

Appendix 8.3: Price comparison websites and collective switching

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Introduction

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 appendix 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 markets); (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; and (c) the evidence in relation to the effectiveness of collective switching.
3. In other appendices we consider aspects of the broader regulatory regime – notably Ofgem’s Retail Market Review (RMR) programme and the metering and settlement system – that may have a bearing on the use and role of PCWs.
4. 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.

5. 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. These services are accessible by internet and often telephone too.
6. 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.
7. The commission paid by energy suppliers to PCWs for each switch generated by a PCW varies but is 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.
8. 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. It is a voluntary code although we note that the Six Large Energy Firms normally require PCWs with which they have a commercial relationship to sign up to the terms of the Confidence Code. Following a consultation, Ofgem has decided to amend this code as set out below.
9. Collective switching is another channel for buying and selling energy supply. Collective switching involves customers grouping together to buy their energy supply. Generally, customers register their interest with a collective switching scheme organiser, who often partners with a switching service provider, such as uSwitch. Suppliers then take part in a reverse auction, bidding to supply energy to the group of customers registered with the scheme organiser.
10. Ofgem is proposing to expand the Confidence Code to include collective switching service providers and introduce new Code requirements specific to collective switches. These are detailed further below.
11. The Energy and Climate Change Committee held an oral evidence session following a call for evidence on PCWs. It heard from MoneySuperMarket, uSwitch, Compare the Market, Confused.com and Gocompare.com. It concluded that all deals should be made available to all consumers by default and objected to the use of misleading language; the transparency and accuracy requirements of the Confidence Code should expand to apply to a PCW's telesales activity, collective switching and face-to-face sales; and

recommended Ofgem to consider moving to a licence-based system for PCWs or a requirement on suppliers to use only accredited sites.¹

12. We consider below the evidence in relation to whether PCWs and collective switching schemes are working well for customers in the energy sector.

Approach

13. The structure of the paper is as follows:
 - (a) First we consider evidence on the importance of PCWs in the energy sector and the value to customers of the information and services they provide.
 - (b) Second we consider the potential impact of Ofgem's decision to amend the Confidence Code.
 - (c) Third 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.
 - (d) Finally, we consider evidence in relation to the number of switches through collective switching schemes and the prices these schemes have achieved for participants.
14. 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).
15. We also asked:

¹ 'Protecting consumers: Making energy price comparison websites transparent', House of Commons, Energy and Climate Change Committee, 24 February 2015.

- (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 details of collective switching schemes suppliers have participated in; 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.
16. Other evidence sources referred to include the Retail Market Review Baseline Survey, the Energy Market Tracking Survey and third party hearings with Ofgem, uSwitch, Which? and Compare the Market.
17. We also refer to responses to the price comparison websites working paper published on 26 February 2015. We received comments from three suppliers (SSE, RWE and EDF Energy), three PCWs (Gocompare.com, uSwitch and My Utility Genius) and Ofgem. uSwitch and My Utility Genius are Confidence Code accredited sites, while Gocompare.com operates a white-label solution with [X], which is accredited. Generally, the responses did not disagree with the initial views expressed in the working paper but provided further relevant evidence in relation to PCWs. This information has been included in the discussion below.

The Confidence Code

18. The Confidence Code is a voluntary code of practice that governs independent² 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 2008³ and then Ofgem in March 2013.⁴ The Confidence Code is underpinned by four main principles: independence, transparency, accuracy and reliability. The purpose is to give assurance to

² 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.

³ Consumer Focus (2009) *A review of the Confidence Code – a voluntary code of practice for domestic gas and electricity price comparison services*.

⁴ 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.

19. The Confidence Code sets out the minimum requirements a PCW must meet to be Confidence Code-accredited. It was recently updated following consultation. There are currently nine requirements:
- (a) PCWs must be independent and impartial.⁵
 - (b) PCW service providers must use all reasonable endeavours to include price comparisons for all available domestic tariffs.
 - (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 opt-in filters so that site users may search and narrow down results. PCWs must explain the impact of any opt-in filters and enable customers to view results free from any filters. PCWs are permitted to display only tariffs that can be switched to via the PCW, rather than the 'whole market view' if the customer actively chooses to see this. The compliance with this requirement of the messaging around this choice must be tested and the results provided to Ofgem.
 - (f) PCWs must give energy efficiency advice or signpost site users to relevant energy efficiency information or programmes.⁶
 - (g) Prices and comparisons listed by PCWs must be accurate and state when they were last updated. The estimated cost of all tariffs must be calculated using the personal projection methodology (the Personal Projection methodology). An explanation of how the estimated costs are calculated must be provided, which must be prominent, clear and intelligible. An additional alternative methodology can be used to calculate the estimated cost of a customer's current tariff and estimated savings but this cannot be used as a default.
 - (h) PCW service providers must comply with an annual audit.

⁵ 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.

⁶ 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 or when they are using ratings adopted by other recognised consumer organisations.

