

# Has Ofgem just created the next energy mis-selling scandal?

Research report

by

**TheEnergyShop** •COM

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## 1. Executive Summary

The **Big 6 energy comparison websites**, as well as the majority of the accredited energy price comparison websites, inflate quoted savings to consumers using a flawed calculation methodology proposed by Ofgem, the energy regulator. A significant proportion of switchers never realise the savings that are quoted on these sites. In our research, savings were inflated by between £100 and £200. The level by which savings are “inflated” across the UK is estimated at between £50m to £100m a year. Price comparison websites did not need to follow this “inflated” savings approach - they voluntarily chose to do so. Even Which? and MoneySavingExpert follow these practises. The questions now are; were consumers mis-sold? If so, is compensation due and, if so, who pays?

### Definitions

#### **mis-sell**

VERB

(often as noun **mis-selling**)

Sell (something) to a customer on the basis of misleading advice

#### **scandal**

NOUN

An action or event regarded as morally or legally wrong and causing general public outrage

**Oxford English Dictionaries (both definitions)**

## Key Findings

In our research we found that:

### **Price Comparison Websites**

- 12 of the 15 sites surveyed used the “inflated” savings methodology.
- All of the “Big 6” energy price comparison websites use the “inflated” savings methodology.
- The vast majority of sites quoted savings that were between £133 and £196 greater than the customer would actually achieve from switching.

### **Big 6 energy suppliers**

- While the “inflated” savings methodology is supposed to apply to energy suppliers through their License Conditions, to our surprise we found that none of the Big 6 follow the “inflated” savings methodology on their websites. Instead 4 of the Big 6 have stopped showing comparative savings altogether. The 2 suppliers that do still offer comparative savings follow a “true” like-for-like comparison approach.

### **Smaller energy suppliers**

- Behaviour amongst the smaller suppliers varies quite markedly.
- Of the 17 smaller suppliers surveyed, only 7 offered comparative savings on their websites. Of these, 3 follow the “true” like for like approach, whereas 4 follow the “inflated” savings approach.

Joe Malinowski, founder of award winning energy price comparison website **TheEnergyShop.com** commented.

***“This is a potential scandal of quite significant proportions in terms of the number of customers affected, and the extent to which they may have been mis-led”.***

***“Our research shows that inflated savings of £150 or more are not uncommon and very large numbers of customers are impacted. Across the UK we estimate that some 500,000 customers will have seen their savings quotes inflated by somewhere in the region of £50m to £100m - savings that will never be realised in their bills.”***

***“Many customers will only now be starting to realise that the savings they were quoted last year were wildly inflated and their bills are consequently higher than they expected. It will be little comfort for them to learn that this has resulted from an approach proposed by Ofgem; an approach that all of the largest comparison sites seem to have been only too keen to adopt.”***

***“TheEnergyShop.com has never followed the “inflated” savings approach. We believe it to be misleading and we don't plan to start using it now.”***

**TheEnergyShop.com** is now calling for an immediate suspension of all energy sales activities that use the “inflated” savings approach.

**TheEnergyShop.com** is calling for a truly independent inquiry, independent of the regulator Ofgem, to investigate the level of consumer detriment that may have been caused, to identify whether compensation is due and, if so, how much and who should pay?

**TheEnergyShop.com** is urging consumers who may have been adversely affected by an inflated savings quote to initially contact the price comparison website (or energy supplier website) through which they made their switch in order to get a re-quote based on the “true” like for like comparison. This is the first and necessary step to identify the extent to which consumers have individually been affected before deciding what further action each consumer should take.

## 2. Introduction

Much has been written in the press recently about energy price comparison websites hiding the best energy deals from consumers. While this has generated extensive headlines, there has been little analysis of the level of consumer detriment this may have caused. Indeed where analysis has taken place it has found the level of detriment to be fairly minimal.

This report focuses on an altogether different and much larger issue. While transparency and commissions have been centre stage, a much bigger and less transparent issue has been lurking in the background. The issue, the way energy price comparison websites calculate savings to consumers, has to date been obfuscated by complexity and shrouded by vested interests.

But now consumers have started to notice that all is not quite right with the savings they are being quoted on price comparison websites. Some call the behaviour "**dishonest**", others believe it to be "**fraudulent**".

The new approach to "inflated" savings was introduced by Ofgem from 30 March 2014. Until now it has applied only to energy suppliers in certain circumstances. However, the vast majority of price comparison websites were only too keen to jump at the opportunity this presented to change their calculation approach. After all, it suited their commercial interests to do so. Most worryingly, Ofgem is now going to force the last few remaining accredited sites that have stuck with the honest "true" like-for-like approach to move to the inflated methodology. Ofgem is planning to kill off the true, honest, like-for-like comparison of energy tariffs that has worked so well for consumers for the last 10 years.

In this report we first set out the background to the issue.

We then undertake research on 15 price comparison websites to identify which sites follow which methodology. We use 2 different scenarios to quantify the impact that the methodologies have on savings quoted to consumers.

We undertake research on 23 energy supplier websites to identify which energy suppliers follow which methodology.

We put together a range of estimates as to how many consumers are being affected by the "inflated" savings approach and by how much, in aggregate, they may be affected.

Finally, we call for a range of actions from consumers, regulators and politicians to put an end to mis-leading savings quotes in the energy industry.

