CMA that ensuring customers are aware of their right to switch and dispelling any myths is important. For example, it is important that tenants are aware that they have a right to switch from prepayment to credit meters if they so wish. We note that Ofgem has already undertaken initiatives to ensure tenants are aware of this<sup>11</sup>.
59. However, the objective of this or any other remedy should not be to switch customers away from prepayment meters, but rather to encourage switching between suppliers in general, which may be within the PPS. As we have highlighted through this response, many PPM customers have actively chosen PPM as a payment method. The CMA's focus should be on ensuring customers who have made this choice have done so whilst being fully informed and are treated fairly with access to the full range of tariffs in the market, not necessarily on switching them away from PPMs.
60. In the context of customers understanding their rights we support this remedy, we do not support its explicit objective (to facilitate switches away from PPM).

**(b) What would be the most effective means of communicating this information to customers?**

61. It would be sensible to explore channels other than letters to increase the likelihood of a customer responding to the communication. There is a risk that less engaged customers do not open the letters they receive.
62. We would caution that multiple communications to customers could actually lead to disengagement as customers dismiss communications as unsolicited marketing. One potential option to overcome this might be to include some key trigger information on the envelopes of letters to PPM customers.

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<sup>11</sup> <http://www.goenergyshopping.co.uk/en-gb/tenants>

**(c) What is a suitable frequency with which to contact customers? Would this messaging be more appropriately included alongside other messages or be triggered by particular events (such as outstanding debt being paid off)?**

63. As we highlighted in our Response to the PFs and PRs, we believe there is merit in conducting customer research in this area in order to balance the potential benefits and detriments. We believe prompts more frequently than quarterly are likely to lead to customer irritation.

**(d) Should a prompting remedy such as this be introduced directly by the CMA or should this be an area that Ofgem considers running randomised controlled trials to assess its effectiveness?**

64. We believe randomised controlled trials to assess the effectiveness of this remedy would be a sensible approach. However, we note that the roll-out of smart meters in the near future could mean that the remedy is largely redundant by the time the trials are completed.

#### **4.3. Remedy 21: reform the protocol for assignment of debt on prepayment meters**

**(a) Would a remedy recommending Ofgem to address the above-mentioned issues be effective in ensuring that adequate changes to the DAP are implemented promptly? Or should the CMA instead use its order-making power to support Ofgem’s ongoing work?**

65. Reforming the DAP has been a high priority for Ofgem and this has driven improvements to the process and customer experience over the past eighteen months from a number of suppliers, E.ON included (as outlined in our response to part b below). We are unclear of the benefits of the CMA using its order-making power in support of Ofgem’s ongoing work in this area.

**(b) What is the most efficient way for Ofgem and the industry to improve the DAP process in relation to the above-mentioned areas identified by Ofgem in order to increase the switching rates of indebted PPM customers?**

66. Following concerns raised by Ofgem regarding the number of indebted prepayment customers changing supplier via the DAP, Energy UK set up a workgroup in 2014 to review the DAP process. This led to ten suppliers voluntarily introducing the Point of Acquisition (“PoA”) model in April 2015 to negate the need for additional customer action once they had made the decision to switch suppliers. The PoA model advises the customer during the sales process that, should they have a debt, the old and new supplier would share their details in order to transfer this debt. This means that when the old supplier raises an objection to the transfer the acquiring supplier would

immediately commence the DAP process, rather than requiring the customer to actively respond. Unfortunately this was, and remains, a voluntary process that has not been adopted by all suppliers. Proposals are currently being progressed through the Master Registration Agreement (“**MRA**”) to mandate the PoA model into the MRA (and ultimately the Supply Point Administration Agreement) to standardise the process across the supplier community, which would benefit customers by providing a more consistent experience.

67. With regards to each of the areas for improvement identified by Ofgem we have the following comments:
- a. Objection Letter – We agree that the objection letter should not confuse customers as to their right to switch. Mandating the PoA model across all suppliers will allow the old supplier to introduce improved wording within their objection letter that is clear to the customer, and will not require the customer to take action in order for the switch to continue.
  - b. Complex Debt – In practice the number of complex debt objections raised are very low; however we agree that some of the allowable complex debt reasons should be removed. This issue has been discussed through both the Energy UK workgroup and a recent MRA Issue Resolution Expert Group workshop; proposals are being drafted for the supplier community to review prior to a formal change being raised.
  - c. Multiple Registrations – Unfortunately there are some suppliers who, on receipt of an objection for a PPM customer, attempt to re-confirm the site without initiating the DAP process. Typically these suppliers are those who have not adopted the voluntary PoA model. We agree that this can cause customer confusion through receipt of multiple objection letters and we would support a tightening of the rules to reduce the likelihood of this happening.
68. We have observed that some suppliers who are currently very active in the PPM marketplace are not operating the DAP and that Ofgem has recently (December 15 2015) issued a note to smaller suppliers to remind them of their DAP obligations; at the same time the note encourages them to join the Energy UK workgroup which is reforming the DAP. We would support further measures from the CMA to ensure all suppliers follow the DAP and further embed the PoA process as standard industry practice.