- (i) PCW service providers must establish and operate an effective customer complaint and enquiry handling procedure.
20. 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.⁷ Its decision was published on 30 January 2015.
21. This decision included an amendment to the Confidence Code⁸ such that PCWs would no longer be able to present as a default only fulfillable tariffs. Site users are able to select themselves whether they want to view the whole of the market or only those tariffs that are fulfillable via the PCW (see paragraph 19(e)). 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 has been effective from the end of March 2015.
22. Ofgem also amended the Confidence Code so as to require PCWs to make prominently available information on companies with which they have commission arrangements and a clear explanation that only tariffs that a PCW receives commission for can be switched to through the PCW.
23. Ofgem also amended the Confidence Code to address concerns about inconsistencies in the results provided across PCWs. Reforms following the Retail Market Review require energy suppliers to provide customers with personal projections of their energy costs over the next 12 months, using a standardised methodology for calculating bills. For this purpose the methodology assumes that 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 decided to align the Confidence Code to the requirement set out in the RMR in order to provide a measure of consistency across PCWs. As a result, since 1 June 2015, accredited PCWs are required to use the same Personal Projection methodology to calculate the costs for customers of both their current tariff and other tariffs available to them.⁹ We note, however, the standardised methodology is not prescriptive around how seasonal variations in consumption, or consumption estimates, should be incorporated into calculations. The revised Confidence Code also requires PCWs to explain the methodology. It also allows alternative methodologies to

⁷ As part of a wider consultation on 'Domestic third party intermediaries: Confidence Code and wider issues'.

⁸ Ofgem (2015) [Confidence Code review – decision](#).

⁹ Ofgem is not, however, standardising the way consumption should be estimated where actual readings are available, nor is it standardising a seasonal consumption pattern.

be used to calculate the estimated costs of tariffs, as long as the Personal Projection is the default methodology.

24. 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, said that 'Code accreditation is a pre-condition for providers to secure a commercial arrangement with suppliers.'¹⁰ Twelve 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
25. 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

26. 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.
27. 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.
28. 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

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

¹¹ [Energyline], Energylinx, MoneySuperMarket, My Utility Genius, simplyswitch, Switch Gas and Electric, TheEnergyShop.com, UK Power, Unravelit, uSwitch, Runpathdigital.com and Quotezone.

¹² Ofgem, [The Confidence Code](#).

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.

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

29. There is a large number of PCWs engaged in the supply of search services to domestic energy customers.¹⁵ 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.
30. Of the ten major PCWs for which we received switching data, two PCWs – uSwitch and MoneySuperMarket¹⁶ – accounted for around 70% of energy supplier switches facilitated by these PCWs in 2014. The next largest PCWs in terms of the number of energy supplier switches facilitated are [redacted] and Compare the Market.¹⁷ Although Energylinx was unable to provide switching data to us it provided anecdotal evidence suggesting that it was probably the next largest in terms of the number of switches facilitated. Other PCWs, whilst having a smaller presence in the provision of comparison services to domestic energy customers, have established brand names as PCWs. However, the competitive constraint they might exert depends on their incentive to invest in their presence in the energy markets, which may be affected by the recent Confidence Code changes.
31. EDF Energy said that the concentrated market share of a few PCWs awarded them with negotiating power over commissions. [redacted].¹⁸ EDF Energy also said that high market concentration and established brands might be seen as a barrier to entry in the PCW market, as well as the difficulties involved with setting up multiple contracts with energy suppliers.
32. uSwitch, MoneySuperMarket and [redacted] are Confidence Code accredited sites. Compare the Market uses a white-label solution hosted by an accredited site provider.

¹⁵ 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.

¹⁶ Switching data from MoneySuperMarket includes customers switching via MoneySavingExpert's Cheap Energy Club which are passed to MoneySuperMarket's website. The MoneySuperMarket Group operates MoneySuperMarket and MoneySavingExpert. MoneySavingExpert operates as an independent business unit. However, MoneySuperMarket manages energy supplier relationships (and back-end operations) on behalf of MoneySavingExpert.

¹⁷ This is based on data received from ten PCWs (uSwitch, [redacted], 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 2014.

¹⁸ [redacted]

33. 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 six energy-focused PCWs spent on advertising their energy comparison and switching services from 2011 to 2014.

Figure 1: Price comparison websites' expenditure on energy service advertising

[✂]

34. 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.
35. 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 15% of their total advertising spend in 2014. However, these results should not necessarily 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 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	2014
Gocompare.com	[X]	[X]	[X]	[X]
Confused.com	[X]	[X]	[X]	[X]
Compare the Market	[X]	[X]	[X]	[X]
MoneySuperMarket	[X]	[X]	[X]	[X]
Energylinx		[X]	[X]	[X]
[X]		[X]	[X]	[X]
uSwitch	[X]	[X]	[X]	[X]
Which?	[X]	[X]	[X]	[X]
MyUtilityGenius		[X]	[X]	[X]
thePeoplesPower		[X]	[X]	[X]
Switch Gas and Electric	[X]	[X]	[X]	[X]

Source: CMA analysis of PCW information request.