### 3. The Background

From 31 March 2014, the final phase of Ofgem’s reforms under the Retail Market Review (RMR) came into effect. From that date energy suppliers were required to provide their customers with clearer information on bills and annual statements. This included key information about the tariff, including discounts, tariff end dates, and termination fees, and details about the customers energy usage.

So far, so good.

Ofgem however then made the fatal mistake of deciding to introduce a number of new tools designed to help consumers compare tariffs. These tools, which must be shown on bills and Annual Statements include;

1. The dreaded **Tariff Comparison Rate (TCR)** (more on that in a separate note)
2. **Personal Projections** which give the consumer details of their costs for the next 12 months.

The Personal Projection itself was not a problem. In effect it was just a fancy name for the 12 month annualised cost of a tariff that all price comparison sites had in any case been calculating for years.

The problem was the introduction of a definition called the “**Estimated Annual Costs**” when calculating the customer’s existing tariff. The exact calculation is shown in Appendix B, but we will try and summarise it as simply as possible here.

The annual cost of a tariff comprises of 4 components;

<b>1</b>	<b>Daily standing charge</b>	<b>X</b>	<b>365 days</b>
		<b>plus</b>	
<b>2</b>	<b>Price per unit of gas / electricity</b>	<b>X</b>	<b>Number of units (kWh) used</b>
		<b>minus</b>	
<b>3</b>	<b>Discounts (if application)</b>		
		<b>plus</b>	
<b>4</b>	<b>VAT (at 5% for domestic customers).</b>		

All very straightforward.

But what happens if your tariff ends in say 3, 6 or 9 months? In that case Ofgem decided, in its infinite wisdom, that the calculation should be split between the customer’s current tariff and the tariff they would likely be moved onto at the end of the contract period.

The problem with that approach is this. The tariff that the customer is assumed to move onto is the supplier's Standard tariff (Ofgem calls it the cheapest evergreen tariff but in practise it means the same thing). Standard tariffs are usually the most expensive tariff a supplier offers. So what this methodology does is it "inflates" the cost of the customer's current tariff for comparison purposes.

For example, using this method a customer paying £1,000 for their energy could easily see their current spend calculated to be £1,200. Of course if you inflate the customer's current bill by £200, then by definition you automatically "inflate" the potential saving that the customer is quoted by £200. This saving is fictitious because, whatever the customer does, they will never see.

This requirement was a License condition imposed upon the energy suppliers rather than the price comparison sites. Indeed it applied only to energy suppliers in specific circumstances such as renewal notices, bills, annual statements and such like. The majority of energy price comparison websites, including all of the Big 6, however wasted little time in jumping onto this new "inflated" methodology. We wonder why?

It has long been proven within the price comparison sector that the greater the saving a customer sees, the greater the propensity to switch. So bigger savings = more commissions for price comparison websites.

So, with the new "inflated" methodology, savings shown on price comparison websites in many cases jumped by £100 or more over-night. So too, presumably, did the level of switching on comparison sites and consequently their commissions.

Ofgem is now planning to enshrine this flawed "inflated" methodology into all accredited price comparison websites through its changes to the Confidence Code. If that happens, energy consumers in the UK may never again receive a true like for like and honest comparison of energy tariffs.

## 4. Defining the Problem

To understand more fully the impact that this may be having on consumers we have undertaken research across a wide range energy price comparison websites and energy supplier websites. For the purpose of this research we have labelled, and defined, the alternative methodologies as follows;

- True
- Inflated

### Definitions

#### True

##### (meaning true like-for-like comparison)

This is the approach where a direct comparison is made between the cost of the customer's existing tariff and the cost of the new tariff. So, for example, if a customer is on a Tariff A that costs them £1,000 a year and they switch to tariff B which costs £900 a year, then the saving is £100 (because  $£1,000 - £900 = £100$ ). The savings quoted are real. These savings are exactly what the customers see on their energy bills and what is taken out of their bank accounts.

#### Inflated

The inflated methodology is one where the comparison is made using not just the customer's current tariff but on a split basis between the current tariff up to the tariff end date, and (after that tariff ends) on the existing supplier's Standard tariff (which means most expensive tariff). This "inflated" methodology is based on an approach proposed by Ofgem. Ofgem's calculations for this approach are shown in Appendix B.

## 5. The Research

In order to analyse the impact that the “inflated” saving methodology is having on consumers, **TheEnergyShop.com** conducted a review of all the main price comparison websites as well as the websites of the energy supplier websites, both large and small. We were looking to identify the following;

1. Which company was following which methodology, and
2. What impact the different approaches were having on the savings quoted to consumers.

### Sites Analysed

#### Price Comparison Websites

We reviewed all the main comparison websites, whether accredited to the Ofgem Confidence or not. This included the “Big 6” and other smaller operators (ourselves included).

#### The Big 6 (6)

- confused
- comparethemarket
- gocompare
- moneysavingexpert (operated by Martin Lewis)
- moneysupermarket
- uswitch

Although moneysavingexpert is owned by moneysupermarket it has been included within the Big 6 because it runs a separate and distinct price comparison service and generates more switches and sales than any of confused, comparethemarket or gocompare. Indeed moneysavingexpert, even though it is not accredited to the Ofgem Confidence Code, is certainly the third if not the second largest generator of energy switches and energy commissions in the UK.

