

Energy market investigation

Price comparison websites

26 February 2015

This is one of a series of consultative working papers which will be published during the course of the investigation. This paper should be read alongside the updated issues statement and the other working papers which accompany it. These papers do not form the inquiry group's provisional findings. The group is carrying forward its information-gathering and analysis work and will proceed to prepare its provisional findings, which are currently scheduled for publication in May 2015, taking into consideration responses to the consultation on the updated issues statement and the working papers. Parties wishing to comment on this paper should send their comments to energymarket@cma.gsi.gov.uk by 18 March 2015.

© Crown copyright 2015

You may reuse this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence.

To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/ or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

The Competition and Markets Authority has excluded from this published version of the working paper information which the Inquiry Group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure).
The omissions are indicated by [✂].

Contents

	<i>Page</i>
Summary	2
Introduction	4
Approach	5
The Confidence Code	6
Presence and use of price comparison websites in the energy sector	9
Evidence of price comparison websites and/or suppliers exercising market power to the detriment of energy customers.....	19
Initial views	24

Summary

1. Providers of price comparison websites (PCWs) have a commercial incentive to encourage domestic energy customers to switch suppliers and have the potential to promote competition in the supply of energy to domestic customers by reducing search and switching costs.
2. The purpose of this working paper is to consider: (a) evidence in relation to the presence and use of PCWs in the supply of gas and electricity to domestic customers; and (b) whether aspects of the commercial relationships between PCWs and retail energy suppliers and/or energy-specific regulation of PCWs could contribute to competition problems described in the issues statement under Theory of harm 4.
3. In other working papers we consider aspects of the broader regulatory regime – notably Ofgem’s Retail Market Review programme and the metering and settlement system – that may have a bearing on the use and role of PCWs.
4. Our sources of information are: responses to questionnaires sent to PCWs and energy suppliers (in particular, the Six Large Energy Firms and the four largest of the smaller suppliers); third party hearings with Ofgem, uSwitch, Which? and Compare the Market; our survey of domestic customers; and other surveys and research papers.
5. We found that PCWs are increasingly important in providing domestic customers with a means of engaging with the energy sector. In particular:
 - (a) the proportion of customers who used a PCW to search for information, last time they switched supplier, has increased from around a quarter in 2010 to around 40% in 2014; and
 - (b) the proportion of customers who used a PCW for switching, last time they switched supplier, has increased from around 16% in 2011 to around 31% in 2014.¹
6. The Competition and Markets Authority (CMA) customer survey found that the use of PCWs in the energy sector is similar to that in other markets. 62% of respondents who switched energy supplier in the last three years used a PCW to find out information, and of those respondents, 53% used a PCW to switch. In comparison, 60% of respondents used a PCW to search for

¹ Ipsos MORI (2014) *Customer Engagement with the Energy Market – Tracking Survey 2014: Report Prepared for Ofgem*.

information in other markets, and of those respondents, 58% used a PCW to switch.

7. The importance of PCWs to suppliers as a source of customer acquisitions varies between suppliers. In 2013, in relation to the Six Large Energy Firms, PCWs accounted for [X] of Centrica's domestic customer acquisitions compared with [X] for RWE npower. As for smaller suppliers, Utility Warehouse has an alternative route to market², but PCWs accounted for around [X] domestic acquisitions in 2013.
8. We also found that:
 - (a) there appears to be competition between PCWs, with a large number of PCWs engaged in the supply of search services to domestic energy consumers and the majority of site users multi-homing; and
 - (b) PCWs face competition from other domestic customer acquisition channels such as collective switching schemes and direct distribution channels including suppliers' own website-based services.
9. Suppliers determine which of their tariffs are 'fulfillable' via PCWs. A fulfillable tariff is one for which a PCW can facilitate the switch and is paid a commission for doing so. While a site may display results for non-fulfillable tariffs, it would not receive a commission for a switch to such tariffs. We were told that it was now unusual for the Six Large Energy Firms to limit the tariffs that were fulfillable, but that smaller suppliers continued to do so.
10. Ofgem manages a voluntary Confidence Code the aim of which is to give domestic customers the confidence that accredited PCWs are independent and that the information provided will be accurate and reliable. It is a voluntary code although we note that the Six Large Energy Firms normally require PCWs with whom they have a commercial relationship to sign up to the terms of the Confidence Code.
11. Following a consultation,³ Ofgem has decided to amend the Confidence Code such that PCWs will have to present all available tariffs as a default unless a customer makes an active and informed choice to see a smaller number. The objective of this amendment is to promote customer trust and confidence in accredited sites.

² Utility Warehouse said that the majority of PCWs chose not to work with it due to its terms and conditions (which are standard for all customer acquisition providers) and its commission structure.

³ Ofgem (2014) *Domestic third party intermediaries: Confidence Code and wider issues*.

12. We recognise the need to strike a balance between fostering confidence in the use of PCWs in the energy sector and allowing PCWs the commercial freedom to innovate and promote their services. We consider that the requirement to list the whole market is a particularly stringent condition, which does not apply in other markets and that has the potential to undermine PCWs' bargaining position with suppliers. Lack of trust/belief in PCWs was the most common reason reported by respondents to our survey who did not feel confident that they would get the right deal using a PCW (32% of those who have internet access), which suggests that a higher standard may be justified – although only 13% gave as a reason that PCWs did not include all supplier prices.
13. While we found that PCWs were generally supportive of the Code, Ofgem's decision on this specific provision has come recently, and we would welcome views on whether it strikes the right balance. We note that the Energy and Climate Change Committee (ECCC) announced on 14 December 2014 that it would call PCWs to face questions about the transparency of the information they provided to energy consumers. The ECCC noted, in particular, concerns that some sites were not giving site users clear enough information about the commissions they earned, and the potential for trust in the energy sector to be eroded if consumers lost confidence in PCWs. We will follow the development of this initiative.
14. We also found that, [redacted]. While we recognise that this is a constraint on PCWs' marketing activity, we note the following: the effect is limited to customers who are aware of PCWs and are familiar with using a PCW; customers can often still voluntarily sign up to receive generic marketing and other information from PCWs; and there is an efficiency argument for such restrictions. We found no evidence of 'most favoured nation' type clauses of the kinds that caused concern in the CMA's investigation of the private motor insurance market.
15. We would welcome views on the evidence, analysis and initial views set out in this working paper.