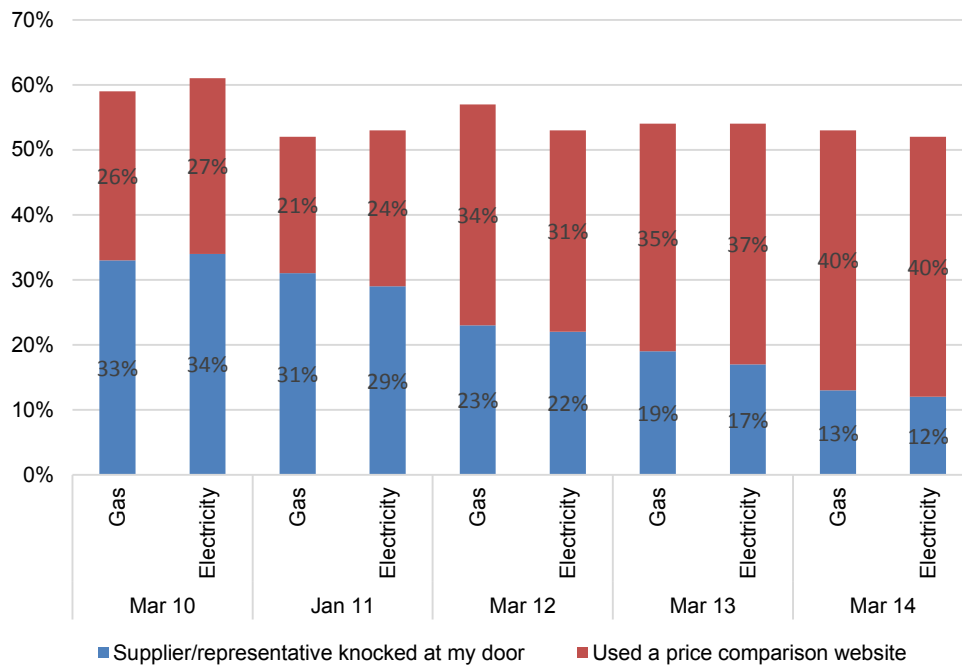
Note: PCWs operating in multiple sectors allocate a proportion of brand advertising to their energy service.

Use made of price comparison websites by customers

36. Ofgem’s tracking survey provides information on how customers’ use of PCWs has changed over the last few years.¹⁹ Figure 2 and Figure 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*.

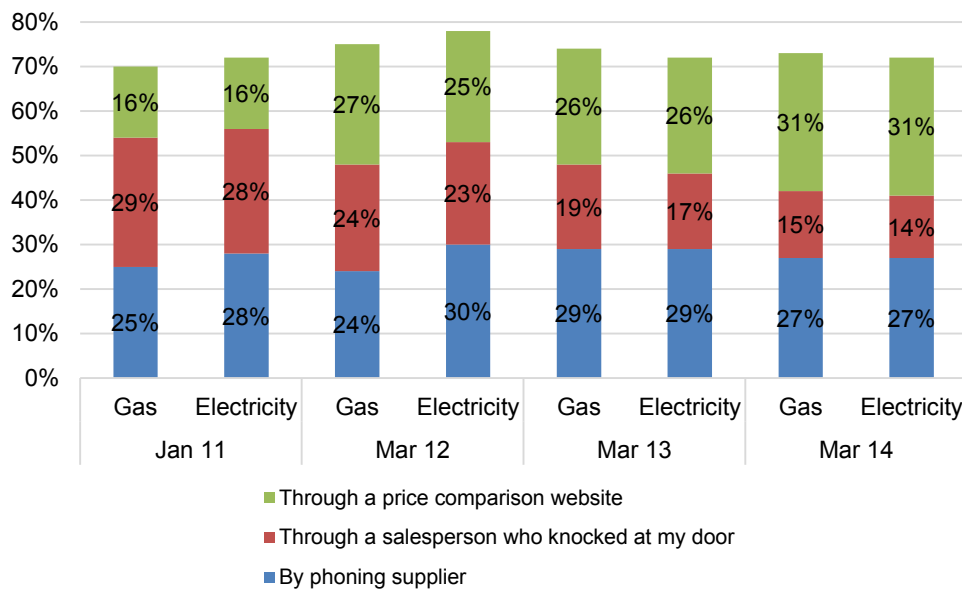
Figure 2: How domestic customers found out about the best deals last time they switched supplier



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).

37. 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
38. Our customer survey estimates that:²¹
- (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.
39. 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,²² 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.
40. 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.
41. Figure 4 shows for each of the Six Large Energy Firms and the next four largest independent domestic energy suppliers the proportion of their total

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

²¹ CMA Customer Survey.

²² RS Consulting (2013) *Price Comparison Websites: Consumer Perceptions and Experiences. A Report by RS Consulting for Consumer Futures*.

domestic customer acquisitions that was made via a PCW in each of the last six years.

Figure 4: Percentage of total domestic customer acquisitions made via price comparison websites (including price comparison websites and call centres) for electricity and gas, by supplier

[X]

42. Figure 4 shows that:
- (a) the proportion of domestic customer acquisitions facilitated by a PCW has generally increased over time for suppliers;
 - (b) over the past six years, the proportion of acquisitions facilitated by a PCW was generally higher for [X] than for the Six Large Energy Firms (Utility Warehouse has chosen to pursue alternative routes to market); and
 - (c) in 2014, the proportion of total acquisitions to one of the Six Large Energy Firms facilitated by a PCW ranged from just over [X] to around [X]% for RWE for electricity acquisitions, and from just over [X] to around [X] for RWE for gas acquisitions.
43. We considered the impact that the ‘four tariff rule’²³ – which has been in force since April 2014 – might have had on the use of PCWs. 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. Gocompare.com said that with 37 suppliers offering 169 tariffs in total (as of 27 March 2015) customers still benefited from using PCWs to search and switch in the energy markets.
44. Overall, the evidence provided by recent surveys and questionnaires carried out by us 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

²³ A supplier is limited to offering, at any point in time, at most four tariff options to any one domestic customer.

