MoneySavingExpert.com

Competition and Markets Authority:
Energy market investigation notice of possible remedies

Executive Summary

MoneySavingExpert.com welcomes the chance to reply to the CMA's energy market investigation.

Our response to this investigation is based on the assumption that competition is the solution to the problems in the market. We are not necessarily committed to that viewpoint – a danger of a competitive market is the most vulnerable often end up paying more. The alternative solution is to regulate pricing, and as this has been discounted our response focuses on the competitive market.

A key issue is that to create a competitive marketplace in which people engage, you need price differentiation. Many of the recent measures introduced – in particular the four tariff cap - have decreased this price differentiation.

Bigger savings provide a bigger incentive for people to switch. The challenge is ensuring there is a mechanism for helping vulnerable customers and which protects people who are currently not engaging with the market enough. We would therefore support the removal of the four tariff cap.

The CMA's most radical proposal, the introduction of a safeguard tariff, is one way protection for the vulnerable could be achieved and we support the use of new and refreshing ideas like this.

We also agree penalties for firms that fail to switch customers within the mandated period are needed. When fines are imposed, the penalty should be paid to the customer who has suffered.

We are concerned by the deeply flawed and potentially expensive suggestion that Ofgem establish and run a comparison site. This would be a waste of public money and would only serve to replicate what the market already provides.

Money could be far better used on other things, such as campaigns to increase switching (like the Government's 'Power to Switch' campaign), and to ensure existing, well established and well used comparison sites, are regulated. We refer the CMA to the flaws of the Money Advice Service.

There are a number of other barriers to switching too – for example, consumers receiving huge bills from their old firm after switching, poor understanding of the switching process and direct debit confusion. We explore these further below.

For too long, energy companies have made huge profits from consumers who simply do not switch and it's time for this to change. We need to remove the fear of things going wrong which so often proves a barrier. We want to get to a place where everyone who wants to switch has the confidence to do so and every switch is right first time. We have high hopes the CMA's remedies will help us all work together to achieve this aim.

Response

Weak customer response from domestic and microbusiness customers and the simpler choices component of the Retail Market Review rules

Remedy 3 - Remove from domestic retail energy suppliers' licences the 'simpler choices' component of the RMR rules

(a) Would this remedy be effective in increasing competition between domestic retail energy suppliers and/or between PCWs?

MoneySavingExpert.com believes two of the three elements of 'simpler choices' should remain, as they have had the desired effect of simplifying choice without any widespread detrimental effect. These elements are:

- The ban on tiered tariffs
- The requirement to offer at most two simpler discounts

However, the four tariff cap element of 'simpler choices' has not served its intended purpose to simplify the market. As such, this element should be remedied. This point is further explained below.

(b) Removing the four-tariff rule is likely to increase the range of tariffs on offer and result in different tariffs being offered on different PCWs. Are there, therefore, any remedies that the CMA should consider alongside this remedy, to encourage domestic customers to use more than one PCW in order to facilitate effective competition between PCWs and domestic energy suppliers?

The aim of the four tariff cap was to simplify the market, but it has not delivered this. In fact, it has resulted in three problems:

1. **There are too many tariffs to choose from when comparing.** In order to compete but still satisfy the four tariff criteria energy firms take tariffs off and on the market constantly, often with very similar names. The potential list of tariffs a consumer can be on is huge. Picking the wrong tariff can lead to incorrect savings and cause mistrust in the switching process.

2. **It has decreased price differentiation.** If you accept, as this response has done and as tends to be the political consensus, that market competition is the best route to gas and electricity supply (which we are not necessarily agreeing with), then great price differentiation should lead to larger savings and encourage people to act.

   The aim, therefore, should be to have a wide variety of prices because larger savings will better encourage people to act. A consequence of the four tariff cap has been a decrease in price differential and therefore a decrease in the incentive to switch.

   However, price differentials will always result in some paying more than others, so measures must be put in place to guard against the most vulnerable in society paying more.

3. **Collective switching rates are not always available to compare with.** The four tariff cap has caused a shift toward collective switching. We are strongly in favour of collective switches which have been a success in their own right but consumers on a collective deal are often not able to do a comparison.

   This is because energy suppliers rarely share collective tariff rates with comparison sites.

This means there is the potential for more tariffs but less transparency and less comparability than before.

We are strongly in favour of continued collective switches and would like to see suppliers share these rates at least to allow those on them to compare.

