

Consultation Response

Ref 1817

Submission to Ofgem re default tariffs for domestic customers at the end of fixed-term contracts

September 2017

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About Age UK

Age UK is the country's largest charity dedicated to helping everyone make the most of later life. The Age UK network comprises 140+ local Age UKs reaching most of England. We provide information and advice to around 5.9 million people each year, through web-based and written materials and individual enquiries. We work closely with Age UK Cymru, Age UK NI and Age UK Scotland.

About this consultation

In August 2017, Ofgem, the UK's energy regulator, published a consultation on default tariffs for domestic consumers at the end of fixed-term contracts/tariffs.¹ In summary, Ofgem proposes to allow (but not require) energy suppliers as a default and subject to various controls, to roll customers onto further fixed-term contracts at the end of their existing fixed terms, rather than onto a standard variable tariff (SVT). In this response, we focus on Question 1 from the consultation, which asks whether respondents have any specific concerns with this proposal.

Key points and recommendations

1. Overall, we strongly support the proposal as outlined.
2. We strongly agree that rollover fixed tariffs must not include exit penalties.
3. We agree that as a result of being rolled onto a fixed term tariff rather than an SVT, customers may assume they are on a better deal than they actually are and so are less incentivised than they would have been otherwise to switch to a better deal. Therefore, measures to prompt engagement will be especially important.
4. We recommend that Ofgem require rollover fixed tariffs to be *cheaper than* the supplier's SVT, as opposed to 'no more expensive than'.
5. End of fixed term notices must make clear that customers may still be paying a relatively high price and can switch to a better deal at any time with no exit fees.
6. We recommend suppliers be required to use standard wording to describe the rollover fixed tariff in these notices, making clear that they are 'default' or 'rollover' tariffs.
7. We recommend Ofgem monitors: 1) the length of rollover fixed tariffs; 2) the extent to which customers stay on the tariff for the full term; 3) the prices of rollover fixed tariffs compared to SVTs and other tariffs; 4) whether suppliers create new rollover tariffs.
8. Ofgem should set out clear guidance that suppliers should carry out the comparison between SVT and rollover tariff prices within a certain timeframe before the end of a fixed term tariff, ideally using a customer's consumption data.
9. While it may be unlikely that SVTs become significantly cheaper than rollover tariffs, Ofgem should require suppliers to notify customers if and when this happens.
10. We agree that the rollover fixed tariff should be required to be similar in nature to the customer's previous tariff, taking into account their characteristics and preferences.
11. We agree that customers rolled onto fixed term tariffs should still be included in the CMA-recommended Ofgem database of 'disengaged' customers, who will be prompted to switch to better deals.

1. Support

Overall, we strongly support the proposal as outlined. It has the potential to result in better outcomes for inactive customers, meaning they pay less than they would otherwise have done had they been rolled onto a standard variable tariff (SVT). This could benefit older people, many of whom are disengaged from the market, pay higher prices and suffer health impacts as a result.² We are particularly concerned about people on lower incomes – 1 in 4 older people are in financial difficulty³ – who are more likely to live in fuel poverty⁴ and less likely to switch.⁵ Only 11 per cent of consumers aged 65+ report having switched their electricity supplier in the last year, compared to 15 per cent of those aged 35-64 and 19 per cent of those aged 16-34.⁶

To achieve positive consumer outcomes, it is vital that the controls outlined are implemented, particularly that ‘rollover tariffs’ **do not have any termination fees**. Allowing such fees could lead to confusion, errors and customers being locked into poor value tariffs.

2. Concerns

However, we do have a number of minor concerns. We are concerned that, **as a result of being rolled onto a fixed term tariff rather than an SVT, customers assume they are on a better deal than they actually are and so are less incentivised than they would have been otherwise to engage in the market and switch to a better deal.** This detriment would be maximised if the price of the rollover fixed tariff was the same or only marginally cheaper than the SVT price. We are essentially agreeing with the stakeholder in the consultation document (2.27) who felt that:

the change could lead to more disengaged consumers. They felt that as some customers may be rolled onto another fixed term they might automatically assume that they are getting good deal and not search around to see if they could get a better one.

Given the visible drive to engage the public on energy switching, and the high profile public debate on energy prices in recent years, it is likely that more consumers now understand that SVTs usually represent poor value. Therefore, moving customers away from SVTs may reduce their perception of getting a poor deal. We suggest Ofgem conduct mystery shopping to see how well suppliers are encouraging and helping customers on rollover fixed tariffs get onto better tariffs.

At a broader level, we agree with Ofgem that as a result of a decline in the number of customers on SVTs ‘the problem may be less apparent in this case, and receive less external scrutiny.’

3. ‘Cheaper than’

To address these concerns, we recommend that Ofgem **require rollover fixed tariffs to be cheaper than the SVT**, as opposed to ‘no more expensive than’. Clearly, this may still lead to a situation where the rollover fixed tariff price is only marginally cheaper than the SVT price. Ofgem should therefore monitor the price differentials between SVTs and rollover fixed tariffs; if we see widespread or persistent very small differentials, we would question whether the policy is causing more harm than benefit.