- (c) the importance to suppliers of PCWs for customer acquisitions differs significantly between individual suppliers.

Barriers to switching

45. Our survey suggests that, in general, customers with household incomes under £18,000 a year, 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.²⁴ However, the services provided by PCWs can often be accessed by telephone too. uSwitch said that more vulnerable customers were more likely to use its call centre rather than its website.
46. 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 savings) when the user inputs consumption details. The required information can be found on bills and annual statements.

Customer trust in price comparison websites

47. 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 users 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.
48. Results of our 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% of respondents who have internet access are very confident and a further 43% were fairly confident. Of those who were not confident that using PCWs would get them the right deal (22% of respondents who have internet access were not very confident and 10% were not at all confident), 43% said that this was because

²⁴ CMA Customer survey.

they did not trust or believe the results generated by searches using PCWs, 26% thought that the information was too complex or were not sure what would be the right deal, and 13% gave as a reason that PCWs did not include all supplier prices (ie 4%²⁵ of all respondents with internet access).²⁶ Ofgem queried whether this result might be driven by an assumption by customers that PCWs always show all results. Ofgem also said that media attention on PCWs 'hiding' tariffs during the later stages of the CMA survey fieldwork might have influenced the result.²⁷

Usefulness of the information provided

49. 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

50. As explained above, since the end of March 2015, the Confidence Code no longer allows PCWs to display only fulfillable tariffs as a default but requires instead PCWs to present all available tariffs as a default unless a customer makes an active and informed choice to see filtered results. The aim of this amendment was to promote customer trust and confidence in accredited PCWs. 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.
51. In response to the Ofgem consultation on the Confidence Code²⁸ 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 said that newer suppliers currently did not show any intention to contract with them, instead hoping to benefit from the Confidence Code requirement to list the whole of the market. According to

²⁵ 13% of 32%.

²⁶ GfK report and tables.

²⁷ We do not intend to look into whether survey responses differ between the beginning and later stages of the fieldwork as suggested by Ofgem, but we recognise differences in responses is possible.

²⁸ Ofgem (2014), *Domestic third party intermediaries: Confidence Code and wider issues*.

TheEnergyShop.com, the amendment to the Confidence Code may worsen this.

52. The PCWs that we spoke to supported the existence of a code. However, Compare the Market – not currently accredited under the Confidence Code, but operating through [X], which is – although supportive of the provisions relating to consistency of results, argued that the requirement to list the whole market, even with the option given to users to filter the results, was too stringent.
53. In the price comparison websites working paper, we recognised 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 observed 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.
54. RWE disagreed that requiring a full market view is a particularly stringent condition or that there is a risk of suppliers free riding and benefitting from free advertising, given that a number of PCWs already displayed a full market view as a default before the Confidence Code change came into effect. It therefore considers a full market view should be displayed as a default without customers having to choose what they see. EDF Energy said that it believes there is a role for commercial PCWs and is aware that having to show all available tariffs (whether or not there is a commercial relationship) could have unintended consequences. Therefore, it would be acceptable if they did not show all tariffs as standard. However, EDF Energy believes that PCWs should clearly and transparently indicate that they are not showing all tariffs available in the markets, and only showing those for which they would earn a commission.
55. PCWs are concerned the new requirement will:
 - (a) change the relationship between PCWs and energy suppliers to favour suppliers (uSwitch and My Utility Genius);²⁹
 - (b) benefit suppliers by providing them with free advertising of tariffs that are listed on a PCW but are not fulfillable via the PCW (uSwitch); uSwitch said that PCWs’ ability to defend against gaming by suppliers was limited

²⁹ uSwitch made a number of recommendations aimed at addressing the change in the relationship between suppliers and PCWs, in favour of suppliers, that the Confidence Code change may bring. These are considered to be more relevant to remedies

as the Confidence Code does not allow for differentiated presentation of fulfillable and non-fulfillable tariffs;

- (c) lead to an increase in the number of unfulfillable tariffs as suppliers may remove specific tariffs from PCWs (My Utility Genius) or may choose not to enter into commercial relationships with PCWs at all (uSwitch). uSwitch said that almost all suppliers had removed the fulfillability of certain tariffs over the last five years and that since the recent amendments to the Confidence Code iSupply had launched a tariff only fulfillable via direct channels informing uSwitch that the amendments to the Confidence Code were their reason for this. [redacted] and GB Energy Supply have launched as a new entrant with a strategy of not paying to appear on PCWs or for other traditional advertising activity;
- (d) reduce customers' incentives to use PCWs if cheaper tariffs are no longer fulfillable via PCWs (My Utility Genius);
- (e) reduce customer switching in the energy markets due to the higher customer attrition from an extended customer journey and hassle factor where a customer has to approach suppliers directly if a tariff is not fulfillable via a PCW (uSwitch); and
- (f) result in switching mistakes, when customers approach suppliers directly to switch to a tariff that is unfulfillable on a PCW and select another tariff by mistake due to tariff complexity (uSwitch) (i.e. customers may think they are requesting a switch to a tariff they saw on a PCW but are actually requesting a different tariff).