Introduction

16. The purpose of this working paper is to consider: (a) the evidence in relation to the presence and use of PCWs in the retail supply of gas and electricity to domestic customers (which we consider to be relevant to our assessment of competition in the retail market); and (b) whether the relationships between PCWs and retail energy suppliers and/or the energy-specific regulation of PCWs could be contributing to the competition problems identified in the issues statement under Theory of harm 4.

17. PCWs provide a platform for buying and selling energy supply. Tariff information flows from energy suppliers to retail customers via the PCWs and sales flow to energy suppliers via the PCWs. PCWs therefore need to attract both retail customers and energy suppliers. PCWs are paid on a commission basis by energy suppliers for people who apply via the PCW and become customers.
18. PCWs therefore have a strong commercial incentive to engage energy customers in searching and switching. They do this by providing customers with a one-stop shop for personalised quotes, calculated across multiple suppliers on a consistent basis and so enabling customers to have greater confidence in the choices made. These services are accessible by internet and often telephone too.
19. The commission paid by energy suppliers to PCWs for each switch generated by a PCW varies but is most commonly between £15 and £35 per fuel. This may vary depending on a number of factors such as the volume of switches a PCW generates and whether the customer used the PCW's website or call centre.
20. There exists a voluntary code of practice governing PCWs operating in the energy sector, managed by Ofgem (the Confidence Code), the purpose of which is to give customers confidence that accredited PCWs are independent and that the information they provide is accurate and reliable. Following a consultation, Ofgem has decided to amend this code as set out below.
21. We consider below the evidence in relation to whether PCWs are working well for customers in the energy sector.

Approach

22. The structure of the paper is as follows:
 - (a) We consider first evidence on the importance of PCWs in the energy sector and the value to customers of the information and services they provide.
 - (b) Then we consider the potential impact of Ofgem's decision to amend the Confidence Code.
 - (c) Finally, we consider evidence of either PCWs or suppliers exercising market power to the detriment of domestic energy customers in the following circumstances:

- (i) PCWs exploiting customers' tendency to single-home (ie where customers tend to use just one PCW rather than multiple PCWs), for example, by threatening to delist or actually delisting a supplier in order to raise commissions; and
 - (ii) suppliers imposing on PCWs contractual terms that may be harmful to competition.
23. The main sources of information are responses to questionnaires sent to: the Six Large Energy Firms and mid-tier energy suppliers; and PCWs, cashback websites and collective switching organisations (collectively referred to as third party intermediaries).
24. We also asked:
- (a) suppliers and third party intermediaries for information on their contractual arrangements including commissions, any restrictions on their conduct and any termination of a relationship;
 - (b) suppliers for information on expenditure and the number of customers acquired by acquisition channel; and
 - (c) PCWs and cashback websites for information on how they provide quotes, their reason for being accredited by the Confidence Code if applicable, what revenue they have generated from their energy and other services, and their customer numbers.
25. Other evidence sources referred to are the Retail Market Review Baseline Survey, the Energy Market Tracking Survey and third party hearings with Ofgem, uSwitch, Which? and Compare the Market.

The Confidence Code

26. The Confidence Code is a voluntary code of practice that governs independent⁴ PCWs offering an energy comparison and switching service. It was initially created in 2002 by energywatch (a public body protecting and promoting the interests of energy consumers in Great Britain). Consumer Focus assumed responsibility in 2008⁵ and then Ofgem in March 2013.⁶ The Confidence Code is underpinned by four main principles: independence, transparency, accuracy and reliability. The purpose is to give assurance to

⁴ A PCW is considered independent from any gas or electricity supplier when it is not an affiliate or related undertaking of any supplier or of a company that is an affiliate of any supplier.

⁵ Consumer Focus (2009) *A review of the Confidence Code – a voluntary code of practice for domestic gas and electricity price comparison services*.

⁶ Ofgem (2013) *Ofgem takes over Confidence Code for household price comparison websites* (press release).

customers using accredited PCWs that the service they receive will meet these principles.

27. The Confidence Code sets out the minimum requirements a PCW must meet to be Confidence Code-accredited. There are currently nine requirements:
- (a) PCWs must be independent and impartial.⁷
 - (b) PCW service providers must use all reasonable endeavours to include price comparisons for all available domestic tariffs.⁸
 - (c) PCW service providers must manage and control their own PCW and use their own tariff database and calculator (ie use of a third party host or database/calculator would prevent accreditation).
 - (d) PCWs must explain payment methods, including cash/cheque and direct debit.
 - (e) PCWs can supply filters so that site users may search and narrow down results.
 - (f) PCWs must give energy efficiency advice or signpost site users to relevant energy efficiency information or programmes.⁹
 - (g) Prices and comparisons listed by PCWs must be accurate and state when they were last updated.
 - (h) PCW service providers must comply with an annual audit.
 - (i) PCW service providers must establish and operate an effective consumer complaint and enquiry handling procedure.
28. While being a signatory to the Confidence Code is not a regulatory requirement, uSwitch and My Utility Genius said that Confidence Code accreditation was required by the Six Large Energy Firms and some other suppliers. Consumer Focus in its decision on the Confidence Code noted that 'Code accreditation is a pre-condition for providers to secure a commercial

⁷ PCWs are prevented from displaying advertisements from energy suppliers on their main page/homepage and are required to clearly identify which suppliers they have a commission agreement with.