4. Customer communications

Another way to ameliorate this risk – of consumers believing they are on a better deal than they actually are and therefore taking no action – is to get the **end of fixed term notice communications** right. As well as being in accessible formats, these notices must make it crystal clear to customers that –

- 1) Although they are being rolled onto a fixed term tariff rather than an SVT, they may be receiving minimal or non-existent savings compared to an SVT.
- 2) They can get cheaper deals elsewhere, with the same supplier or other suppliers.
- 3) They can switch at any time and there are no exit fees doing so.

Re point 1, we recommend that suppliers be required to use standard wording when describing the rollover fixed tariff in these notices. Ofgem should test terms like ‘rollover’ or ‘default’ tariff to see how consumers understand them. This may remind the customer that although they are on a fixed tariff, it came about by default and so may not be a good deal. We recommend that the standard wording should be similarly used in bills and other customer communications.

5. Tariff length

It is possible that the **length of a rollover fixed tariff** could act as an informal heuristic for the customer, implanting the idea that they should not consider switching within that time. Being mentally committed to a tariff that is marginally cheaper than an SVT for two years could in theory result in a customer spending approximately £450 more than if they had switched to a cheaper deal.⁷

It could also mean the customer goes two years without another end of fixed tariff notice, which Ofgem points out are a more effective tool for engaging consumers than bills:

Thirty-two percent [of customers] looked into switching tariffs with their current supplier and 25% looked into switching supplier after receiving the end of fixed term notice, compared to 11% and 10% for the bill, respectively. (2.8)

Further, in the (unlikely) event that the SVT actually becomes cheaper than the rollover fixed tariff – meaning the customer is paying *more* than if they had been put onto an SVT – a one-year tariff would clearly be less detrimental and so more acceptable than a two-year tariff. Another possible advantage of a one-year tariff might be that customers start to equate energy with household and car insurance, with their one-year tariffs, giving opportunities for creating annual prompts.

The risks associated with longer tariff lengths could be minimised through effective customer messages or prompts, including annual messages and notification if the SVT becomes cheaper than the ‘fix’.

We recommend Ofgem monitors –

- 1) The length of rollover fixed tariffs
- 2) The extent to which customers stay on the tariff for the full length (rather than switch)
- 3) The prices of rollover fixed tariffs compared to suppliers’ SVTs and other tariffs

4) Whether suppliers are creating special rollover tariffs

6. Comparison of tariff prices

Regarding point 3 in section 5 above (price differentials), Ofgem says –

we would expect that the comparison of the relative price of the [SVT] against the fixed-term rollover contract would be done at a point in time close to when the rollover is likely to happen, for example when the supplier is sending the end of fixed term notice. (2.21)

We recommend Ofgem **set out clear guidance** that suppliers should carry out this comparison within a certain timeframe before the end of a fixed term tariff (e.g. 4 weeks).

Ideally, suppliers would **use a customer's consumption data** to give an accurate estimate of how much they will pay on a fixed rollover tariff compared to an SVT.

While it may be unlikely that **SVTs become significantly cheaper than rollover tariffs**, Ofgem should require suppliers to notify customers if and when this happens. It would be unacceptable under the obligations on suppliers to treat all customers fairly and enable them to make informed choices about their energy supply if suppliers did nothing in such a scenario.

7. Maintaining customer preferences

We agree that the rollover fixed tariff should be required to be **similar in nature to the customer's previous tariff**, taking into account their characteristics and preferences. For example, older people are more likely to manage their account offline and to pay by cheque cash or card on receipt of a bill. It is important they can continue to manage their energy in the same way, to avoid disruption and stress caused by an abrupt shift to unfamiliar payment or account management features.

8. CMA database

We agree that customers rolled onto fixed term tariffs **should still be included in the CMA-recommended Ofgem database of 'disengaged' customers** who have not switched for three years or more. This would mean that any steps to target better deals at these customers and prompt them to switch also apply to customers on rollover tariffs. Older people are more likely to have been with the same supplier for a long time. For example, of those who have switched electricity supplier over a year ago, 23 per cent of people aged 65+ have been with the same supplier for at least 10 years, compared to 9 per cent of those aged 35-64.⁸

1 https://www.ofgem.gov.uk/system/files/docs/2017/08/default_tariffs_for_domestic_customers_at_the_end_of_fixed-term_contracts.pdf

2 *Older, not colder: Why older people need warm homes*, Age UK, 2014

3 <http://www.ageuk.org.uk/latest-news/nearly-3-million-over-65s-struggling-financially/>

4 <https://www.gov.uk/government/statistics/fuel-poverty-detailed-tables-2017>

5 <https://www.ofgem.gov.uk/publications-and-updates/consumer-engagement-energy-market-retail-market-review-2016-survey-findings>

6 <https://www.ofgem.gov.uk/publications-and-updates/consumer-engagement-energy-market-retail-market-review-2016-survey-findings>

7 Ofgem figures from Feb 2017 indicating the availability of 'savings of around £230 a year on offer from switching to the cheapest

deals'. <https://www.ofgem.gov.uk/publications-and-updates/switches-nearly-30-millions-go-energy-shopping>

8 <https://www.ofgem.gov.uk/publications-and-updates/consumer-engagement-energy-market-retail-market-review-2016-survey-findings>