**(c) How would this remedy interact with the other remedies to address the Domestic AEC and/or detriment?**

69. The CMA proposes to recommend to Ofgem that it amend the relevant licence conditions and industry code provisions in order to address the further actions it has identified. Without understanding precisely what these amendments are it is difficult to comment on how this remedy would interact with other remedies.
70. As highlighted above, the industry, via Energy UK, is already working on solutions to the issues Ofgem has identified, many of which have been implemented already. We do not believe further intervention by the CMA is necessary, other than ensuring all suppliers follow the process, but do not anticipate actions by the CMA or Ofgem will have any significant impact on other remedies.

**(d) Are there other impediments to switching for indebted PPM customers – other than those identified by Ofgem – that need to be addressed? If so, what are these and how should Ofgem or the industry address them?**

71. Since the DAP was introduced some years ago the number of customers utilising it to transfer their debt to a new supplier has been very low. The procedures operated by most suppliers to support the DAP have therefore remained very manual. With the introduction of the PoA model the number of DAP transfers has increased significantly, which is a sign of its success. However, this has highlighted a number of issues and frailties with the process that had not been apparent previously.
72. Industry is now working with Ofgem, via Energy UK, to understand and address these issues to ensure the number of successful switches increases further. We do not believe there is any need for further intervention from the CMA.

**4.4. Remedy 22: a transitional ‘safeguard price cap’ for domestic prepayment customers**

73. E.ON does not believe that a safeguard price cap for domestic PPM customers is justified or proportionate. To address any perceived concerns for PPM customers the CMA should focus on ensuring customers are treated consistently with all other domestic customers. This means a focus on rolling out smart meters wherever possible, ensuring customers are aware of their rights to switch to credit meters or other PPM tariff providers and minimising (or eliminating) the costs of doing so.
74. The market is already delivering this. As the CMA highlights in its Addendum to the Provisional Findings, 8 out of 18 suppliers (including E.ON) do not charge for

the removal of PPMs and 13 out of 18 suppliers (including E.ON) do not require security deposits when PPM customers switch to credit meters. One supplier, Utilita, specialises in smart PPM propositions; E.ON is currently piloting and will shortly launch nationally its smart PAYG proposition which allows PPM customers access to the same tariffs as any other customer, this will be a priority in our roll-out plans from 2016 onwards and is now being supported by a national advertising campaign<sup>12</sup>.

75. Smart meters remove the perceived concerns in the PPS. Introducing a safeguard price cap is unnecessary and disproportionate; it risks complacency and is highly likely to promote disengagement amongst customers, who believe they are now 'safe'. This means demand for pay as you go products and the smart meters that deliver them could reduce and therefore the commercial opportunity which is currently attracting suppliers like E.ON to offer new solutions (such as PAYG) to this segment reduces. This remedy therefore potentially conflicts with Remedy 5 in the PFs which would require suppliers to prioritise PPM customers in their smart roll-out plans. As highlighted in E.ON's Response to the PFs and PRs in August 2015, any safeguard regulated tariff or price cap works in direct opposition to many of the other remedies proposed by the CMA.
76. Without prejudice to E.ON's view that a safeguard price cap for PPM customers is not necessary and could cause harm, we have considered the CMA's detailed questions and given responses below.
- (a) If the transitional safeguard price cap for PPM customers were set relative to other prices in the domestic retail energy markets, how should we identify an appropriate level of prices and how can we ensure the level of the cap remains appropriate for the duration of the period it is in effect?**
77. The CMA needs to be clear of its aim in proposing this remedy: does it believe PPM tariffs are uncompetitive (in which case a cost-plus methodology would be more appropriate) or does it believe the differential between PPM and non-PPM tariffs is too great (in which case a relative price methodology would be appropriate).
78. We accept that PPM customers should have access to all tariffs in the market and believe that in most cases they do, through their ability to request a switch to a credit meter or a smart meter in the very near future. However, as highlighted in our Response to the PFs and PRs, E.ON does not accept that its SVT offered to PPM customers is uncompetitive. A comparison of the SVT with

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<sup>12</sup> <https://www.eonenergy.com/for-your-home/smart-meters/smart-pay-as-you-go>

other tariffs in the market which may be cheaper at a particular point in time is not evidence that the SVT is uncompetitive.

