ENERGY MARKET INVESTIGATION

Summary of hearing with The Big Deal on 23 January 2015

Background

1. The Big Deal arranged collective switches for large groups of energy consumers in the United Kingdom. It had been in existence since March 2014 and had between 40,000 and 45,000 members.

2. It negotiated with energy suppliers on behalf of its members to get the cheapest possible tariff. It did this by reducing the level of commission it took from each customer switching supplier and by using the bargaining power it had due to the size of its membership.

The Big Deal and collective switching

3. The Big Deal had run two collective switching campaigns. Its most recent campaign in October 2014 saw 30,000 new consumers join as members. Of those new members 6,000 switched to an Extra Energy one year fixed-term tariff and saved on average £303, with 10% saving £475 or more.

4. 60% of The Big Deal's membership were over the age of 55 and 30% were over 65. 62% of its members switched suppliers very rarely or did not switch at all. These consumers were more likely to be on standard variable tariffs which are often more expensive than non-standard tariffs.

5. The Big Deal targeted consumers who had lost trust in the energy market and felt they could not identify the best energy tariff from the market. It used social media channels to recruit its members and had engaged with media outlets such as The Sun newspaper to raise awareness. Relative to some price comparison websites (PCWs) it had lower customer acquisition costs which helped keep the level of commission it charged low.

6. iChoosr was a company that ran collective switching campaigns on behalf of local councils in the UK. The Big Deal noted that iChoosr did not always offer deals that were cheaper than those that were offered by PCWs. iChoosr also took a commission from suppliers.

7. The Big Deal had contacted several third parties (eg charities or housing associations) to organise future collective switches. It was concerned that the

low commissions it charged suppliers would impact the level of commission it was able to offer to the parties it was in contact with.

Views on price comparison websites and the energy market

8. The Big Deal had conducted a piece of research to test whether PCWs were acting in a way that was not beneficial to consumers. Over a 13-week period The Big Deal entered the same usage information into the five largest price comparison websites and found that each website produced a different set of available tariffs.

9. The research showed that on some comparison sites consumers did not see the cheapest deals from the results generated either because consumers were asked if they wanted to see the tariffs they could switch to today (which may not have included the cheapest tariffs) or because they only showed those tariffs where the comparison site was in a contractual relationship with the supplier (eg received a commission from a supplier).

10. Consumers were generally not aware that PCWs took commission from energy suppliers for the tariffs they advertised. In The Big Deal's view these practices contradicted the claims of the PCWs to be consumer champions in the market.

11. There were two significant implications that came from The Big Deal's research. The first was that it removed consumer trust in PCWs as a vehicle to obtain the cheapest possible energy tariff. This would result in less consumers switching energy supplier and a reduction in supplier competition.

12. The second implication was that it reduced competition between PCWs. As PCWs were not obliged to disclose whether they took commission from suppliers it was not possible for the level of commission to be driven down due to competitive pressures.

13. A reduction in commission could reduce the cost of the tariff. The Big Deal's most recent collective switching campaign did not include commission and resulted in the cheapest one year fixed tariff available at that time.

14. The Big Deal said the five largest PCWs had not been transparent on the amount of commission per tariff that was charged to the consumer. Consequently there had been little competition between the five websites that could help drive the level of commission down. Of the five websites Uswitch was the market leader and charged the most in commission to suppliers wanting to advertise their tariffs on its site.

15. The Big Deal said it was competing against PCWs and welcomed the competitive environment. However it was only narrowly competing on the issue of cost and it believed that it offered a much simpler service than PCWs.

16. The impact of collective switching on competition in the energy market was significant in that it allowed the creation of an exclusive tariff that would not normally be available to suppliers that were constrained by Ofgem's four-tariff rule. The supplier of that tariff could be encouraged to keep the price of the tariff low as the level of commission payable to the collective switching site had the potential to be significantly lower than the commission paid to other PCWs.

17. The Big Deal was keen for price comparison and collective switching websites to be transparent and open on the existence and the level of commission that was charged to consumers. It welcomed Ofgem's announcement regarding its revised Confidence Code that requested that PCWs disclose that they earn a commission but wanted PCWs to disclose the level of commission they received as it believed that they were disproportionately promoting tariffs that they received a commission from.

Negotiating an energy tariff with suppliers

18. It was free to join The Big Deal. A new member was required to submit a small amount of personal information that allowed The Big Deal to negotiate with energy suppliers on the basis of the number of members it had in a particular region and what those members spent on their energy. Suppliers would then submit a proposed tariff to The Big Deal at a low, medium and high level of usage. The Big Deal would then analyse and consider which tariff to recommend to their members. The Big Deal had a small set of criteria based around price and customer service that it used to choose between proposed tariffs.

19. The Big Deal would outline the level of commission it was intending to charge suppliers from the outset of the switching process. The level of the commission The Big Deal would charge during its next switching campaign was £25 per switch for a dual-fuel tariff.

20. The Big Deal would then propose a single tariff to its members. The tariff differed across geographic regions due to different network costs. Its members were not obliged to accept the tariff and The Big Deal offered its members the chance to create a personal usage statement in order to compare all tariffs from across the market. Approximately 10% of members who were offered a tariff as part of a collective switch chose to seek an alternative.

21. An exit fee could be a requirement for a collective switching tariff if it meant that the supplier provided a cheaper tariff and if the fee was reasonable. The Big Deal's last switching campaign had an exit fee of £25.

22. The Big Deal believed that the larger the cohort of members it could offer to a supplier the better the tariff it could obtain. During its last switching campaign the tariff it offered its members was the cheapest in all 14 geographic regions for medium and high usage. For low usage members it was the cheapest in 10 regions.

23. Its major priority once the one year fixed tariff for the current cohort of members had ended was to ensure that those members did not roll onto a standard variable tariff. If it did not have a new tariff available it would provide its members an understanding of what was the best tariff available from the market at that time.

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Smart meters

25. The advent of smart meters and the replacement of traditional meter readings by new technologies was something that would challenge the existing PCW business model based around receiving a commission from a supplier. If a consumer entrusted a PCW with the data from a smart meter or other technology and requested that the PCW find the best tariff from the market this would challenge the PCW's position in only offering those tariffs that it received a commission for.