(c) We note that if this remedy were to be imposed, Ofgem's Confidence Code requirement for PCWs to provide coverage of the whole market appears likely to become impractical as the number of tariffs offered increases and PCWs agree different tariff levels and commissions with energy suppliers. Should this element of the Confidence Code be removed, therefore, as part of this remedy? If so, are alternative measures to increase confidence in PCWs required? For example, in order to maintain transparency and trust, should PCWs be required to provide information to customers on the suppliers with which they have agreements and those with which they do not?

It is extremely important people have the ability to compare all tariffs. Therefore comparison sites should show the whole of the energy market (MSE's Cheap Energy Club has always defaulted to a whole of market view). If comparison sites are not whole of market, they should have to say so explicitly and should not be accredited by the Confidence Code.

However, the definition of 'whole of market' is flawed. Therefore the question of what is whole of market or not needs to be addressed before final rules are put in place. It seems deals fall into one of three categories:

1) Energy companies' tariffs.
2) Energy companies' tariffs with some promotional element such as cashback or a voucher.
3) Collective tariffs which are offered to a limited user group or specially arranged through a trusted intermediary which is not the energy company.

All tariffs in group one should always be mandated to be within a comparison.

However, it is counter-productive to stop incentives for switching that may fit into groups two and three provided they are clear and easy to understand. Comparison sites should simply state there may be other deals elsewhere and anyone offering a tariff in these categories should make it as easy as possible for comparison sites to include them.

Remedy 4 – Possible measures to address barriers to switching by domestic customers

As well as answering the direct questions, here is an overview of our thoughts on the barriers to switching:

Even engaged consumers are reluctant to switch

There are a significant number of barriers to switching which need to be addressed as a large proportion of the population does not switch.

Our users may be more engaged than most – but even so, in a recent poll we found few are continuously engaged in the market.

Of the 10,699 respondents, 20% have only switched once, 22% have switched twice, 21% have switched three times and only 13% have switched four or more times. We have 1.6 million members in our Cheap Energy Club, but a significant number of those remain on pricey standard tariffs, despite being sent alerts when they could save by switching.

Source: http://www.moneysavingexpert.com/poll/07-07-2015/how-many-times-have-you-switched-energy-provider-in-the-last-five-years

The main barriers to switching

There are a number barriers to switching:

- **Lack of understanding of the switching process.** There needs to be a continued effort to educate consumers on the switching process. People need to understand when switching much stays the same, eg, the pipes and meter. Only the pricing and the firm billing you changes. Here is an example of the type of message we get from users:

  @MartinSLewis it's too much hassle to change I reckon. What happens when it switches - do I have to go without gas/elec until the new one connects?

- **Large bills long after consumers have switched.** A major barrier to switching is back-billing. After people switch they often get a huge bill several weeks or months later. The delay in receiving this final bill can put people off ever switching again and there should be tighter controls in this area.

  The rules should state that, unless a customer has been negligent, the final bill must come within a week and customers then have three months to pay.

  The current system means there is an open-ended timeframe, which kills people's inclination to switch due to their fear of ending up with a huge bill they are unable to afford. The idea that you can face an open-ended cost is outrageous.

  This is a recent example of one of our sites' users experiencing this problem:

  "I changed from EDF to Scottish Power in March this year, via the Cheap Energy Club. EDF has just sent me my final bill – after 5 months. I thought this was sorted months ago, after confirmation of the changeover. I have complained to EDF."

- **Catch-up kills cash flow.** In a similar vein, debt can also be a barrier. If you owe your existing provider when you switch, you still need to pay it (bar prepay users). While this doesn't increase costs, it can be a cash flow nightmare - many worry they will be out of pocket while suppliers are switching over.

- **The language of savings – you may be saving, but what you actually pay increases.** This is a conceptual issue that some struggle with. If prices are rising by 20% and you switch to a company that's 15% cheaper, you're still going to be paying more than before.

  People struggle with this as they feel like they should end up paying less overall. Of course, compared to what they would've paid there's a reduction, but the fact they're paying more overall negates the sentimental gain of switching.

- **Direct debit and confusion.** Many people get confused between the cost of energy and the money coming out of their account each month. Energy companies set monthly direct debits by estimating annual usage and dividing it by twelve.

Different companies use different estimates, so it's common to hear of people who move to a cheaper rate, but are asked to shell out more each month. Of course, the overall cost will be less, but the psychology and impact on cash flow makes it feel a loss more than a gain.

- **Burnt by switching at wrong time in the past**. Politicians/regulators/comparison sites have in the past shouted 'switch' even when it's not time. The blunt message 'you will switch and save' has left many who followed it burnt, and has tarnished switching's reputation.