⁸ Accredited PCWs are permitted to filter results (see requirement (e) in this paragraph) and only display tariffs that can be switched to via the PCW, rather than displaying the 'whole market view', unless the site user selects to see this (ie to remove the filter). There is a condition that Ofgem must review and approve the filter, making sure it is fair, before it can be adopted.

⁹ PCWs may also assign ratings for quality of service and performance to suppliers, but only when their methodology for assigning such ratings is approved by Ofgem.

arrangement with suppliers.¹⁰ Eleven PCWs¹¹ are accredited.¹² Some of those that are not accredited are operating white-label¹³ solutions, ie contracting not directly with suppliers but via a third party provider of PCW services, which in turn is often Confidence Code-accredited.¹⁴

29. In August 2014 Ofgem launched a consultation on proposals aimed at strengthening the requirements of the Confidence Code in order to promote trust and confidence in accredited websites.¹⁵ Its decision was published on 30 January 2015.
30. Following this consultation, Ofgem has decided to amend the Confidence Code¹⁶ such that PCWs will no longer be able to present as a default only fulfillable tariffs. Site users will be able to select themselves whether they want to view the whole of the market or only those tariffs that are fulfillable via the PCW. The wording of this choice given to site users must be clear and simple. Sites must test their message with customers and provide results of this testing to Ofgem. Otherwise, the PCW will have to show all tariffs. This amendment will be effective from the end of March 2015.
31. Ofgem will also require PCWs to make prominently available information on companies with which they have commission arrangements and a clear explanation as to how commission arrangements affect the results displayed.
32. Ofgem has also decided to amend the Confidence Code to address concerns about inconsistencies in the results provided across PCWs. The reforms following the Retail Market Review required energy suppliers to provide customers with personal projections of their energy costs over the next 12 months, using a standardised methodology for calculating bills if a customer were to remain on the same tariff. If a customer is on a tariff due to end within the next year, the personal projection methodology factors in what their energy costs will be changed to once they are rolled on to a different tariff when their current fixed tariff ends. Ofgem has decided that PCWs should use the same personal projection methodology, which will provide a measure of consistency. Ofgem is not, however, standardising the way consumption

¹⁰ Consumer Focus (2010) [The Confidence Code decision document: a voluntary code of practice for domestic gas and electricity price comparison services](#).

¹¹ energyhelpline.com, Energylinx, MoneySuperMarket, My Utility Genius, simplyswitch, Switch Gas and Electric, TheEnergyShop.com, UK Power, Unravelit, uSwitch and Which?.

¹² Ofgem (2014) *Domestic Third Party Intermediaries: Confidence Code and Wider Issues*, p37.

¹³ In a white-label arrangement the PCW uses another company's tariff database and price calculator but the branding remains the company's own and therefore it will not be known to the consumer that the PCW is using another company's tariff database and price calculator.

¹⁴ Companies using white-label solutions include Gocompare.com, Compare the Market and Confused.com.

¹⁵ As part of a wider consultation on 'Domestic third party intermediaries: Confidence Code and wider issues'.

¹⁶ Ofgem (2015) [Confidence Code review – decision](#).

should be estimated where actual readings are available, nor is it standardising a seasonal consumption pattern.

33. MoneySuperMarket, which is accredited under the Confidence Code, said that there was little benefit to customers in using a Confidence Code-accredited website compared with using a non-accredited website.

Presence and use of price comparison websites in the energy sector

34. PCWs provide customers with personalised quotes generated using proprietary search engines and information provided by customers on usage or other personal information such as postcode and accommodation. When a customer decides to switch to a fulfillable tariff, a PCW may facilitate the process by passing customer details to the relevant supplier and initiating the switching process. Some PCWs provide customers with further support and advice throughout the switching process.
35. The use of PCWs can reduce search costs for domestic customers by providing a one-stop shop for personalised quotes, calculated across suppliers on a consistent basis. A possible substitute for using a PCW is for customers to search energy suppliers' own websites or contact suppliers directly. However, this is likely to be more difficult and time-consuming, requiring customers to provide the same information multiple times.
36. We considered evidence in relation to the following: the number of PCWs active in the provision of energy related services and their promotion of these services; the number of customers using PCWs for searching and switching; the barriers to the use of PCWs; and the quality of the information and service provided by PCWs.

Number of price comparison websites

37. There is a large number of PCWs engaged in the supply of search services to domestic energy customers.¹⁷ Some of these operate in multiple markets such as home insurance, motor insurance, banking, mobile phones and broadband ('multiple-market PCWs'), while others specialise in energy.
38. Of the ten major PCWs for which we received switching data, two PCWs – uSwitch and MoneySuperMarket – accounted for around 75% of energy

¹⁷ Ofgem does not know the exact number. It told us that there might be hundreds of white-label PCWs, including those operated by media outlets and local councils.

supplier switches facilitated by a PCW in 2013. The next largest PCWs in terms of the number of energy supplier switches facilitated are [✂] and Compare the Market.¹⁸ Other PCWs, whilst having a smaller presence in the provision of comparison services to domestic energy customers, still have established brand names as PCWs. uSwitch, MoneySuperMarket and [✂] are Confidence Code accredited sites. Compare the Market uses a white-label solution hosted by an accredited site provider.

39. One of the main mechanisms by which PCWs encourage energy customers to switch is advertising. For the PCWs that provided us with data, Figure 1 shows how much four multiple-market PCWs and three energy-focused PCWs spent on advertising their energy comparison and switching services from 2011 to 2013.

FIGURE 1

Price comparison websites' expenditure on energy service advertising

[✂]

Source: CMA analysis of PCW data.