56. [redacted]³⁰

57. Gocompare.com considered that allowing customers to choose the tariffs they saw was preferable to a default full market view and encouraged customers to consider the options available to them.

58. By contrast, Big Deal told us that Ofgem's proposed changes to the Confidence Code did not go far enough to prevent filtering of tariffs and to ensure full transparency on commissions.

59. We recognise the concerns raised by parties. Ofgem plans to monitor the impact of the Confidence Code changes through monthly collection of data

³⁰ We do not intend to do further work as suggested by uSwitch as this is not considered to be material to our assessment.

from PCWs on the number of fulfillable tariffs. Ofgem has collected the baseline data for this.

60. We consider that the effect of the Confidence Code change depends on customer behaviour. uSwitch said its own analysis suggested that since the announcement of the Confidence Code changes the majority of customers saw the full market view.
61. My Utility Genius said that a cursory glance at most PCW tables now suggests that what it thought would happen has happened – a load of suppliers floating to the top of the rankings but not prepared to pay PCWs for the privilege.
62. uSwitch said that their monthly tariff fulfillability report is starting to show an emerging trend of declining fulfillability levels among the most price competitive tariffs on the more common payment types (see Table 2). [redacted]. uSwitch has established a relationship with Green Star Energy so their tariffs are now fulfillable on uSwitch. Out of the top 10 results displayed on uSwitch for monthly direct debit, dual fuel tariffs, only one was a tariff of the Six Large Energy Firms and for electricity only tariffs, two were tariffs of the Six Large Energy Firms. These tariffs were fulfillable.

Table 2: uSwitch monthly tariff fulfillability report

<i>Payment method</i>	<i>Fuel type</i>	<i>Total fulfillable out of top 10 – April 2015</i>	<i>Total fulfillable out of top 10 – May 2015</i>	<i>Total fulfillable out of top 10 – June 2015</i>
Monthly DD	Dual fuel	7	6	5
Monthly DD	Electricity only	7	5	5
Prepayment	Dual fuel	9	8	8
Prepayment	Electricity only	6	7	7
Pay on receipt of bill	Dual fuel	7	7	9
Pay on receipt of bill	Electricity only	6	7	8

Source: uSwitch monthly tariff fulfillability report, June 2015.

63. Data from [redacted] shows that for dual fuel customers the proportion of fulfillable tariffs in the top 10 tariffs displayed has fallen from 100% in March 2015 to 80% in May 2015, while the proportion of fulfillable tariffs out of all tariffs displayed has remained stable over this period.

Table 3: Proportion of fulfillable tariffs for dual fuel customers on [redacted]

	<i>March 2015</i>	<i>April 2015</i>	<i>May 2015</i>
Of the top 10 tariffs displayed	[redacted]	[redacted]	[redacted]
Of all tariffs displayed	[redacted]	[redacted]	[redacted]

Source: Data submitted to Ofgem by [redacted].

* The non-fulfillable tariffs were supplied by GB Energy Supply and Flow Energy.

64. Data from Compare the Market [redacted] (see Table 4).

Table 4: Proportion of fulfillable tariffs on Compare the Market

1 January 2015	1 February 2015	1 March 2015	1 April 2015	1 May 2015
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: Data compiled by Compare the Market and submitted to Ofgem by [REDACTED].

65. [REDACTED] said that the proportion of people clicking from the results page, which shows an intention to switch, has fallen 7.4% from April 2015 to May 2015, while over the same period data from Google shows that brand searches for GB Energy have increased from less than 5,000 in April to over 10,000 in May. [REDACTED] said that given that as stated on their website GB Energy “do not spend a small fortune on TV, Radio, or other advertising”, it would be fair to say that GB Energy is exploiting the code to fund their marketing via Code accredited PCWs.³¹
66. We consider that it is too early to assess the impact of the change to the Confidence Code. It is unclear whether the requirement to display the whole of the market will result in more customers using PCWs as trust in PCWs increases, or that it will lead to an increasing number of unfulfillable tariffs and/or suppliers not entering into commercial relationships with PCWs at all.

Inconsistencies

67. 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 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 difference³² and Scottish Power said that quotes were broadly consistent.
68. Ofgem provided us with results of the audits it undertakes with regard to the consistency of tariff rates across Confidence Code accredited PCWs. The

³¹ [REDACTED] submission to Ofgem.

³² 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.

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).

69. Ofgem said 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.
70. 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 5. 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.

Table 5: 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.

71. Ofgem also identified the number of accredited PCWs that (a) displayed tariffs in their top ten or 20 that were not in the top ten or 20 for any other accredited PCW and (b) did not display tariffs in their top ten or 20 that were in the top ten or 20 for the majority of accredited PCWs. The results are shown in Table 6.

Table 6: Results of Ofgem audits of accredited price comparison website search results – top 10 or 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>
February 2015	3 (1–3)	8 (1–6)
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.

72. As regards the recent amendment to the Confidence Code requiring PCWs to use the Personal Projection methodology for calculating the estimated costs of tariffs, My Utility Genius and EDF Energy said that they were concerned that this might lead to PCWs overestimating the savings available from switching. My Utility Genius said this might lead to a lack of trust in PCWs.
73. My Utility Genius also said that a customer on a fixed tariff and using a PCW demonstrated that they had switched previously and that they intended to switch in the future, and therefore the methodology might overestimate the savings available from switching. It was concerned that PCWs would be encouraged to use their own alternative methodologies leading to inconsistencies between PCWs.
74. Ofgem is not currently doing any further work on the Personal Projection methodology.