79. If set relative to other prices in the domestic retail energy market E.ON does not agree that any price cap should reference so called “competitively priced acquisition tariffs”; we do not accept this benchmark. As in any competitive market, any individual supplier’s prices will vary depending on its wholesale input costs, its aspirations to grow or maintain its customer base and the quality of its product or service. Therefore the cheapest “competitively priced acquisition tariff” on offer in the market will vary between suppliers throughout the year; this is a feature of any competitive market. Referencing a price cap for every supplier to the overall cheapest “competitively priced acquisition tariff” of any supplier is inappropriate. It could result in suppliers whose costs happen to be higher being forced to sell products at a loss. In a dynamic market such as energy the cap would need to change frequently to truly reflect the market; this would increase administration costs and could become complex for customers.
80. For similar reasons we do not believe a price cap could reference a supplier’s own cheapest tariff. This would require frequent adjustments to the cap to ensure it was reflective of changes to the relative costs of a supplier’s tariffs. This would be complex and confusing for customers and could result in multiple price changes throughout the year. Suppliers may purchase energy differently for the different tariffs they offer; therefore a price cap referencing a supplier’s own cheapest tariff could still result in a supplier being forced to sell products at a loss.
81. To minimise these issues any price cap could reference a range of different suppliers, perhaps even a basket of all suppliers. However, the prices of small suppliers who receive exemptions from obligations would need to be adjusted to account for those exemptions.
82. Any cap would need to be adjusted frequently enough to reflect changes in the market, but not so frequently that it caused complexity for customers or introduces significant additional administration costs for suppliers. We would suggest the cap should be updated no more frequently than six monthly. Although we note that even quarterly updates may not capture dynamic changes in the market.
83. If a safeguard price cap were set on a cost plus basis or implemented as a regulated tariff all of the concerns we highlighted in our Response to the PFs and PRs in response to Remedy 11 apply.

**(b) Could the imposition of a transitional safeguard price cap for PPM customers result in energy suppliers reducing the quality of service offered to customers on these tariffs? Is this risk reduced by prepayment customers' ability to choose alternative, unregulated tariffs or changing to a smart prepayment meter?**

84. There is a remote possibility that some suppliers could reduce their quality of service but E.ON believes that this is unlikely.
85. A focus on increasing awareness of customers' ability to switch and reducing any perceived barriers reduces the risk of any reduced quality of service as customers will simply leave a supplier whose service quality reduces.
86. In any case, reducing the quality of service may not be compliant with SLC 25C which requires suppliers to treat customers fairly.

**(c) How should the headroom be calculated to provide the right level of customer protection while not unnecessarily reducing healthy competition?**

87. E.ON agrees that some level of headroom would be required if a cap is introduced but would highlight that there is a fundamental conflict in setting a price cap above the level which is determined to be competitive.
88. Setting the "correct" headroom will be extremely challenging: too high and it offers no protection to customers (if protection is deemed necessary); too low and it undermines competition, creates disengaged customers and results in suppliers selling at a loss.

**(d) What regulatory information would be required to set the transitional safeguard price cap?**

89. Clearly suppliers would need information with regard to the reference price itself. For example, what the reference is and how often it is updated.
90. On the assumption that any cap was based on a reference to other tariffs in the market we do not believe additional regulatory information would be required beyond a justification for the incremental cost to serve for PPM customers.
91. If the cap is based on a cost plus methodology or is implemented via a regulated tariff then the regulatory issues we highlighted<sup>13</sup> in our Response to the PFs and PRs would apply.

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<sup>13</sup> see paragraphs 228-229 and 212-219 in our Response to the PFs and PRs

**(e) How long should the transitional safeguard price cap be kept in place? Is it appropriate to include a specific sunset provision, or should there be a commitment to review the need for and level of the safeguard price cap after a certain period of time?**

92. Should a price cap be implemented it should include a sunset clause linked to the roll-out of smart meters. A sunset clause of 2020 at the latest is appropriate, perhaps with a review in 2018 to assess the roll-out of smart meters with a view to ending the price cap earlier than 2020 if smart meter penetration amongst PPM customers is sufficiently high.

**(f) Should the termination date of a transitional safeguard price cap remedy be linked to the roll-out of smart meters? If so then should this be done explicitly, in aggregate or on a customer-by-customer basis?**

93. Yes, the termination date should be linked to the roll-out of smart meters and on a customer-by-customer basis. Once a PPM customer has a smart meter the perceived concerns highlighted by the CMA are addressed and therefore any cap is inappropriate.

94. A customer-by-customer termination would be relatively easy to implement as smart PPM customers would simply be unable to access the capped tariff. However, if the cap is set too low, effectively subsidising a customer's energy, there is a risk that customers moving from the capped product could see an increase in price. This highlights the danger in introducing a cap.

**(g) How frequently – if at all – would the level of the cap need to be reassessed?**

95. A cap which references other prices in the market would need to be updated frequently enough to reflect movements in the market.