40. We found that different PCWs employ quite different advertising strategies. For example, Compare the Market invests heavily in television advertising of its brand, in the hope that this will drive traffic to its website across a range of products. In contrast, uSwitch spends a much higher proportion of advertising expenditure on Google's keyword auctions, which are a form of product-specific advertising. My Utility Genius said that it did not advertise because it could not compete with the advertising spend of the big multiple-market PCWs.
41. For the same PCWs, Table 1 shows advertising spend on promoting energy price comparison and switching services as a percentage of total advertising. This shows that PCWs present in multiple markets spend a relatively small proportion of their advertising expenditure on their energy comparison and switching service: less than 5% of their total advertising spend. However, it is our initial view that these results should not be interpreted as reflecting a lack of ambition on the part of multiple-market PCWs to grow their energy services business. In particular, uSwitch told us that, on Google, advertising its broadband services was more costly than advertising its energy services as a

¹⁸ This is based on data received from ten PCWs (uSwitch, energyhelpline.com, Confused.com, Compare the Market, MoneySuperMarket, Switch Gas and Electric, Gocompare.com, My Utility Genius, thePeoplesPower and Which?) on the number of confirmed energy switches they enabled in 2013.

result of the larger number of potential word combinations needed to capture Google searches (eg cheap broadband, fast broadband, broadband in certain geographical areas). This may apply to other PCWs advertising in this way. However, TheEnergyShop.com considered that ongoing above-the-line advertising of energy comparison services was rare due to the Confidence Code requirement to list the whole of the market.

Table 1: Percentage of total advertising expenditure on energy comparison service

	%		
	2011	2012	2013
Gocompare.com	[X]	[X]	[X]
MoneySuperMarket	[X]	[X]	[X]
Confused.com	[X]	[X]	[X]
Compare the Market	[X]	[X]	[X]
uSwitch	[X]	[X]	[X]
Which?	[X]	[X]	[X]
thePeoplesPower	[X]	[X]	[X]

Source: CMA analysis of PCW data.

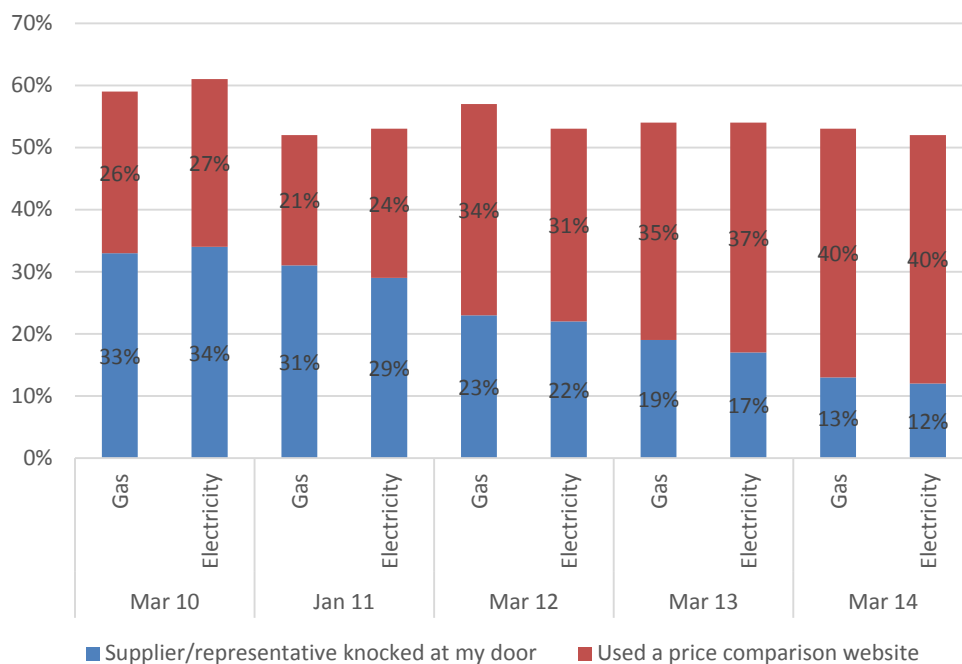
Use made of price comparison websites

42. Ofgem’s tracking survey provides information on how the use of PCWs has changed over the last few years.¹⁹ FIGURE Figures 2 and 3 show the increasing use of PCWs for searching and switching, while doorstop selling has declined.

¹⁹ Ipsos MORI (2014) *Customer Engagement with the Energy Market – Tracking Survey 2014: Report Prepared for Ofgem*.

FIGURE 2

How domestic customers found out about the best deals last time they switched supplier

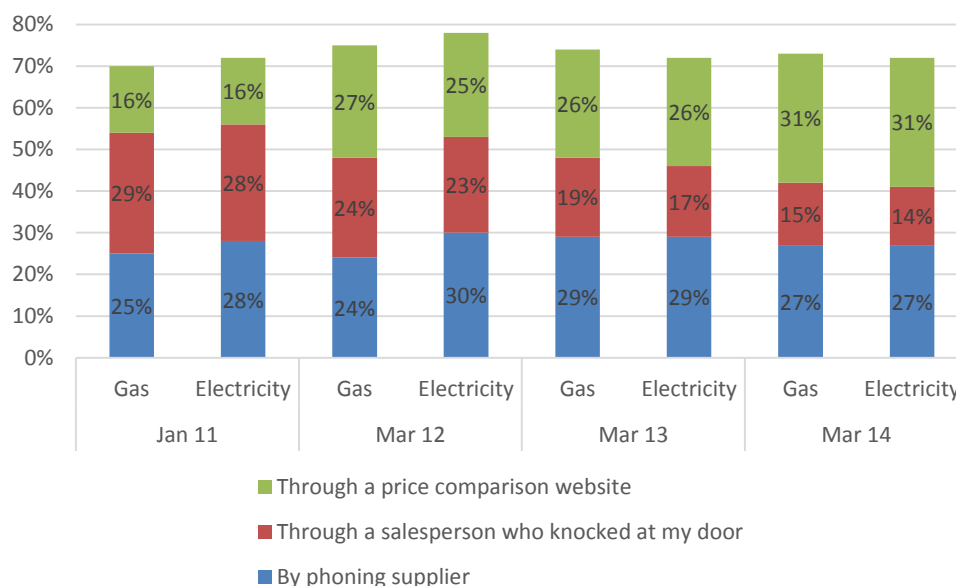


Source: Ofgem tracking survey.

