CMA
Competition & Markets Authority

ENERGY MARKET INVESTIGATION

Summary of hearing with Opus Energy on 17 April 2015

Opening statement

1. Opus Energy (Opus) was an energy provider for businesses in the UK. It broadly supported the Competition and Markets Authority's (CMA) theories of harm 1, 2, and 3.

Competitive advantages/market power

2. Opus had engaged with the Department for Energy and Climate Change (DECC) and Ofgem and considered there was a competition impact on contracts for difference (CfD) fits, because it required more investment on suppliers than the Renewable Obligation certificates mechanism.

3. Opus said that DECC's view was that it understood the long-term competition implications on independent suppliers of CfDs but it wanted to support the renewable energy targets and large-scale renewable projects.

4. Opus believed there were advantages of being a vertically integrated company compared to being independent. Opus had not engaged with other sections of the market as it was not vertically integrated.

Microbusinesses and small and medium-sized enterprises

5. Opus had been in the market for 13 years. It had entered the market in 2002. It said that the small and medium-sized enterprises (SME) supply market became competitive in 1999.

6. Opus had the advantage of designing its own systems, it had developed new products and focused on customer retention. In 2002, Telecom Plus plc (which supplied under the brand Utility Warehouse), took a 20% stake when Opus supplied electricity to SME. In 2006 International Power took a 30% stake, at which point Opus started supplying electricity to the larger corporate business customers.

7. Opus did not sell into the domestic market as it considered that it was difficult to make money in that market. It did not compete in the industrial and

commercial market because it was not vertically integrated. In 2008 it had started supplying gas to SME.

8. The main challenge for Opus was around having available credit to allow it to hedge its portfolio. For the size of its business it would need a working capital facility of [✂]. Opus had addressed this challenge through a contract with International Power.

9. The other challenge for it as a supplier of SME businesses was the credit available to its customers and their ability to pay. Both Bizz Energy and E4 (Energy for Business) went into administration because they were unable to collect customer debts.

10. As a new entrant, the easiest customers to take on were [✂].

11. Opus had 650 employees. Approximately [✂] of them were working in SME and [✂] in credit collection. The risk around bad debt write-off was significant.

12. Opus distinguished between a customer that [✂]. It conducted credit checks to check for negative credit information, so that it did not take on all the customers who failed credit checks at their competitors. Some customers did have poor credit and Opus [✂].

13. In SME it took on approximately [✂] businesses every month and lost approximately [✂]. [✂] There were regional variations in its customers' ability to pay.

14. Size was an important issue in terms of managing the supply of energy to SME businesses. Opus favoured smaller sized customers.

Success as an electricity supplier

15. Opus put its success as an electricity supplier down to long-term engagement and an understanding of how to set prices for its customer. It had focused on a narrow section of the market and had not entered the domestic or I&C market.

16. Opus had solid relationships with brokers and customers that had lasted over a five year period. It took customers at a loss with regards to acquisition costs and built long-term relationships.

17. Opus retained 90% of its customers. This was down to good customer service and the roll out smart meters which helped ensure accurate billing. It was number one in the DataMonitor customer service survey for SME.

Rationale for moving into gas supplies

18. There was more risk involved in the supply of gas. There were also higher returns based around volumetric risk, and weather sensitivity. Dual fuel was facilitated by its existing brokers and sales channels. Out of its gas customers [✂] of small businesses also took electricity.

Customer engagement in the market

19. The work that Ofgem had done on the Retail Market Review had created transparency and opportunities for SME and microbusinesses to engage. Ofgem statistics showed that 84% of small businesses knew when their contract ended, so much depended on whether a business was prioritising switching supplier.

20. Opus did not consider that it was difficult for a small business to engage in the market. Brokers were very proactive and there was a significant number of internet-based brokers. [✂] brokers brought business opportunities to Opus in 2014.

21. [✂] of its customers used [✂] worth or energy. These customers were growing their business so might not focus on sourcing the cheapest price for energy even though there was the opportunity for switching to an alternative supplier.

22. Opus claimed a 90% retention rate. It said that [✂] of its customers negotiated when they received a renewal letter, and [✂] took the suggested price. The remaining [✂] dropped out during a contract and [✂] left Opus.

