3rd Floor North
200 Aldersgate Street
London EC1A 4HD
Tel: 03000 231 231

citizensadvice.org.uk

17 January 2022

Dear Neil,

We are responding to your statutory consultation on potential short-term interventions to address risks to consumers from market volatility. This submission is non-confidential and may be published on your website.

We structure our response around the three proposals in the consultation.

Option 1: Requiring suppliers to make all new tariffs available to existing customers

We are supportive of this proposal, and think it should be considered as a permanent change, not simply a temporary one.

The consultation sets out concerns that such a measure could discourage switching, as suppliers would be reluctant to offer their best prices to existing customers. From this, you infer that it would reduce the intensity of competition.

We do not find that conclusion convincing. Opening up increased opportunities for internal switching should widen the group of consumers who will consider switching, by reducing the perception of risk associated with it. It would also benefit customers in debt, many of whom are unable to switch to a new provider but could still benefit from internal switches. The option of letting consumers get a better deal with their existing provider may be a particularly powerful tool at a time when many less well-known suppliers have recently ceased trading and perceptions of the risks of switching may be high. It may come at the cost of reduced external switching but you have not made a compelling case that overall switching levels would reduce.

An argument can be made that the existing approach is itself anti-competitive, as it creates an unnecessary barrier to switching and friction in the process - the need to look externally if you want to save money - that may discourage some switching.

While suppliers may see some loss of revenue associated with higher internal switching this is likely to be diluted by reduced onboarding costs associated with transferring an existing customer onto new terms versus taking on new customers. It should also be effective in acting as a check on how aggressively suppliers will price their acquisition deals, albeit this will depend on the proportion of customers they have on default deals. However, a combination of more people rolling off fixed deals on to the price cap, and being moved onto default deals via the SoLR process, is likely to mean most suppliers have significantly more customers on default tariffs than before August 2021.

From a consumer perspective, requiring suppliers to make all tariffs available to existing customers has multiple benefits. Most obviously, it would widen the range of switching options open to them, through the introduction of a low risk internal switching option. Internal switching may be perceived to be low risk to the consumer as they have an existing relationship with that supplier and are presumably, if they are willing to consider entering into a new tariff deal with it, happy to extend that relationship. Over 4 million households have been through the Supplier of Last Resort ('SoLR') process in the last year, and there may be much more reluctance to externally switch in the future than there has been in the past, given these experiences. The ability to access good deals will be crucial to consumers in the coming months, as bills hit record levels.

There may be particular benefits for consumers in vulnerable circumstances who may struggle to access external switching deals for a range of reasons which include the risk of failing credit checks, being blocked for outstanding debts, fear of losing the Warm Home Discount, or lacking the finances to simultaneously pay off their final bill to their old supplier and a payment in advance to a new supplier.

This approach is likely to improve consumer trust in suppliers and the sector. Many will feel that suppliers preventing their existing customers from accessing their best deals is simply unfair, and constitutes a loyalty penalty.

Option 2: Allowing suppliers to charge exit fees on some Standard Variable Tariffs

We strongly oppose this option.

Default tariffs, by definition, are ones the consumer has not chosen. Ordinarily - absent the current crisis - they are more expensive than the deals offered to consumers who switch. Making it harder, and more expensive, for consumers who are already on the worst tariffs to switch, is not consistent with protecting their interests. It is likely to discourage switching, dulling competition and innovation in the process. These negative impacts are likely to be higher the greater the exit fee is.

They are also likely to be a more significant barrier to switching for households on lower incomes, who we know can already be put off switching due to the need to pay two suppliers for energy in the same month, and may as a result be trapped paying higher prices. While Ofgem suggests[1] that gaining suppliers may be willing to pay the exit fee, we're concerned this is not likely to be offered to certain customers, such as those who pay by standard credit or prepayment, or who manage their accounts offline.

You suggest that consumers on deemed contracts as a result of house moves or being transferred through the SoLR process would be excluded from this proposal but it is hard to see an objective case for arguing that those default tariff customers should be protected from exit fees while others should not be. No default tariff customer - whatever the circumstances that have led them to be on that tariff - has consented to being liable to exit fees on that tariff. It would constitute a material adverse change to all default tariff customers' contractual terms.

Some suppliers choose not to levy exit fees on their fixed term acquisition tariffs, and it would seem clearly unfair if customers on default tariffs face these fees while those on acquisition deals with the same supplier do not. There is also a risk that the introduction of exit fees on default tariffs may have unintended consequences on the level and prevalence of exit fees in the acquisition market. For example, suppliers may feel emboldened to start charging, or increase, exit fees in that market if they are subject to regulatory obligations to introduce them in the default tariff market.

We think that the adverse consequences of this proposal are likely to outweigh any benefits and that it should not be implemented.

Option 3: Requiring suppliers to pay a Market Stabilisation Charge when acquiring new customers

We do not support this proposal, but consider that it would be a better option than the introduction of exit fees.

Under either approach, the benefits of switching are likely to be reduced, either by the size of the explicit charge under the exit fee approach, or by an implicit charge under this approach (i.e. that suppliers would price in the Market Stabilisation Charge to their acquisition tariffs, increasing their level). But the exit fee approach would result in a lumpy, up-front charge that may create a barrier to switching for those with limited funds. The likely smoothing out of the cost of a Market Stabilisation Charge over the duration of an acquisition tariff should reduce this barrier, even if the total overall cost to the consumer is similar.

Because an exit fee would be explicit, it may affect consumer behaviours in a way that a Market Stabilisation Charge would not (as it is likely to be invisible to the

[1] In its Call for input paper on adapting the price cap methodology for resilience in volatile markets.

consumer). It is possible that consumers may perceive an exit fee to be a downside of switching (because they can see it) in a way that they would not perceive a Market Stabilisation Charge.

In the round, we think a Market Stabilisation Charge is likely to be less of a deterrent to switching than exit fees would be. We also think that this comparative advantage may be particularly pronounced for poorer consumers who may not be able to afford an upfront (exit) fee.

It could be argued that a Market Stabilisation Charge attributes the costs of maintaining market stability solely on to engaged customers. This may be somewhat more cost reflective than seeking to recover the costs from all customers, noting that many of the recent supplier collapses were caused by unsustainable pricing in the acquisition market.

But notwithstanding those benefits, we think that this proposal would be likely to have negative implications for consumers. It would inevitably be priced into retail tariffs, resulting in lower achievable savings from switching, and potentially fewer switches. At a time when energy bills are at record levels, any deterrent to consumers making choices that could reduce their bills are unwelcome and should be avoided. We are also concerned that suppliers are more likely to be willing to pay the Market Stabilisation Charge for customers that they think attractive, likely to be those switching to Direct Debit, smart meter only or online account managed tariffs, with consumers seeking tariffs with other payment methods or offline service options less likely to be valued by the gaining supplier. Our research has shown that some suppliers are already avoiding offering these services to customers, in some cases seemingly breaching clear Ofgem rules - or avoiding gaining these customers through their approaches to customer acquisition.

More broadly, there are reasons to think that this approach would be anti-competitive. Aside from reducing switching incentives, it would result in the perverse situation where a new supplier is funding some of the costs of the old supplier. This has some of the characteristics of a tax on competition. It is difficult to find examples from other markets where a supplier has to compensate their competitors for having won customers from them. It may result in cross-subsidies flowing from more efficient suppliers to less efficient ones, which is unlikely to be compatible with promoting effective competition.

We would caution against adopting such an approach, and do not think the evidence provided is strong enough to support such an intervention. In the event that you take this proposal forward, it should be strictly time-limited.

Yours sincerely

Richard Hall
Chief Energy Economist