#### The others (9)

- energyhelpline
- energylinx
- myutilitygenius
- runpathdigital
- simplyswitch
- switchgasandelectric
- ukpower
- unravelit.com

and

- **TheEnergyShop.com** (that's us)

## **Energy Supplier Websites**

### **The Big 6 (6)**

- British Gas
- EDF Energy
- E.ON
- npower
- ScottishPower
- SSE

### **The others (17)**

- Better Energy
- Co-operative energy
- Daligas
- EBICo
- ecotricity
- extraenergy
- first:utility
- Flow energy
- Good Energy
- green energy uk
- Green Star Energy
- isupplyenergy
- LoCO2 energy
- OVO energy
- Spark Energy
- Utility Warehouse
- Zog Energy

## **Methodology**

Two tariffs that are expiring within 12 months were selected for the purpose of the research, one from EDF Energy and the other from npower. One tariff has a short time to expiry (npower) whereas the other is not expiring for 5 months. These were set as the customer's current tariff for comparison purposes.

For each tariff a specific profile was selected (region / payment method / consumption). The details of the profiles selected are shown in Table 1 below.

The bill values for the customer's current tariff, the bill value for the cheapest deal in the market for the profiles chosen on the analysis day, and the expected saving based on the "true" methodology were calculated manually and used as the reference point for the comparison. The rates used and the detailed step-by-step calculations behind them are shown in Tables 7 and 8 in Appendix A.

## **Price Comparison Websites**

The customer current profiles were entered into all the price comparison websites on the same date (28 Jan 2015) in order to get a comparable analysis of the savings quoted for the cheapest tariff in the market on that day. Details of bills and savings were recorded and evidenced with screen shots. The exception to this was Which?, where the analysis was done on 6 February 2015. This creates a minor distortion which only arises because the "inflated" methodology creates a different saving figure each day.

## **Energy Supplier Website**

Each of the supplier websites was reviewed on 2 February 2015. We checked each site for the following;

- Whether they offered online quotes
- Whether they quoted comparative savings
- Which methodology was used for quoting savings

If the site offered a comparison and savings analysis we attempted to use the same profiles as for the comparison websites as far as this was possible. All data was recorded and evidenced with screen shots.

It should be noted that energy suppliers only sell their own tariffs on their own websites (where they sell). Consequently the cheapest tariff will, in all but one case, be more expensive than that seen on a price comparison website. The savings will also therefore be different. The saving quote was not the important part of this exercise. The key issue was to determine which methodology the energy supplier was using to calculate the customer's current tariff for comparison purposes.

**Table 1 - Test Scenarios**

	<b>Test 1</b>	<b>Test 2</b>
Postcode	IP12 1AA	W5 2DZ
Region	Eastern	Southern
Gas usage (annual) (kWh)	19,000	13,500
Electricity usage (annual) (kWh)	4,900	3,200
<b>Current Tariff Details</b>		
Current Supplier	EDF Energy	npower
Current Tariff	Fixed Price 2015	Online Price Fix February 2015
Tariff end date	30 June 2015	28 February 2015
Current payment method	Monthly Direct Debit	Monthly Direct Debit
<b>Current Annual Spend</b>	<b>£1268.12</b>	<b>£1076.01</b>
<b>New tariff details</b>		
New Supplier	extraenergy	extraenergy
New Tariff	Fresh Fixed Price Jan 2016 v10	Fresh Fixed Price Jan 2016 v10
Tariff end date	31 January 2016	31 January 2016
Future payment method	Monthly Direct Debit	Monthly Direct Debit
<b>New Annual Spend</b>	<b>£1222.12</b>	<b>£893.69</b>
<b>"True "Saving</b>	<b>£46.00</b>	<b>£182.32</b>

## 6. The Findings – Price Comparison Websites

### Test 1 (Price Comparison Websites) (Sample size 14)

Results are summarised in Table 1

- Savings quoted ranged from £35 to £362
- The average saving quoted was £218 (mean) and £242 (median and mode).
- 12 of the sites followed the “inflated” savings methodology.
- All of the Big 6 followed the “inflated” savings methodology quoting savings of between £241 and £243.
- The outlier was My Utility Genius quoting a saving of £362. They follow the “inflated” savings methodology although their savings result was amplified for reasons we can’t easily identify.
- In the majority of cases, customers were quoted a saving that was **£196 greater** than they would actually achieve.
- Certain sites give a much greater prominence to the savings figure over the new bill calculation. This will likely have a greater impact on convincing the customer to switch. This applies particularly to uswitch, comparethemarket and energyhelpline.

### Test 2 (Price Comparison Websites) (Sample size 15)

Results are summarised in Table 2

- Savings quoted ranged from £181 to £340
- The average saving quoted was £290 (mean) and £315 (median and mode).
- 12 of the sites followed the “inflated” savings methodology.
- All of the Big 6 followed the “inflated” savings methodology quoting savings of between £307 and £340.
- The outliers were comparethemarket, gocompare and energyhelpline who quoted the most inflated “inflated” savings figure at £340.
- In the vast majority of cases, customers were quoted a saving that was **£133 to £158 greater** than the customer would actually achieve.