23. Ofgem had looked at how to improve engagement. On the domestic side Ofgem had made unpopular interventionist decisions but its interventions in the business sector had been more successful. Ofgem had found that, in the past year, customers knowing when their end of contract date was had gone from 65 to 84%.

Commission to third party intermediaries

24. Opus supported the work Ofgem was doing towards the regulation of third party intermediaries (TPIs) through a code of practice.

25. Opus would like the code of practice to ensure that all brokers were set standards of conduct. Suppliers had standards of conduct but these protections were not applicable when a TPI was speaking to a customer.

26. Opus structured its commission by [✂].

27. The gas market had historically worked on a base price plus model whereby Opus set a tariff price, added commission on top of that price and used that to negotiate with customers. The electricity market was moving towards the gas model. [✂]

28. Opus thought the old electricity model gave more control of what the end user price was. The principal issue was around the need for brokers to declare their commission. Declaring the broker's commission would be consistent with Ofgem's transparency initiatives however Opus thought that customers should be aware of the costs incurred by large energy suppliers that used internal sales teams to acquire customers.

Price comparison websites

29. Opus said that it had some visibility into the major price comparison websites (PCWs) and their margin levels looked extremely profitable.

30. Opus stated that the Ofgem confidence code was intended to set a standard of conduct which Ofgem felt was appropriate. The idea of TPIs declaring commissions was something that had come from the financial services industry.

31. Opus believed the complexity underlying prices had prohibited the development of PCWs for the SME market.

32. Opus was listed on PCWs, such as 'Make it cheaper', where its prices ranked highly. It received business from internet based sales channels.

Customer service

33. Opus believed that good customer service and customer retention due to good service were important. It had rolled-out smart meters and given free smart meters to customers. This allowed more accurate billing. Providing a good service to customers acquired through brokers had helped build its reputation.

34. A large proportion of its power came from renewable sources but this was not a huge driver of choice for small businesses.

35. Opus said using smart meters for pre-payment was the next use of technology in the market. Customers did not always want half-hourly data from a smart meter however but did want a meter reading on a regular basis. There was a lower cost-to-serve ratio with customers who had smart meters.

36. One of the big issues with customers was the change of tenancy and their poor financial circumstances. They did not prioritise contacting their energy supplier as it could be problematic deciding whether the landlord or tenant was responsible for payment.

37. Opus installed smart meters across all its customers regardless of size. It was expensive for small customers who used less than £1,000 however and it was difficult for Opus to recoup the costs of installing the meter.

38. Opus lost money on some customer acquisitions. It had a net margin in SME of [✂]. There was a lot of bad debt associated with SME customers and with [✂].

39. Opus said the market was structured on [✂].

Regulatory interventions in the energy market

40. The six largest energy firms, under pressure from the government, had stopped selling rollovers and Opus had stopped selling automatic rollovers. This had been achieved through pressure on the industry rather than through modification of an industry code. Opus disliked this method of regulation.

41. Opus said market intervention had given competitive advantages to the smaller parties who used aggressive pricing in their rollover contracts.

42. Opus was introducing an individualised variable price, which was taking volumetric risk at those prices. Its underlying costs were higher – but in practice the variable tariff was likely to end up being lower than its rollover tariff.

43. Opus had always written to its rollover customers at the end of a fixed-term period. Other players were less transparent, and Ofgem had tried to address this.

44. Opus had a regulatory obligation to ensure its prices were fair and reasonable. The number of customers it had on out-of-contract rates was very small.

45. Opus wanted to engage more in the market – it had 510 out-of-contract customers out of 120,000 SME customers. Opus disagreed with any regulation that moved small business customers into the domestic sector of the energy market.

46. Opus believed that given its current position in the market, it preferred that the market would not to be subject to further change.

47. Opus said the regulatory burden was becoming material. In recent months [✂] out of 650 staff at Opus Energy had worked on regulatory requests for information. This was expensive and resource intensive.

48. Opus believed that some of the other firms could spread their regulatory costs into other operations because of their larger business portfolio. Opus questioned the proportionality of regulatory reform.