Network HQ
508 Edgware Road
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By email

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Thank you for your invitation to submit an engagement plan.

As you are aware, Utility Warehouse operates a fundamentally different business model to other energy suppliers, in that **all our customers are already benefitting from the cheapest tariff available from us** based on the bundle of services they have asked us to supply them with (except where they have specifically chosen a fixed price tariff).

As a result, we do not have 'dis-engaged' customers languishing on a so-called 'standard variable' tariff. And whilst some of our Members could pay less for their energy if they were taking additional services from us, this is something they have explicitly **chosen** not to do.

Notwithstanding that they may have previously made such a choice, and because we genuinely want all our Members to benefit from our cheapest prices, we continue to engage with them on a regular basis (by email, phone and through billing messages) to encourage them to upgrade their current bundle of services, in order to reduce their energy bills <u>and</u> benefit from our unique energy saving initiatives (such as free LED light bulbs).

You will therefore appreciate that in this context, a dedicated engagement plan is inappropriate, and would simply be an unnecessary duplication of our existing efforts.

By way of further explanation, the main reasons Utility Warehouse are different from other energy suppliers is that:

- **We don't just supply energy**. Our Members don't see us as an energy supplier; we also provide them with home phone, broadband, mobile, and a 'cashback' cards – then consolidate it all on one convenient monthly bill. We're a Discount Club, not an energy supplier.

- **Our energy tariffs reflect our unique business model**. A Member's energy tariff is determined automatically by the other services they choose from us:f a Member chooses home phone and broadband (and well over 50% do) then we automatically put them on a cheaper energy tariff; they don't need to take any further action. Add a mobile, and their energy tariff falls even further. In short, the more services a Member takes, the lower their prices become.

- **We have no legacy customers.** Unlike the 'Big 6', each of the 600,000 households we supply has made a conscious decision to switch to us. They are fundamentally much more engaged with us than the customers of the 'Big 6' and it's inappropriate and incorrect to treat them as the same.

Our focus is on creating initiatives which deliver long term benefits and value for our Members. For example, we offer:

- **Free energy saving LEDs for all our Members.** As you know, if Members choose energy, broadband and mobile, we offer to replace every lightbulb in their home with the latest LEDs – not just free bulbs, but with free installation too. What's more, we guarantee those bulbs for life, so Members will never have to buy a lightbulb again. In addition to helping to reducing their carbon footprint, this reduces Members' electricity consumption – and bills – by about 15% per annum <u>forever</u>; a unique benefit to Members of our Discount Club. We believe these long-term savings are substantially more valuable than the short-term introductory deals available from other suppliers.
- **Other Club benefits.** In addition, these Members can choose a free Gourmet Society dining card, giving them up to 50% off meals out, Avios points (exchangeable for free flights), or 25% off the cost of their broadband. Crucially, these benefits renew each year a Member is with us; they aren't just for the first year, they are for the long term.
- **Loyal customers treated fairly.** Most importantly, all our tariffs and benefits are available to every single one of our Members; we don't have any deals available only to new customers.

We constantly engage with all our Members, regularly offering them the opportunity to reduce their bills further:

- **Monthly Billing.** We provide every Member with a monthly invoice for all their services with us, meaning that we have far more touchpoints and interactions with them than most of our competitors. As well as the mandated 'cheapest tariff' communications on each bill, we regularly include targeted communications to remind Members of the extra savings and benefits they would achieve by switching more services to us.
- **Engagement campaigns.** We carried out no fewer than 36 separate engagement campaigns over the course of 2016, contacting over 250,000 of our Members with information about how much they could save by adding extra services and switching to one of our cheaper tariffs. We segmented our base for each of these campaigns, and tested a variety of creative approaches to generate the most engagement.
- **Call Centre Advisors.** We receive around 300,000 calls from our Members each month; this demonstrates a noticeably higher level of engagement with us than is typically displayed by a utility supplier. Thanks to our monthly bill and the variety of services we supply, each Member makes an average of six calls to us every year. Our advisors are explicitly trained to use these interactions to tell Members about the further savings they could achieve by taking additional services from us; and indeed, thousands do so every month. Further to this, our company policy when changing energy tariffs always favours Members; their lower energy prices become effective from the start of the month in which they asked for any such extra services to be supplied by us – not at some distant point in the future.

- **Our Partner network.** Unlike our competitors, we don't spend money on advertising or on paying commission to price comparison sites; instead we grow through relationship marketing, and word of mouth recommendation by happy customers, who introduce new Members to us. The relationships that exist between our Partners and our Members (who are generally their friends and family), means we have a naturally engaged customer base who are much better apprised of the best deals than the customers of all our competitors.

All of this is probably why, in the most recent Which? survey, no other supplier was more highly rated for customer service and value for money. Members value the fairness of our approach far more than a short-term loss leading energy tariff which is funded by the apathy of loyal customers, and where the price will invariably jump at the end of the introductory period.

We continue to believe that it is simply incorrect to use "Standard Variable Tariffs" as a meaningful way to describe our tariff structure. The implication is that customers are "stuck" on these tariffs, that they represent poor value, and that cheaper deals are given to equivalent other customers who have either asked or recently switched. None of these implications are accurate. Neither the value that Members of our Discount Club receive through taking one of our bundles, nor the reduced prices that they pay for their energy through one of our cheaper variable tariffs, are in any way comparable to the expensive default rates applicable to legacy customers of the Big 6.

Finally, the prices offered by the cheapest suppliers are manifestly not reflective of a sustainable market, and we are concerned that educated bodies such as Which? continue to promote the idea that everyone could receive these lower introductory deals. The reality, as you are aware, is that the energy industry as a whole would become insolvent if these lower prices were charged to everyone, as these 'cheap' tariffs represent a combination of (i) grotesque cross-subsidisation and (ii) exploitation of small supplier exemptions from Social and Environmental Policy costs. Their continued promotion by regulators, politicians, journalists and consumer groups as some sort of panacea simply exacerbates the erosion of trust in an industry where this is already a commodity which is in short supply.

We agree with Which? that the only way to build trust and ensure that all customers pay a fair price for the energy they use is to prevent suppliers from using their legacy customers to cross-subsidise introductory deals; that does not mean an end to introductory deals per se, but it should be shareholders rather than legacy customers who are funding them.

We therefore would urge Which? to lobby for an across the board reduction in the price of SVT's which can be funded by an end to the cross-subsidisation which currently exists. In practical terms, this would probably require a maximum 'delta' between any suppliers' SVT and the cheapest introductory deal they offer to equivalent new customers.

I am very grateful for the opportunity to respond to your request in this way; I hope this has explained our position and we look forward to continuing our dialogue with Which? over the coming weeks.

Yours sincerely

Andrew Lindsay
Chief Executive Officer