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

75. 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

76. 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.
77. We present results above on the proportion of domestic customer acquisitions accounted for by PCWs (see Figure 4). These show that while the proportions vary considerably between suppliers, PCWs accounted for 20% or more of the gas and electricity domestic customer acquisitions for four of the Six Large Energy Firms in 2014. However, all the Six Large Energy Firms appear to be investing in developing direct sales through their own website-based services.
78. 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 switches

[✂]

79. 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 [✂], PCWs have been their main route to customer acquisition, while others, such as Utility Warehouse, have chosen to pursue alternative routes to market.
80. We also consider that the extent of single-homing 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.
81. Our survey estimates that 34% of customers who used a PCW to search energy suppliers used only one PCW, 39% used two and 20% used three or more³³ (ie 59% of PCW users relied on more than one PCW).³⁴ According to a 2013 survey by RS Consulting the majority of customers (83%) 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.³⁵
82. 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').
83. On the basis of this information, we consider that neither individual PCWs nor energy suppliers are in a particularly strong position in their commercial dealings with each other.

³³ GfK tables.

³⁴ The remaining respondents did not recall how many PCWs they used.

³⁵ RS Consulting (2013) *Price Comparison Websites: Consumer Perceptions and Experiences. A Report by RS Consulting for Consumer Futures.*

84. 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.
85. 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 depends on customer behaviour, in particular whether they select to see the whole of the market or only those tariffs fulfillable via the PCW.
86. As noted in paragraph 5974, Ofgem plans to monitor the impact of the Confidence Code changes through monthly collection of data from PCWs on the number of fulfillable tariffs. Ofgem has collected the baseline data for this. We understand that Ofgem does not intend to collect data on customer behaviour (ie whether customers select to see the whole of the market or only tariffs that can be switched to via the PCW). We consider this to be important to suppliers' decision on whether to withdraw the fulfillability of switches via PCWs and therefore is relevant to the assessment of the relative bargaining position between suppliers and PCWs. We also understand that only one month of baseline data has been collected. We think a longer baseline time period is relevant as we expect there to be fluctuations in the number of fulfillable tariffs over time and suppliers may have withdrawn tariffs in anticipation of the Confidence Code changes taking effect.

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

87. 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. RMR requirements effectively prevent suppliers from being able to offer tariffs exclusively available via a particular PCW,³⁶ which limits the scope for commission negotiation and passing on savings to consumers.³⁷

³⁶ uSwitch have offered a tariff only available via uSwitch, supplied by E.ON. It has been able to do this as the tariff offered is a collective switching tariff that is exempt from RMR requirements.

³⁷ Due to uncertainty over whether cashback was permitted under RMR, many suppliers stopped working with cashback websites.

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

Restrictions on price comparison websites' marketing

88. We found that the Six Large Energy Firms, as well as some independent suppliers, 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. Most of these restrictions are limited in scope, and allow PCWs to actively approach customers who have given their consent to the PCW for this purpose. We note however that certain agreements entered into by one of the Six Large Energy Firms, [X], may prevent a PCW from proactively contacting individual [X] customers (as opposed to general marketing campaigns) for the duration and up to 12 months following the end of the agreement between [X] and the PCW. However, [X] said that the understanding between [X] and various PCWs with which it contracts, and the conduct of parties in accordance with this understanding, is that the restrictions on marketing only apply for the first 12 months of the customer's energy contract. [X] has been renewing contracts with new forms of agreement reflecting this and is currently working to update its contracts with PCWs to ensure consistency, and expects to complete this over the next four months.
89. MoneySuperMarket and uSwitch said that in other markets, for example insurance, there were no such restrictions. Which? and My Utility Genius said that these restrictions might be particularly relevant to customers on fixed-price tariffs when the term of the tariff was coming towards its end.
90. 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 exit fees can be substantial – in some cases equivalent to several months pro rata of the annual value of the contract.
91. Energy suppliers do not have this degree of protection. While some fixed-term contracts are subject to exit fees these are relatively low.³⁸ Thus, an energy

³⁸ 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.

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. However, we do not know how frequently customers switch to a fixed-term tariff using PCWs and, at the end of the term, roll over to a SVT until the next switching event.

92. Some of the restrictions included in contracts between PCWs and suppliers seem to address this issue, by preventing PCWs from contacting customers for a duration more or less equivalent to the duration of the fixed-term tariff.³⁹

Restrictions on the fulfillability via price comparison websites of certain tariffs

93. 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.
94. 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.
95. Suppliers 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 could 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.

³⁹ We also note that some of these restrictions simply prevent PCWs to use customers' personal data without the customers' consent.