96. Updates that are too frequent could increase administration costs and complexity for customers.

97. E.ON believes that any cap should not be updated more frequently than every six months but would highlight that even quarterly updates may not be sufficient to reflect changes in such a dynamic, competitive market.

**(h) Which prepayment customers should this remedy apply to?**

98. If introduced, this remedy should apply only to those PPM customers who cannot access the same tariffs as other domestic customers. As highlighted above, in our experience many customers actively choose prepayment meters as a way of budgeting or minimising risk of debt in the case of landlords. Where

such customers are aware of their rights to switch to credit meters and face no cost of doing so it is inappropriate to give them access to a capped tariff.

99. Therefore, at most, any cap should only apply to PPM customers without smart meters and without the ability to switch to a credit meter at no cost.

**(i) Which energy suppliers should be subject to the transitional safeguard price cap, and why? Should it be restricted to the Six Large Energy Firms, or should all retail energy suppliers be covered?**

100. Given that the CMA's analysis highlighted that the minimum PPM tariffs offered by suppliers other than the Six Large Energy Firms ("**non-SLEFs**") is often higher<sup>14</sup>, and in the interest of avoiding any risk of distortion in the market, any cap should apply to all suppliers.

**(j) How should the transition from the current arrangements be managed? Should there be a period over which the transitional safeguard price cap is phased in? If so, how long should this period be and how should the transition work?**

101. The time for transition will depend on the precise design of the cap. Detailed design could take significant time, likely requiring substantial further consultation with the industry to understand potential implementation issues.

102. Following detailed design, an implementation period would be required to allow suppliers to prepare.

103. If the safeguard price cap requires quarterly or more frequent updates, systems investment would be required (as well as a major customer communication programme). If the safeguard price cap required rebalancing of standing charges and unit rates, dual-fuel and on-line discounts, then more time would be required, both to plan and to implement.

104. It is therefore difficult to state with any degree of confidence how long the transition should be. Should a final decision to proceed with this remedy take place by spring 2016, it could take many months to design the tariff and allow an implementation period. It is therefore likely that a transition would not be until 2017 and would then continue through 2017 and 2018.

105. We note that by this time many PPM customers are likely to have smart meters installed.

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<sup>14</sup> Figure 1 in the Addendum to the Provisional Findings

**(k) Would energy suppliers have the ability to circumvent the remedy, for example, by encouraging domestic prepayment customers to switch on to less favourable, unregulated tariffs, and how could such risks be mitigated?**

106. This risk is no different to that which exists today – that in a falling market a supplier could inappropriately promote fixed price products – but has an effective deterrent in Ofgem’s enforcement of the Marketing and Standards of Conduct Licence Conditions (SLC25 and SLC25C).

**(l) Should the CMA set the level of the transitional safeguard price caps itself, or should the CMA make a recommendation to Ofgem to do so?**

107. Ofgem has the expertise in costs analysis for many of the required components and has also done a lot of work on price caps in the past. Recommending that Ofgem set the level is likely to be the most suitable approach.

108. There needs to be an option for appeal to the CMA should the safeguard tariff, by whomever it is set, be set too low.

**(m) Are there any potential unintended consequences of setting a transitional safeguard price cap, for example, in terms of their potential impact on the level of other, unregulated tariffs?**

109. E.ON believes there are numerous and significant unintended consequences associated with the introduction of a safeguard price cap, all of which impact the effectiveness of the proposal.

110. The introduction of a safeguard price cap is likely to work in direct opposition to the other remedies which the CMA is proposing in both its Second Supplemental Remedies and earlier proposed remedies. The majority of these seek to address the underlying cause of the AECs described in the CMA findings. Whilst E.ON does not agree with all of the CMA findings, it is clear that the introduction of a safeguard price cap is highly likely to increase customer disengagement. The message that customers are to be protected and that they are now ‘safe’ will discourage those customers who end up on the safeguard tariff from engaging with the market.

111. Applying a control remedy as intrusive as a safeguard price cap is likely to distort competition in the rest of the market, potentially impacting innovation and further working against those remedies seeking to increase competition in these areas. A safeguard price cap which is set too low could, perversely, encourage existing credit meter customers to request prepayment meters in order to access the protected tariff. In particular, in the case of the PPS and as highlighted above, a safeguard price cap risks reducing the focus of the smart

meter roll-out on PPM customers. This is in direct conflict with Remedy 5 from the PRs.

112. Beyond these high-level fundamental concerns, there are specific elements of the safeguard price cap which could impact customer satisfaction, resulting in further distrust and disengagement. The safeguard price cap will likely result in more frequent price changes for those customers, resulting in more complexity and potentially causing confusion.
113. Although a safeguard price cap targeted at a specific group of customers such as PPM or a sub-group thereof will be less damaging than a regulated tariff covering the entire market, as proposed in Remedy 11 of the PRs, many, if not all, of the downsides still apply.