**Table 2 – Comparison websites - results for Test 1**

Site	Ofgem Accredited	Current Bill (£)	New Bill (£)	Saving (£)	Methodology
TheEnergyShop.com	Yes	1,268	1222.12	46.00	True
<b>Large Sites</b>					
Confused (a)	No	1,463	1,222.12	240.52	Inflated
Comparethemarket	No	1,465	1222	243	Inflated
Gocompare	No	1,465	1,222	243	Inflated
Moneysavingexpert	No	1,464	1,222	242	Inflated
Moneysupermarket	Yes	1,464	1,222	242	Inflated
Uswitch	Yes	1,464.33	1,222.12	242.21	Inflated
<b>Other sites</b>					
Energyhelpline	Yes	1,465	1,222	243	Inflated
Energylinx (a)	Yes	1,463	1,222.21	240.52	Inflated
Myutilitygenius	Yes	1,583.93	1,222.21	361.81	Inflated
Runpathdigital (b)	Yes				N/A
Simplyswitch (a)	Yes	1,259.83	1225.17	34.66	True
Switchgasandelectric	Yes	1,260	1,222	38.00	True
Ukpower (a)	Yes	1,464	1,222	242	Inflated
Unravelit.com (a)	Yes	1,410	1222.13	187.43	Inflated
Which? (a) (c)	No	1473	1222.21	250.71	Inflated
<b>Average saving (d)</b>					
Mean				217.92	
Median				242.00	
Mode				242.00	

**Notes**

- (a) Not all sites disclose the current bill calculation. Where this is not listed it is inferred as from the difference sum of the new bill and the saving.
- (b) Runpathdigital did not list EDF Energy Fixed Price 2015 for comparison purposes.
- (c) Which? was reviewed on 6 Feb 2015.
- (d) Excludes TheEnergyShop.com
- (e) Non Ofgem accredited websites are highlighted in grey.

**Table 3 - Comparison websites - results for Test 2**

Site	Ofgem Accredited	Current Bill (£)	New Bill (£)	Saving (£)	Methodology
TheEnergyShop.com	Yes	1,076	893.69	182.32	True
<b>Large Sites</b>					
Confused (a)	No	1,201	893.69	306.98	Inflated
Comparethemarket	No	1,234	894	340	Inflated
Gocompare	No	1,234	894	340	Inflated
Moneysavingexpert	No	1,208	894	315	Inflated
Moneysupermarket	Yes	1,209	894	315	Inflated
Uswitch	Yes	1,209.18	893.69	315.49	Inflated
<b>Other sites</b>					
Energyhelpline	Yes	1,234	894	340	Inflated
Energylinx (a)	Yes	1,201	893.69	306.98	Inflated
Myutilitygenius	Yes	1,209.15	893.69	315.45	Inflated
Runpathdigital	Yes	1,076	893.69	182.31	True
Simplyswitch (a)	Yes	1,076.03	894.7	181.33	True
Switchgasandelectric	Yes	1,076	894	182	True
Ukpower (a)	Yes	1,209	894	315	Inflated
Unravelit.com (a)	Yes	1,212	893.7	318.41	Inflated
Which? (b)	No	1,174	893.69	280.06	Inflated
<b>Average saving (c)</b>					
Mean				290.27	
Median				315.00	
Mode				315.00	

**Notes**

- (a) Not all sites disclose the current bill calculation. Where this is not listed it is inferred as from the difference sum of the new bill and the saving.
- (b) Which? was reviewed on 6 Feb 2015.
- (c) Excludes TheEnergyShop.com
- (d) Non Ofgem accredited websites are highlighted in grey.

## 7. The Findings – Energy Supplier Websites

### Test 1 (Energy Supplier Websites) (Sample size 23)

Results are summarised in Table 3

#### Big 6 (Sample size 6)

- Only 2 of the Big 6 energy suppliers still quote savings against the customer’s current tariff; EDF Energy and npower. In both cases (and much to our surprise) they both used the “true” methodology.
- The other 4 (British Gas, E.ON, ScottishPower and SSE) have all now withdrawn from offering comparative quotes and savings against other supplier’s tariffs on their websites. For some suppliers this is a new development.
- We believe that the approach the Big 6 are following shows a distinct lack of confidence in Ofgem’s “inflated” savings methodology. Having previously been lumbered with large fines for mis-selling, perhaps they don’t want to risk getting caught out again.

#### Other Suppliers (Sample size 17)

The other suppliers fall into 3 distinct categories.

- Those that do not offer either online quotes or savings (6)
- Those that offer online quotes but not comparative savings against competitor products (4)
- Those that offer both online quotes and comparative savings (7)
- Of those that offer comparative quotes, three (3) follow the “true” methodology; iSupplyenergy, OVO energy and Spark Energy.
- Of those that offer comparative quotes, four (4) follow the “inflated” methodology; Co-operative energy, extraenergy, first:utility and Green Star Energy.
- Suppliers that use the “inflated” methodology, quoted a saving that was **£200 greater** than the customer would actually achieve in Test 1, and quoted a saving that was between **£101 to £158 greater** than the customer would actually achieve in Test 2.

## Aggregate

- In total, of the 23 suppliers surveyed, the majority (60%) do not offer comparative quotes.
- Of those that do offer comparative quotes the slight majority (55%) follow the “true” approach.
- Only 4 of 23 energy suppliers follow the “inflated” savings methodology. This is in sharp contrast to the behaviour of majority of the energy price comparison websites.
- It would appear that having learnt the harsh lessons from the past, most of the energy suppliers have taken themselves out of the firing line over this latest potential mis-selling scandal.