96. As discussed earlier, the amended Confidence Code may impact the fulfillability via PCWs of certain tariffs.

Difficulty obtaining tariff information from suppliers

97. 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.
98. Some PCWs said they experienced some difficulty obtaining tariff information from suppliers. For example, TheEnergyShop.com said 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 said that in some circumstances they had to extract tariff information manually from suppliers' own websites.
99. This is not an issue for PCWs operating white-label solutions as it is the PCW service provider that engages with the energy suppliers.
100. My Utility Genius said that errors in meter and postcode data resulted in switching failure and hence frustration among customers. It said that suppliers' incentive to update data was limited as switching failure was a means of customer retention and there were limited sanctions for not updating the data.
101. PCWs could not delist suppliers in cases of inaccurate tariff information (and would have to use their own resource to collect this information) or meter data being provided by suppliers. Given the requirement on Code-accredited PCWs to list the whole of the market, PCWs might have little incentive to make tariffs unfulfillable as it may lead to the loss of a commission fee. We have gathered data to analyse the proportion of successful switch applications. The results are shown in Figure 6.

Figure 6: Confirmed switches as a proportion of switch applications

[✂]

102. The proportion of confirmed gas and electricity switches out of all gas and electricity switch applications averaged 86% in 2014 across the 9 PCWs for which data is available. Confirmed switches are defined as those which 'go live' with the new supplier and for which the PCW receive a commission

payment for. The percentage of successful switches ranged from [✂] for Which? to 95% for thePeoplesPower. The proportion of successful switches out of all switch applications has shown little variation over time and shows little variation between gas and electricity switch applications.

103. There are a variety of reasons why switching failure via the PCW may occur, including errors in meter and postcode data, and errors in the information entered by customers. It is also possible that these customers who fail to switch via the PCW, go on to successfully switch via another switching channel.

Collective switching

104. Collective switching involves customers grouping together to buy their energy supply. Generally, customers register their interest with a collective switching scheme organiser (often an independent organisation acting as an intermediary such as a local authority), who often partner with a switching service provider, such as uSwitch. Suppliers then take part in a reverse auction, bidding to supply energy to the group of customers registered with the scheme organiser.
105. Commission fees are frequently used to cover the administrative costs of collective switches and are generally shared between the scheme organiser and service provider. A proportion of the commission may also be shared with the customer in the form of cash-back. There have also been non-for-profit collective switching models established.⁴⁰
106. In this section we consider: (a) evidence in relation to the number of customers switching through collective switching schemes; and (b) the effectiveness of securing better terms for participants.

Ofgem views

107. Ofgem said collective switches are a useful channel for encouraging participation among otherwise unengaged customers in the energy markets and for encouraging participation in the energy markets among 'vulnerable' customers. In particular, trusted intermediaries who facilitate collective switches can help promote customer engagement among customers who may have lower levels of trust in the energy markets. Many previous collective

⁴⁰ Ofgem, (2014), *Protecting consumers in collective switching schemes*.

switching schemes have been aimed at vulnerable and disengaged customers and have targeted participants using offline sign-up methods.⁴¹

108. Ofgem said that there has been rapid growth in the number of collective switching schemes since Which?'s Big Switch in May 2012, although these schemes have been smaller in terms of the number of participants.⁴²
109. Customers have no obligation to switch at the point of registering with the collective switch provider. They decide whether to switch only after having received a personalised offer. Ofgem said that conversion rates differed between schemes and found conversion rates of 8 to 23% across four selected schemes.⁴³

Partners and number of switches

⁴¹ Ibid.

⁴² Ibid.

⁴³ Ofgem, (2014), *Protecting consumers in collective switching schemes*.

110. Table 8 shows the collective switches the Six Large Energy Firms and the next four largest independent domestic energy suppliers have participated in. The number of schemes has risen each year since 2012.
111. However, the proportion of customer acquisitions made via collective switches is less than 2% across the Six Large Energy Firms and the next four largest independent domestic energy suppliers in 2014, [redacted]. Table 7 shows the number of domestic customer acquisitions made via collective switches.

Table 7: Number of domestic customer acquisitions made via collective switches for electricity and gas, by supplier

	<i>Electricity</i>			<i>Gas</i>		
	2012	2013	2014	2012	2013	2014
Centrica	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Co-op Energy	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
EDF Energy	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
E.ON*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
First Utility	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Ovo Energy	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
RWE**	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Scottish Power	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SSE	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Utility Warehouse	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: CMA analysis.

* [redacted]

** [redacted]

Note: [redacted]

112. The organisers of collective switches are often councils and community groups. This suggests collective switches may be able to engage particular customer groups, who may be otherwise unengaged.

Collective switching savings

113. At the time of the CMA information request to suppliers about collective switching, SSE and Utility Warehouse had not participated in any collective switching schemes to date. EDF Energy participated in the Which? Big Switch 2012 collective switching scheme [redacted]. EDF Energy also submitted bids in many other collective switching schemes without winning customers.

114. Table 8 shows a comparison of the annual bill of the tariff offered in the collective switch with the supplier's standard variable tariff annual bill. Annual bills are calculated based on current Ofgem average consumption figures. In the majority of the collective switch schemes the tariff offered was cheaper than the supplier's standard variable tariff, once the credit, gift card or cashback is taken into account. The highest saving compared to a supplier's standard variable tariff offered by a collective switch was 24%.