Note: The survey question was: 'Thinking about the last time you switched gas/electricity supplier, how did you find out about the deals offered by the supplier you switched to?' (unprompted responses). The gas survey base was all respondents who had ever switched gas supplier (496); the electricity survey base was all respondents who had ever switched electricity supplier (519).

FIGURE 3

How domestic customers switched last time they switched supplier



Source: Ofgem tracking survey.

Note: The survey question was: 'Thinking about the last time you switched gas/electricity supplier, how did you switch?' (unprompted responses). The gas survey base was all respondents who had ever switched gas supplier (496); the electricity survey base was all respondents who had ever switched electricity supplier (519).

43. According to the 2014 Retail Market Review Baseline Survey:

- (a) 39% of domestic customers who switched energy supplier, changed tariff or searched in the last 12 months used a PCW for information, followed by 13% of customers who rang their existing supplier;
- (b) of those domestic customers who switched supplier in the last 12 months, 44% used a PCW to switch (followed by 21% who contacted the supplier by telephone);
- (c) of those domestic customers who switched supplier more than 12 months ago, 22% used a PCW (again indicating that PCWs are becoming increasingly important facilitators of switching); and
- (d) 23% of domestic customers who switched supplier, changed tariff or searched in the last 12 months thought that these actions had become easier, most commonly because of online information and more websites.²⁰

44. The CMA domestic customer survey estimated that:

²⁰ TNS BMRB (2014) *Retail Market Review Baseline Survey: Report Prepared for Ofgem*.

- (a) 62% of respondents who switched supplier in the last three years used a PCW to find out information and of those respondents 53% made the switch via a PCW; and
 - (b) the use of PCWs in the energy sector is similar to that in other markets, with 60% of respondents having ever used a PCW to search for information in another market and 58% of those respondents having used a PCW to switch supplier.
45. Other research suggests that PCW use in the energy sector is lower than that in other sectors. For example, according to a 2013 survey by RS Consulting,²¹ 81% of customers who used a PCW in the last two years searched for motor insurance, 50% for home insurance and 44% for energy products.
46. In seeking to compare PCW use in the energy sector with that in other sectors, we should bear in mind that in other sectors, including car and home insurance, commercial transactions typically take the form of fixed contracts, creating a regular decision point, which will tend to increase the number of switches and hence PCW use.
47. Figure 4 shows for each of the Six Large Energy Firms and the four largest of the smaller suppliers the proportion of their total domestic customer acquisitions that was made via a PCW in each of the last five years.

FIGURE 4

Percentage of total domestic customer acquisitions made via a price comparison website, by supplier



Source: CMA analysis of supplier data.

48. Figure 4 shows that:
- (a) in 2013, for four of the Six Large Energy Firms, PCWs accounted for a substantially higher proportion of domestic customer acquisitions than they did in 2009;
 - (b) over the past five years, the proportion of acquisitions facilitated by a PCW was generally higher for the smaller suppliers than for the Six Large Energy Firms except in the case of Utility Warehouse, which has chosen to pursue alternative routes to market; and

²¹ RS Consulting (2013) *Price Comparison Websites: Consumer Perceptions and Experiences. A Report by RS Consulting for Consumer Futures.*

(c) in 2013, the proportion of total switches to one of the Six Large Energy Firms facilitated by a PCW ranged from just over [X] % for Centrica to around [X] % for RWE npower.

49. We considered the impact that the ‘four tariff rule’²² – which has been in force since April 2014 – might have had on the use of PCWs, although we do not currently have statistics on acquisitions by distribution channel for 2014. We might expect that the reduction in the number of tariffs available to domestic customers would make it easier for customers to search without using a PCW. We also note that the Six Large Energy Firms have said that they are investing in developing their own website services. However, there continues to be a large number of tariffs available, at any point in time, to domestic customers. uSwitch told us that they would not expect the use or role of PCWs to change if there was an increase in the number of available tariffs.
50. Overall, the evidence provided by recent surveys and questionnaires carried out by the CMA and other bodies suggests that:
- (a) the use of PCWs to facilitate searching and switching has increased over the last three years;
 - (b) the use of PCWs in the energy sector is broadly similar to that in other sectors; and
 - (c) the importance to suppliers of PCWs for customer acquisitions differs significantly between individual suppliers.

Barriers to switching

51. The CMA survey suggests that, in general, customers aged 65+, those with no qualifications and those living in social rented accommodation are less likely to have used PCWs to find out information last time they switched. However, the services provided by PCWs can often be accessed by telephone too. uSwitch noted that more vulnerable customers were more likely to use its call centre rather than its website.
52. Compared with other markets in which PCWs are present relatively little information is required for an energy search. In particular, a user of a PCW is required only to give their postcode and either details of their consumption of gas and/or electricity or their bill amount. The results of a search will be more reliable (in terms of both identifying the best deal and estimating associated

²² A supplier is limited to offering, at any point in time, at most four tariff options to any one domestic customer.

savings) when the user inputs consumption details. The required information can be found on bills and annual statements.