**Table 4 – Energy supplier websites**

Supplier	Test	Current Bill (£)	New Bill (£)	Saving (£)	Methodology
<b>Big 6</b>					
British Gas		Not quoted	N/A	Not quoted	N/A
EDF Energy	1	(a)			
	2	1,076	997.42	78.6	True
E.ON		Not quoted	N/A	Not quoted	N/A
npower	1	1,260	1,298.74	-39.02	True
	2	1,076	946.21	129.80	True
ScottishPower		Not quoted	N/A	Not quoted	N/A
SSE		Not quoted	N/A	Not quoted	N/A
<b>Others</b>					
Co-operative energy	1	1,470	1,230	240.00	Inflated
	2	1,233	909	324.00	Inflated
extraenergy	1	1,470	1,222	248.00	Inflated
	2	1,234	894	340	Inflated
first:utility	1	1,469	1,230	239.00	Inflated
	2	1,177 (b)	906	271.00	Inflated
Green Star Energy	1	(c)			
	2	1,234	961.88	271.84	Inflated
isupplyenergy	1	(d)			
	2	480	417.71	61.92	True
OVO energy	1	1,268	1,237	31.00	True
	2	1,076	930	146.00	True
Spark Energy	1	1,268	1,692.62	-424.39	True
	2	1,076.01	1,227.53	-151.52	True

**Notes:**

- (a) EDF Energy does not offer online quotes for existing customers
- (b) First:utility calculations of current bill are incorrect as they use incorrect price data for npower tariffs
- (c) Green Star Energy would not quote for this postcode
- (d) isupplyenergy would not quote for this postcode

**Suppliers that do not offer online quotes or savings**

- Better Energy
- Daligas
- Flow energy
- green energy uk
- LoCO2 energy
- Utility Warehouse

**Suppliers that offer online quotes but not comparative savings**

- EBICo
- ecotricity
- Good Energy
- Zog Energy

## 8. Quantifying the problem. Who is affected and by how much?

### Tariff Level

First the good news. Ofgem's "inflated" savings methodology does not affect customers on Standard tariffs. It is currently estimated that some 60% of households are supplied on Standard variable tariffs. For these customers the "true" and "inflated" methodologies will (or should) return the same result.

Secondly, it does not affect customers on tariffs where the tariff end date is greater than 12 months at the time of comparison. For example, if you signed up to EDF Energy Blue +Price Promise April 2016 tariff in December of 2014, you would not be affected - yet. However, from 1 May 2015, the inflation kicks in and increases on a daily basis thereafter up until the tariff expires.

While there are a number of tariffs of greater than 12 months duration in the market at any time, there are relatively few customers signed up to them, as they tend to be more expensive than short dated fixed tariffs. Currently 70% of fixed tariffs in the market have a product life of 15 months or less. Indeed, the vast majority of the switching over the past 1-2 years has been to short dated fixed deals.

So of the 40% of the total population that might be affected by this methodology, we would estimate that 80-90% of this group probably are. That suggests that 32%-36% of all customers would be affected at the population level.

### Price Comparison Site Level

At the level of price comparison websites, the proportion affected is likely to be materially higher than at the population level. Of the 60% of the population that are on standard tariffs, a significant minority are permanently dis-engaged and never switch. Another significant minority do not engage with price comparison websites. Price comparison websites, and particularly those that incentivise churn (repeat switching) through incentives such as cashback, such as moneysavingexpert, will therefore see a high proportion of returning switchers, a significant proportion of whom will be affected by the "inflated" methodology. Indeed it is normal behaviour for a repeat switcher to check deals on a price comparison website as they come close to their renewal date. This is an activity which Ofgem is now encouraging by requiring energy suppliers to remind consumers about switching on annual statements and renewal notices.

At the level of the price comparison website therefore, we can easily envisage that 50% of switchers get an "inflated" saving quote and are therefore mis-led about the potential saving from switching.

### Customer Level

The extent to which an individual customer is affected will depend upon their tariff and the following 3 factors.

1. The price of the customer's current tariff compared to the Standard tariff of their supplier (the bigger the difference the bigger the error).

2. How close the current tariff is to its end date (the closer you are to the end date the bigger the “inflation” effect).
3. How much energy you use (the greater your usage the more the error is multiplied).

On the scenarios tested, our research shows that the “inflated” methodology leads to savings quoted that are exaggerated by between £133 and £158 for a user with average energy consumption, and £196 for on user with high energy consumption. Clearly there will be scenarios where the “inflation” is much lower and other cases where the “inflation” is much higher.

### Market Level

In order to estimate how consumers as a group are affected we have put forward 3 scenarios in Table 5 – low, medium and high. Here we focus solely on our estimate of switches done through price comparison websites using the “inflated” savings methodology. Please note that collective switching schemes undertaken through a price comparison website using the “inflated” methodology will also be affected so these are included in the estimate. Collective switching schemes where the comparison and transaction and is done on the website of an energy supplier that uses the “inflated” methodology for calculating savings will also be affected. The latter group is not included here and will add to the overall level of potential consumer detriment.

On our estimates, we feel that over 500,000 switchers will have been affected and influenced by “inflated” saving quotes on price comparison websites. The combined effect of this exaggerated quoting could easily be in the region of £50m - £100m annually – savings that consumers will never see reflected on their bills or on their bank statements.