Table 8: Collective switches

Energy supplier	Provider	Organiser	Date	Collective switch annual bill	SVT annual bill	% difference	Credit/Gift card/Cashback
E.ON	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
RWE	[X]	[X]	[X]	[X]	[X]	[X]	[X]
British Gas	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Scottish Power	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
First Utility	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Co-op Energy	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
Ovo Energy	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]
	[X]	[X]	[X]	[X]	[X]	[X]	[X]

Relevant regulation

Collective switching and RMR

115. An energy supplier can offer any number of fixed-term tariffs into a collective switch, in addition to its core tariffs, if the collective switching process meets certain criteria set by Ofgem, which include that the process must be competitive and transparent, a one-off occurrence and less than six months ending with the switching of customers.
116. As set out in Ofgem's final proposals on the RMR, collective switches are exempt from the 'four tariff rule'. This is because collective switching may benefit otherwise difficult to engage customers and schemes have involved a range of models, tariffs and target customer groups. Ofgem considers this strikes the right balance between supplier freedom to innovate and offer tariffs to reflect particular scheme characteristics and consumer protection.⁴⁴
117. EDF Energy and First Utility questioned whether all collective switches should be exempt from RMR requirements.
- (a) EDF Energy said that collective switches were being artificially encouraged by being exempt from the RMR 'four tariff rule' and it should be required for suppliers to notify their customers of their cheapest tariff. It argued the RMR exemption should be removed and if collective switches should remain then the tariffs should be freely available to a supplier's new and existing customers.
- (b) In a letter sent from First Utility to the Ofgem chief executive, First Utility expressed concern that collective switches might be used as a way to circumvent RMR requirements and offer a very aggressively priced tariff. It incorrectly cited the announcement of a collective switch to be run by uSwitch and supplied by E.ON, which would appear on the uSwitch website but would not be available to E.ON's customers.

Collective switching and the Confidence Code

118. Ofgem⁴⁵ is proposing to (a) expand the Confidence Code to include collective switching service providers and (b) require suppliers to use an accredited

⁴⁴ Ofgem, (2013), *The Retail Market Review – Final domestic proposals*.

⁴⁵ Ofgem, (2014), *Protecting consumers in collective switching schemes*.

collective switching provider when using the RMR tariff cap exemption. It considers that collective switching accreditation can provide protection and assurance to customers, similar to users of PCWs and expanding the Confidence Code can be implemented relatively quickly given that the Confidence Code is already established.

119. Ofgem proposes that an expanded Confidence Code would include shared requirements applicable to both PCWs and collective switches, as well as PCW specific requirements and collective switching specific requirements.
120. Ofgem proposes the new Confidence Code requirements specific to collective switches include (a) transparency of the auction process and (b) transparency of the offer and signposting to impartial advice. This is to;
 - (a) address concerns that customers not understanding how collective switches operate may lead to distrust and hence lower take-up; and
 - (b) ensure customers are informed when they are not seeing the whole of the market and that better tariffs may be available on the market. This means the Confidence Code would support the two main models of collective switches; collective switches that offer a single offer that is compared to the customer's current tariff, or an offer compared to the whole of the market.
121. Gocompare.com, uSwitch, SSE and RWE all support the expansion of the Confidence Code. uSwitch said that the expansion to include other third party intermediaries in the domestic energy sector was increasingly important as other channels were used by a growing number of customers.

Summary

122. 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 53% of them used a PCW to switch.
123. 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.
124. Ofgem has recently made changes to the Confidence Code that will prevent PCWs from displaying as a default only fulfillable tariffs. PCWs accredited under the Confidence Code must therefore provide whole-of-market searches

unless the customer chooses to filter the results. Ofgem's intention is to ensure that PCW users can easily compare the whole of the market if they wish to do so.

125. 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 note however that the requirement to list the whole of the market does not exist in other markets. Only 4% of the respondents to our survey who have internet access said that they were not confident using PCWs because they did not include all supplier prices. We also note that PCWs could not delist suppliers in cases of inaccurate tariff information or meter data being provided.
126. We consider that it is too early to assess the impact of the change to the Confidence Code. It is unclear whether the requirement to display the whole of the market will result in more customers using PCWs as trust in PCWs increases, or that it will lead to an increasing number of unfulfillable tariffs and/or suppliers not entering into commercial relationships with PCWs at all.
127. For instance, 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. The nature and number of these clauses might evolve if the bargaining position between PCWs and suppliers were to change as a result of regulatory interventions or evolution in customers' use of PCWs.
128. 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 [✂] and Compare the Market) accounting for a large proportion of switches facilitated by PCWs in 2014. Other PCWs, whilst having a smaller presence in the provision of comparison services to domestic energy customers, have established brand names as PCWs. However, the competitive constraint they might exert depends on their incentive to invest in their presence in the energy market, which may be affected by the recent Confidence Code changes.
129. We found no evidence of 'most favoured nation' type clauses of the kind that caused concern in the private motor insurance market inquiry.
130. 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.

131. Collective switches appear to be becoming a more important switching channel, they engage customers who we might otherwise expect to be less engaged and they appear to be achieving good outcomes for customers. In particular:
 - (a) the frequency of collective switching arrangements appears to be increasing;
 - (b) these arrangements appear to have been successful in achieving better outcomes for customers on average in terms of price with discounts of up to 24% on the standard variable tariffs (where discounts have been available); and
 - (c) the partners initiating these arrangements suggests that the customers benefiting from these schemes are among those who we might otherwise expect to be less engaged.
132. However, the proportion of acquisitions achieved as a result of collective switching arrangements accounted for less than 2% of suppliers' total customer acquisitions in 2014 for nine out of the 10 supplier's included in the analysis (the Six Large Energy Firms and the next four largest independent domestic energy suppliers).