Consumer trust in price comparison websites

53. We note that Which? said that in their experience there is a significant drop-out rate (ie site users terminating their searches) when site users were required to input large amounts of information into the website that they do not have to hand. However, uSwitch said that they saw little such drop-out of site users until the results page. They interpreted this as indicating that PCWs were not difficult to use but that user might not be sufficiently confident in the information they had provided to decide to switch. We consider that it is also plausible that customers are going elsewhere to carry out the switch (for instance on the energy supplier's own website) and just using the PCW to search.
54. Results of the CMA customer survey suggest that the majority of domestic customers who have internet access are confident that they could get the right deal for their energy supply using a PCW. Specifically, 23% are very confident and a further 44% are fairly confident. Of those who were not confident that using PCWs would get them the right deal (22% of respondents not very confident and 10% not at all confident) 43% said that this was because they did not trust or believe the results generated by searches using PCWs and 26% thought that the information was too complex or were not sure what would be the right deal.

Usefulness of the information provided

55. We considered the evidence in relation to the quality of the information provided by PCWs, in terms of both the completeness of the information provided by any one PCW; and the consistency of the information provided by one PCW as compared with that provided by another, and what this suggests about the accuracy of the information provided by PCWs.

Completeness

56. Until amendments to Ofgem's Confidence Code become effective at the end of March 2015 accredited PCWs are required under the Code to list the whole of the market, but may filter results to display only fulfillable tariffs. Some PCWs have as their default to display only fulfillable tariffs, therefore requiring action by the user to see the full market offer. Ofgem approval is required for filters applied.

57. As explained above, from the end of March 2015 the Confidence Code will no longer allow PCWs to display only fulfillable tariffs as a default. Following a consultation, Ofgem has decided to amend the Confidence Code such that PCWs will have to present all available tariffs as a default unless a customer makes an active and informed choice to see a smaller number. The objective of this amendment is to promote customer trust and confidence in accredited sites. The wording of this choice given to site users must be clear and simple. Sites must test their message with customers and provide the results of this testing to Ofgem. Otherwise, the PCW will have to show all tariffs.
58. In response to the Ofgem consultation on the Code²³ the Six Large Energy Firms were generally in favour of PCWs being required to display as a default the whole of the market, but there was less consensus among the smaller suppliers. PCWs were generally not in favour of being required to display as a default the whole of the market due to concerns about suppliers free riding on the advertising this would provide. TheEnergyShop.com noted that newer suppliers currently did not show any intention to contract with them, instead hoping to benefit from the Code requirement to list the whole of the market. According to TheEnergyShop.com, the amendment to the Code may worsen this.
59. We recognise the need to strike a balance between fostering trust in the use of PCWs in the energy sector and allowing PCWs the commercial freedom to innovate and promote their services. We consider that the requirement to list the whole market is a particularly stringent condition, which does not apply in other markets, and that has the potential to undermine PCWs' bargaining position with suppliers.
60. The PCWs that we spoke to supported the existence of a code. In relation to its specific provisions, uSwitch – the largest energy sector PCW – broadly supported all provisions of the Confidence Code and Ofgem's proposed changes (although this was prior to the publication of Ofgem's decision document). Compare the Market – not currently accredited under the Confidence Code, but operating through energyhelpline.com, which is – supported the provisions relating to consistency of results, but argued that the requirement to list the whole market – even with the option given to users to filter the results – was too stringent.
61. Big Deal told us that Ofgem's proposed changes to the Code did not go far enough to prevent filtering of tariffs and to ensure full transparency on commissions.

²³ Ofgem (2014) *Domestic third party intermediaries: Confidence Code and wider issues*.

62. Ofgem's decision on this specific provision has come at a late stage, and we would welcome views on whether it strikes the right balance.

Inconsistencies

63. The Confidence Code requires that the information provided on prices and comparisons is accurate. We asked the Six Large Energy Firms to provide evidence of any inconsistencies/inaccuracies in displayed results of searches conducted using PCWs. We were told that differences between search results from one PCW and those of another can result from different seasonality assumptions being applied and from differences in approaches adopted for customers on tariffs due to end within the next year. EDF Energy (EDF) said that such differences could theoretically equate to hundreds of pounds a year when comparing a quote produced by a simple tariff comparison against a quote using Ofgem's personal projection methodology that requires an assumption that the customer moves to the standard variable tariff at the end of a fixed term. However, the example provided by Centrica amounted to only a small monetary difference²⁴ and Scottish Power noted that quotes were broadly consistent.
64. Ofgem provided us with results of the audits it undertakes with regard to the consistency of tariff rates across Confidence Code-accredited PCWs. The audits cover all accredited sites and are each based on the top ten or 20 listings returned by PCWs for five or six customer profiles (these profiles vary by consumption level, geographical area, payment method and other customer characteristics).
65. Ofgem noted that reported 'errors' could be driven by information flow problems between suppliers and sites, and so might not be an indication of poor site performance. Ofgem also said that error rates were typically low, with errors generally occurring in only a small proportion of bill estimations.
66. For each accredited PCW, Ofgem identified in its recent audits the number of tariffs for which the bill estimated by the PCW differed by more than 0.5% from the average estimated bill for that tariff and a given customer profile, (referred to as deviating tariffs), across all accredited PCWs. Recent results are shown in Table 2. We understand that when Ofgem identifies such deviations it will contact the PCW concerned. The reasons for such errors include the double counting of discounts and the use of out-of-date tariff information.

²⁴ For Sainsbury's Energy Fixed Price October 2015 tariff, as of 13 October 2014, uSwitch quoted a personal projection of £1,037.24 whereas Energylinx quoted £1,027.24.