We appreciate that these are estimates and, even if well reasoned, may not be accurate. Fortunately, for consumers, this situation differs from other mis-selling scandals, such as doorstep selling, where sales records were poorly documented. In this case there should be a full audit trail held in the databases off each affected price comparison website, each collective switching scheme and each energy supplier which can identify which customer received an inflated quote, the extent of the inflation at the level of the individual and fir consumers in aggregate. The level of consumer harm can therefore be easily quantified.

**Table 5 – Quantifying the impact**

	Basis	Low	Medium	High
Switchers	Per annum	3,000,000	3,000,000	3,000,000
Switches through “inflated” price comparison websites		1,200,000	1,200,000	1,200,000
Switchers affected	%	30	45	60
Switchers affected	Number	360,000	540,000	720,000
Savings inflated by...	£	100	150	200
Overall savings “inflation”	£	£36m	£81m	£144m

## 9. Case Study - MoneySavingExpert.com Big Winter Switch Event

Martin Lewis, through the MoneySavingExpert.com Cheap Energy Club ran a collective switch in November / December 2014. The company claims that almost 60,000 people switched and together saved £10m. Details can be found at...

<http://www.moneysavingexpert.com/news/utilities/2014/11/ed-davey-welcomes-uks-biggest-collective-switch>

and

<http://blog.moneysavingexpert.com/2014/12/05/mse-collective-switch-the-stats/>

MoneySavingExpert.com is one of the Big 6 energy price comparison websites as defined in this report. MoneySavingExpert.com is also one of the energy price comparison websites that uses the “inflated” savings methodology. We use this collective switch as an example purely as it is a discrete event, and because the results have been published and are in the public domain. They are therefore readily analysable.

The collective switch attracted a surprisingly large proportion of first time switchers (74%). This is far higher than we would expect from normal switching traffic via MoneySavingExpert. This 74% will not have been affected by the calculation methodology so we can strip these out. The residual will have largely been affected by the “inflated” methodology so we apply the population level analysis (as detailed above) to these customers.

Based on details of the switch we can estimate that some 10,000 or more customers were quoted “inflated” savings that amounted to some £1.5 million to £2.0 million.

**Table 6 – Case Study**

	Basis		
<b>Switchers</b>			
Single fuel			6,007
Dual fuel			52,123
<b>Total switchers</b>			<b>58,130</b>
Total fuels			110,253
Commission received	£30 per fuel		£3,307,590
First time switchers			43,201
Second time switchers			13,741
		<b>Scenario 1 (80%)</b>	<b>Scenario 2 (90%)</b>
Switchers potentially seeing “inflated” savings		13,741	13,741
Switchers affected	% assumed	80	90
Switchers affected	Assumed	10,993	12,367
Saving inflated by	£ assumed	150	150
Saving inflated by	£ total	1,648,920	1,855,050

## 10. Who pays?

To the extent that consumers may have been mis-led and / or mis-sold, then the following questions arise.

- Are consumers due compensation?
- If so, how much?
- If so, who pays?
- And finally...who is going to do the fining?

Remember that Ofgem has in the past fined energy suppliers for mis-selling. In May 2013 SSE was fined a record £10.5m for....wait for it...failing to provide **“accurate information on prices and potential savings”**

***“In particular, SSE consistently failed to conduct its sales activities in a way that would provide clear and accurate information on prices and potential savings to enable customers to make an informed decision about whether to switch suppliers.”***

Ofgem, May 2013

The matter of fault and compensation is likely to be an issue of some contention. While the “inflated” savings are clearly being quoted on price comparison websites using the “inflated” methodology, the sites in turn are likely to argue that the methodology is based on an approach recommended by the regulator. It is however important to remember this. The sites were never forced to adopt this approach by the regulator (not yet anyway). Ultimately it was their decision to follow the “inflated” methodology and we know that most of them jumped at the opportunity with little apparent hesitation. However, given that Ofgem has clearly been complicit in this process then it is important that the issue is investigated by a body that is genuinely independent of the issue - perhaps the Competition Markets Authority which is already conducting an investigation into the energy market.

## 11. What now?

Large numbers of consumers using price comparison websites are being quoted savings they cannot possibly achieve. The figures involved, in terms of customer numbers and the aggregate inflation of savings quotes is substantial. That would, in most normal cases, demand regulatory intervention. However, with Ofgem, the regulator, complicit in this arrangement, the situation becomes a little more complicated and may demand action from higher levels of authority.

We are therefore calling for the following.

### **For price comparison websites and (where applicable) energy suppliers...**

- To immediately suspend all sales activities that use the “inflated” savings approach.
- To undertake an internal audit of all switchers that have been affected by the “inflated” savings approach.
- To pro-actively contact those switchers, informing them of the extent of the “inflation” in the savings quoted.

### **For regulators...**

- To demand an immediate suspension of all sales activities by comparison websites and energy suppliers that use the “inflated” savings approach.
- To initiate an independent audit of the comparison websites, energy suppliers and collective switching schemes that use the “inflated” savings approach in order to identify the extent the mis-selling that may have taken place, and whether compensation is now due to consumers.