Table 2: Results of Ofgem audits of accredited price comparison website search results – deviations

	<i>Number of PCWs with deviating tariffs</i>	<i>For these PCWs, number of deviating tariffs per PCW</i>	<i>Range of deviation from average (£ per bill)</i>
August 2014	3		
February 2014	3	1–14	–242 to 18
September 2013	3	1–3	–89 to 8
June 2013	7	1–3	–81 to 100

Source: Ofgem.

67. Ofgem also identified the number of accredited PCWs that (a) displayed tariffs in their top 20 that were not in the top 20 for any other accredited PCW and (b) did not display tariffs in their top 20 that were in the top 20 for the majority of accredited PCWs. The results are shown in Table 3.

Table 3: Results of Ofgem audits of accredited price comparison website search results – top 20

	<i>Number of PCWs for which (a) was the case (number of tariffs)</i>	<i>Number of PCWs for which (b) was the case (number of tariffs)</i>
August 2014	3 (1–4)	9 (1–9)
February 2014	6 (1–13)	6 (1–6)
September 2013	3 (1–3)	4 (1–2)
June 2013	8 (1–3)	4 (2–6)

Source: Ofgem.

68. We note that the proposed changes to the Confidence Code outlined above (see paragraph 32) aim to address such concerns. In this context we consider that Ofgem’s Confidence Code and some of the proposed changes to it strike a reasonable balance between fostering trust in the use of PCWs in the energy sector and allowing PCWs the commercial freedom to innovate and promote their services.

Evidence of price comparison websites and/or suppliers exercising market power to the detriment of energy customers

69. In this section we consider first the evidence in relation to the relative bargaining position of PCWs and suppliers and then whether either group is exercising market power to the detriment of customers.

Relative bargaining position

70. We consider that the following factors are likely to affect the relative bargaining position of suppliers and PCWs and, therefore, their ability to exercise market power in their commercial dealings to the detriment of domestic customers: (a) the proportion of a supplier’s sales generated by PCWs; and (b) the proportion of a PCW’s revenue that is generated by the

energy sector. These two measures reflect the two groups' relative importance to each other.

71. We present results above on the proportion of domestic customer acquisitions accounted for by PCWs (see Figure 4 and paragraph 48). These show that while the proportions vary considerably between suppliers, PCWs account for 30% or more of the acquisitions of four of the Six Large Energy Firms. However, all the Six Large Energy Firms appear to be investing in developing direct sales through their own website-based services.
72. For PCWs offering services in multiple markets, energy accounts for a relatively small proportion of revenue (less than 10% and commonly just 1% or 2%). In contrast, for energy-focused PCWs, energy accounts for a large part of their revenue (see Figure 5 below). However, uSwitch is also the PCW facilitating the greatest volume of switches and is therefore particularly important to suppliers for domestic customer acquisition.

FIGURE 5

Proportion of total price comparison website revenue from energy



Source: CMA analysis of PCW data.

73. We also note that energy suppliers are making a strategic business decision when choosing whether to enter into contractual agreements with PCWs, given the cost of customer acquisition via PCWs versus other acquisition channels. For some suppliers, such as [redacted], PCWs have been their main route to customer acquisition, while others, such as Utility Warehouse, have chosen to pursue alternative routes to market.
74. We also consider that the extent of single-homing (see paragraph 22) influences the extent to which individual PCWs have market power. In particular, a domestic customer with a strong preference for using a particular PCW would be accessible to a supplier through only that PCW. In these circumstances the costs to a supplier of not having a commercial relationship with a particular PCW could, depending on the size of the PCW's customer base, be high.
75. The CMA customer survey estimated that 34% of customers who used a PCW to search energy suppliers used only one PCW, 39% used two and 20% used three or more (ie 59% of PCW users relied on more than one PCW).²⁵ According to a 2013 survey by RS Consulting the majority of customers (83%)

²⁵ The remaining respondents did not recall how many PCWs they used.

who used a PCW in the past two years were multi-homing. For the majority (61%) this was to make sure that they got the best deal, followed by 42% who did so to compare or verify results.²⁶

76. On the basis of this information, it is our initial view that neither individual PCWs nor energy suppliers appear to be in a particularly strong position in their commercial dealings with each other.
77. However, we consider that the amendment to the Confidence Code preventing PCWs from displaying as a default only fulfillable tariffs has the potential to put PCWs in a weaker bargaining position with suppliers by limiting the commercial harm to a supplier of not having a commercial relationship with a particular PCW. This is because PCWs will no longer be able to filter out those suppliers with which they cannot agree on a commission by defaulting their display to fulfillable tariffs.
78. As a result, suppliers may decide to free ride on PCWs' advertising, or seek to lower commission rates by threatening to free ride. This would reduce the incentives for PCWs to engage in the energy sector. The scale of effect critically depends on customer behaviour, in particular whether they select to see the whole of the market or only those tariffs fulfillable via the PCW.
79. We note that the requirement to have available the whole of the market listing sets the energy sector aside from others in that no code or regulation other than the Confidence Code requires PCWs to list the whole of the market. For example, Ofcom's accreditation scheme for price comparison calculators requires a comprehensive number of providers to reflect the choice available to customers (and not 'the whole of the market').

Evidence of price comparison websites using 'most favoured nation' clauses

80. PCWs negotiating and enforcing certain kinds of 'most favoured nation' clauses were found to be a cause for concern in the private motor insurance market. Both PCWs and energy suppliers told us that there were no such clauses in the energy sector.