### **For the Energy and Climate Change Select Committee...**

- To formally launch an investigation into the issue of “inflated” savings by comparison websites and energy suppliers to identify whether mis-selling has taken place, and whether compensation is now due to consumers.

### **For the Competition and Markets Authority...**

- To include the issue of “inflated” savings quotes in their investigation of the energy market.

### **For consumers who have switched via an affected price comparison website or energy supplier in the past 12 months...**

- To contact the price comparison website (or energy supplier website) through which they made their switch in order to get a re-quote based on the “true” like for like comparison. This is the first and necessary step to identify the extent to which consumers have individually been affected before deciding what further action each consumer should take.

Consequently this report is copied to;

- David Cameron, Prime Minister
- Ed Milliband, Opposition Leader
- Ed Davey, Energy Secretary
- Caroline Flint, Shadow Energy Secretary
- Competition and Markets Authority
- Tim Yeo, Chair, Energy and Climate Change Committee
- Members, Energy and Climate Change Committee
- David Gray, Chairman, Ofgem
- Dermot Nolan, CEO, Ofgem

## 12. Customer Comments

### What do customers think?

To a significant extent this issue has so far been hidden from public scrutiny due to strong vested interests. Neither the regulator nor the leading price comparison websites want this dubious and questionable activity exposed to public scrutiny. The backlash could be considerable.

It is therefore not surprising that we have received comments from users who criticised us for showing lower savings than other comparison websites.

.....

***“Other comparison websites put Firtutility top with a saving of £80 - you suggest they will cost me more. Can you explain?”***

Martin

***“All other comparison sites shows greater savings”***

Anonymous feedback

.....

However we have also received praise from customers who, having sensed that something was not quite right, began checking the results on price comparison websites against their own calculations and quickly spotted something disturbing.

.....

***“Congratulations on being the only comparison site I have found so far to tell me the true like for like savings/price. You have renewed my faith in honesty being the best practice. Thank you!”***

Keith

***“I really like your excellent webpage design and display.***

***You seem to be the only comparison site which presents the results in an honest, direct comparison of tariffs. The others fraudulently display them in "weighted" form (making the assumption that one will allow oneself to be switched to Standard Variable tariff when one's current fix expires) in order to delude the unwary (most people) into believing that they will make greater savings by switching immediately.”***

Douglas

.....

## 13. Quotes

### TheEnergyShop.com

On deciding to not change the way TheEnergyShop.com does its saving calculations, Joe Malinowski founder of award winning energy price comparison website **TheEnergyShop.com** commented.

***“I didn’t set up this business to con customers into believing they could make savings that they can’t. We have never done that and we never will.”***

In explaining his reasoning, Joe Malinowski, founder of award winning energy price comparison website **TheEnergyShop.com** commented.

***“When I compared my own energy supply, the difference using the two approaches was staggering.***

***On a website that used the “inflated saving” approach I was quoted a saving of £140 a year. Doing a true like for like comparison on TheEnergyShop.com showed that the saving was actually a negative saving (loss) of £434 a year. The difference between the 2 methods was a staggering £574.00. In reaching a decision as to whether to change our methodology we asked ourselves this question; “If a customer came back to us after a year and asked us to justify why we had quoted them a saving of £120 when in fact they would be paying £450.00 a year more, would we be able to justify what we had done? However hard we looked at it, there was no way we felt we could legitimately follow this approach. We felt it was strongly mis-leading. We felt that it would lead to complaints and expose us to potential compensation claims. We decided that Ofgem’s approach was not right for the consumer, we couldn’t justify it, and we decided we were not going to follow it.”***

In explaining our decision not to follow the inflated approach to one of the energy suppliers in April 2014, Joe Malinowski from **TheEnergyShop.com** wrote.

***“We are not changing our approach so basically we will quote against the customer's current tariff. It seems dangerous to do otherwise and may indeed be a breach of consumer protection legislation as customers could be easily misled”***

### Energy Supplier

On the use of Ofgem's "inflated" methodology

***“In fact, our main concern is when a quote is done using the current Fixed term product plus Standard variable as there is an assumption the customer won’t be proactive at their renewal date.”***

March 2014

## APPENDIX A

### Table 7 – Current tariff calculations

	units	Test 1	Test 2
<b>Current supplier</b>		<b>EDF Energy</b>	<b>npower</b>
<b>Current Tariff</b>		<b>Fixed Price 2015</b>	<b>Online Price Fix February 2015</b>
<b>Gas Price</b>			
Standing charge (p/day)	p / day	0.00	11.66
Unit price 1	p / kWh	7.301	3.892
Unit 1 threshold (annual)	kWh	2,680	-
Unit price 2		3.187	-
Discount		6%	None
<b>Electricity Price</b>			
Standing charge (p/day)	p / day	0.00	24.94
Unit price 1	p / kWh	17.36	11.43
Unit 1 threshold (annual)	kWh	900	-
Unit price 2		10.32	-
Discount		6%	None
<b>Dual Fuel Discount</b>		None	None
<b>Current Gas bill</b>			
Annual standing charge	£	$(0.00 * 365) / 100$ = £0.00	$(11.66 * 365) / 100$ = £42.56
Annual cost of units used	£	$((7.301 * 2,680) + ((19,000 - 2,680) * 3.187)) / 100$ = £715.79	$(3.892 * 13,500) / 100$ = £525.42
Gas discount		6% * £715.79 = £42.95	£0.00
Gas bill (excl VAT)		£0.00 + £715.79 - £42.95 = £672.84	£42.56 + £525.42 - £0.00 = £567.98
<b>Current Electricity bill</b>			
Annual standing charge	£	$(0.00 * 365) / 100$ = £0.00	$(24.94 * 365) / 100$ = £91.03
Annual cost of units used	£	$((17.36 * 900) + ((4,900 - 900) * 10.32)) / 100$ = £569.04	$(11.43 * 3,200) / 100$ = £365.76
Electricity discount		6% * £569.04 = £34.14	£0.00
Electricity bill (excl VAT)		£0.00 + £569.04 - £34.14 = £534.90	£91.03 + £365.76 - £0.00 = £456.79
Current Dual Fuel Bill (excl VAT)		£672.84 + £534.90 = £1,207.74	£567.98 + £456.79 = £1,024.77
Dual Fuel discount		£0.00	£0.00
VAT @ 5%		£1,207.74 * 0.05 = £60.39	£1,024.77 * 0.05 = £51.24
Current Dual Fuel Bill (incl VAT)		£1,207.74 + £60.39 = £1,268.12	£1,024.77 + £51.24 = £1,076.01

**Table 8 – New tariff calculations**

	units	Test 1	Test 2
<b>New supplier</b>		<b>extraenergy</b>	<b>extraenergy</b>
<b>Current Tariff</b>		<b>Fresh Fixed Price Jan 2016 v10</b>	<b>Fresh Fixed Price Jan 2016 v10</b>
<b>Gas Price</b>			
Standing charge (p/day)	p / day	13.156	13.06
Unit price 1	p / kWh	2.886	2.99
Discount		None	None
<b>Electricity Price</b>			
Standing charge (p/day)	p / day	20.633	20.447
Unit price 1	p / kWh	10.046	10.162
Discount		None	None
<b>Dual Fuel Discount</b>		None	None
<b>New Gas bill</b>			
Annual standing charge	£	$(13.156 * 365) / 100$ = £48.02	$(13.06 * 365) / 100$ = £47.67
Annual cost of units used	£	$(2.886 * 19,000) / 100$ = £548.34	$(2.99 * 13,500) / 100$ = £403.65
Gas discount		£00.00	£0.00
Gas bill (excl VAT)		$£48.02 + £548.34 - £00.00$ = £596.36	$£47.67 + £403.65 - £0.00$ = £451.32
<b>New Electricity bill</b>			
Annual standing charge	£	$(20.633 * 365) / 100$ = £75.31	$(20.447 * 365) / 100$ = £74.63
Annual cost of units used	£	$(10.046 * 4,900) / 100$ = £492.25	$(10.162 * 3,200) / 100$ = £325.18
Electricity discount		£0.00	£0.00
Electricity bill (excl VAT)		$£75.31 + £492.25 - £00.00$ = £567.76	$£74.63 + £325.18 - £0.00$ = £399.82
Current Dual Fuel Bill (excl VAT)		$£596.36 + £567.76$ = £1,163.92	$£451.32 + £399.82$ = £851.13
Dual Fuel discount		£0.00	£0.00
VAT @ 5%		$£1,163.92 * 0.05$ = £58.20	$£851.13 * 0.05$ = £42.56
Current Dual Fuel Bill (incl VAT)		$£1,163.92 + £58.20$ = £1,222.12	$£851.13 + £42.56$ = £893.69

## APPENDIX B

### Ofgem's definition of Estimated Annual Costs

**Estimated Annual Costs** means the total amount in pounds sterling (inclusive of value added tax) based on the following calculation (or a mathematical equivalent):

$$\text{Estimated Annual Costs} = \frac{(SC \cdot 365) + (UR.AC) + (B1.AC) - (D1.AC)}{100} + (B2) - (D2)$$

Where:

**DSCon** means a Domestic Supply Contract or Deemed Contract;

**SC** means:

- (a) In the case of a DSCon with 365 or more days remaining from the date of calculation, the sum of: each Relevant Standing Charge that applies to the DSCon ( $SC_i$ ), expressed in pence per day, multiplied by the period of time in days for which it will apply ( $t_i$ ) during the following 365 days, divided by 365;

$$SC = \sum_i \frac{SC_i \cdot t_i}{365}, \quad \text{with } \sum_i t_i = 365$$

- (b) In the case of a DSCon with fewer than 365 days remaining from the date of calculation, the combined total of (i) and (ii), divided by 365:

- (i) the sum of: each Relevant Standing Charge that applies to the DSCon ( $SC_i^C$ ), expressed in pence per day, multiplied by the period of time in days for which it will apply during the remaining duration of the contract ( $t_i^C$ );
- (ii) the sum of: each Relevant Standing Charge that would apply under the Relevant Cheapest Evergreen Tariff for the Domestic Customer ( $SC_j^{RCE}$ ), expressed in pence per day, multiplied by the period of time in days for which it will apply during the period between the end of the DSCon and the 365<sup>th</sup> day from the date of the calculation ( $t_j^{RCE}$ );

$$SC = \sum_i \frac{SC_i^C \cdot t_i^C}{365} + \sum_j \frac{SC_j^{RCE} \cdot t_j^{RCE}}{365}, \quad \text{with } \sum_i t_i^C + \sum_j t_j^{RCE} = 365$$