²⁶ RS Consulting (2013) *Price Comparison Websites: Consumer Perceptions and Experiences. A Report by RS Consulting for Consumer Futures.*

Evidence of supplier market power being used to the detriment of competition

Restrictions on price comparison websites' marketing

81. We found that, with the exception of SSE, the Six Large Energy Firms place restrictions on PCWs marketing to customers who have switched via the PCW. In particular, suppliers impose restrictions that have the effect of preventing a PCW contacting directly the domestic customers that a supplier acquired via the PCW. The length of time such restrictions apply varies.
82. MoneySuperMarket and uSwitch said that in other markets, for example insurance, there were no such restrictions. Which? and My Utility Genius noted that these restrictions might be particularly relevant to customers on fixed-price tariffs when the term of the tariff was coming towards its end.
83. We note the comments that such restrictions are not present in the private motor insurance market, but consider that there are material differences between the distribution of energy and insurance contracts, such that the imposing of these restrictions should not be interpreted as energy suppliers unduly exercising market power. In particular, insurance contracts are typically signed for a year and there are exit fees attached in case the customer decides to switch. These fees can be substantial – a quick search shows examples of exit fees equivalent to several months pro rata of the annual value of the contract.
84. Energy suppliers do not have this degree of protection. While some fixed-term contracts are subject to exit fees these are relatively low.²⁷ Thus, an energy supplier could find itself in a position where it pays a fee to a PCW for signing a customer only to have that PCW approaching the same customer after just a few weeks with a better deal. This may result in suppliers restricting the fulfillability of their tariffs via PCWs. Furthermore, we note that these restrictions apply to contacting customers who have previously switched using a PCW. We can therefore expect these customers to be aware of PCWs and familiar with using their services. Customers can also elect to sign up to receive other communications from a PCW, including generic marketing, newsletters and advice.

²⁷ Data provided by energy suppliers for the customer survey shows that many customers do not face exit fees at all; in some cases customers may be on tariffs where exit fees could be introduced but the exit fee amount is currently £0. Where there is an exit fee, it is typically £30 per fuel.

Restrictions on the fulfillability via price comparison websites of certain tariffs

85. Suppliers may restrict the fulfillability via PCWs of certain tariffs. We were told by suppliers and PCWs that the larger suppliers generally allowed switches via PCWs to all their tariffs, but that such restrictions are common with smaller suppliers. uSwitch said that in the past large suppliers had launched tariffs that were unfulfillable via PCWs, but that more recently it had been smaller suppliers that had tended to launch tariffs that were not fulfillable via PCWs.
86. Confused.com said that in 2011/12 the practice of removing fulfillable tariffs had meant, at its worst, that customers were unable to switch to seven or eight of the top ten cheapest tariffs online, but that the situation had now changed. It said that for the period from December 2014 to early February 2015 the top three tariffs were all available through Confused.com, while on average 99% of the top five tariffs and 91% of the top ten tariffs were available through Confused.com.
87. Paying commission for customer retention (ie suppliers paying commission for existing customers switching to alternative tariffs with them via PCWs) seems to be a rising trend among larger suppliers and therefore should increase the number of tariffs fulfillable via PCWs. However, uSwitch hypothesised that customers wanting to switch tariff with their current supplier were more likely to contact them directly rather than switching through a third party.

Difficulty obtaining tariff information from suppliers

88. PCWs hosting their own tariff database may have non-commercial relationships with suppliers from which they do not receive commission payments. These relationships are to facilitate the transfer of tariff information from suppliers to PCWs so that PCWs can provide a comprehensive comparison service, listing the whole of the market as required by the Code.
89. Some PCWs noted some difficulty obtaining tariff information from suppliers. For example, TheEnergyShop.com noted that some suppliers did not provide product updates when requested or respond to queries about the data provided. In addition, tariff information may need to be sent several times due to errors in the data and PCWs generally receive little notice of changes to suppliers' tariffs. My Utility Genius noted that in some circumstances they had to extract tariff information manually from suppliers' own websites.
90. This is not an issue for PCWs operating white-label solutions as it is the PCW service provider that engages with the energy suppliers.

Initial views

91. Our initial view is that PCWs are increasingly important in providing domestic customers with a means of engaging with the energy sector. In particular:
- (a) around two-thirds of domestic customers who have switched supplier in the last three years used a PCW for searching and 57% of them used a PCW to switch;
 - (b) while certain customer groups are less likely to have used PCWs, PCWs have a strong commercial incentive to engage with domestic customers and do provide access to their services both online and by telephone;
 - (c) accredited PCWs have to provide whole-of-market searches and Ofgem through its management of the Confidence Code is taking steps to ensure that site users can easily compare the whole of the market if they wish to;
 - (d) we cannot expect each PCW to generate entirely consistent search results given differences in the methodologies used. Nevertheless, we understand that differences are unlikely to be material (in terms of the estimated bill and the identity of suppliers offering the most competitive rates) when users insert actual energy usage information (which we would expect to increase with the growing availability of smart meters). Furthermore, survey evidence suggests that one reason for multi-homing is to compare and verify results;
 - (e) PCWs face competition from other customer acquisition channels such as collective switching schemes and direct distribution channels including suppliers' own websites, as evidenced by the proportion of acquisitions via sales channels other than PCWs; and
 - (f) there appears to be competition between PCWs to attract users, with the majority of users multi-homing and two sites (uSwitch and MoneySuperMarket followed by [X] and Compare the Market) accounting for a large proportion of switches facilitated by PCWs in 2013.
92. Ofgem has recently made changes to the Confidence Code that will prevent PCWs from displaying as a default only fulfillable tariffs. We recognise the need to strike a balance between fostering trust in the use of PCWs in the energy sector and allowing PCWs the commercial freedom to innovate and promote their services and would welcome views on whether this provision strikes the right balance.
93. We found that suppliers imposed restrictions on PCWs contacting customers directly. While we recognise that this is a constraint on PCWs' marketing, we

also note that, within the context of the commercial relationship between PCWs and energy suppliers, these restrictions are not necessarily evidence of suppliers exploiting market power to the detriment of domestic energy customers. We found no evidence of 'most favoured nation' type clauses of the kind which caused concern in the private motor insurance market inquiry.