  This is because *when* you switch is just as important as switching itself. The knee-jerk reaction after a big energy company puts its prices up is to try and find a cheaper supplier – yet often that's wrong, as there isn't a level playing field until all have announced hikes.

  New rules should be introduced to protect consumers against this. Suppliers should be banned from increasing prices within six months of someone switching to a new tariff.

- **Poor customer service & lack of trust in energy suppliers.** The public's perception of energy companies is particularly poor. This lack of trust leads to a reluctance to switch and a feeling of 'better the devil you know'. More could also be done to reassure consumers anxious about switching to lesser-known entrants into the market.

- **Ineffective information exchange between TPIs and suppliers hinders a better switching process.** This is an ongoing issue. A problem we recently told Ofgem about is that switching information passed back from suppliers can often be inaccurate and slow. For example, if a switch is rejected, not all suppliers are clear about the reasons why.

  Third parties should have access to this information so they can keep switchers informed. If people have switched via a comparison site they expect that site to help. Yet there is no incentive for suppliers to provide info - DECC and Ofgem need to support this.

  It can also take a long time for a comparison site to hear back from a supplier about the confirmation of a switch – this makes it very difficult for a service like Cheap Energy Club because we can't give the consumer the updates they expect from us or track their tariff.

  Some requirements should be placed on suppliers to ensure this is accurate and timely. We suggest:

  - Suppliers provide APIs to transfer information about tariff rates as well as the status of consumers' switches to comparison sites.
  - Forcing suppliers to provide comparison sites with valid reasons why a switch has been rejected so this can be relayed to consumers.
  - Give suppliers a time limit within which they should feedback on the status of a consumer's switch.
  - Ensure there is a standard way in which VAT is applied to rates, eg, different rounding can affect prices and results.

Personal projection methodology

An additional problem we have talked about before is the personal projection methodology. We fundamentally disagree with this and believe it is an extremely damaging policy leading to consumers getting misleading information.

We can understand why this methodology might be used on marketing material, but to use it on a comparison site, where consumers are actively looking to switch and are therefore unlikely to go on to the standard rate, is misleading. The particular issues we have are:

- Current tariff costs shown are not in line with consumer expectations. For example, if their account is set up with direct debit amounts, they expect to see their current cost as 12 x their direct debit, but with a blended calculation the figure will be higher. This leads to consumer complaints and a loss in confidence in the accuracy of results.
- The savings figures shown are based on a theoretical scenario, rather than what the consumer will actually save.
- Due to the blended tariff, our alerts show they can save money by switching. This is true over a 12-month period, but they would save even more by switching at the end of their current fix. This calculation can also lead them to believe they should switch sooner than might be the case.
- Consumers on a fixed tariff tend to be more energy-savvy and are less likely to slip onto a standard tariff – therefore they feel that this type of calculation is not relevant.
- Where a consumer has, for example, six months left on their fixed tariff, showing a blended rate can encourage them to switch too early, as the high proportion of the standard rate overinflates the savings they will make. This is effectively giving information that will mean they lose out in the long run.
- Even worse, suppliers do not currently need to provide personal projections. This means that a consumer may go to a comparison site and see one comparison figure, yet go to the supplier's site, ask for the same quote but get a different answer. This is very confusing for consumers.

(c) Should PCWs be given access to the ECOES database (meter point reference numbers) in order to allow them to facilitate the switching process for customers?

Yes, this would be beneficial to the switching process as it would reduce admin errors for comparison sites. Quite often people have issues with meter numbers when switching. Currently we have to either ask the user to check their bill or contact the supplier and reapply for the switch. With access to ECOES, PCWs would be able to resolve issues directly.

(d) Should there be penalties for firms that fail to switch customers within the mandated period (currently 17 days, next day from 2019)? Should customers who suffer a delayed or erroneous switch receive the penalty as compensation?

Yes, there should be penalties for firms that fail to switch customers within the mandated period, and the penalty should be paid back to customers who experience a delayed or erroneous switch as they are the ones who have suffered.

(e) When next-day switching is introduced, will a 'cooling-off' period still be required? Could it be avoided by requiring that no exit fees are charged within two weeks of switching?

We agree that a cooling off period is still required, but this could be dealt with by mandating that no exit fees are charged within the first two weeks.

(f) Are specific measures required to facilitate switching for customers living in rented accommodation (either social or private)?

At the moment, it is too hard for renters to switch. Two specific issues are:

- While customers are allowed to switch, and Ofgem says tenants shouldn't be unreasonably prevented, landlords put it in the rental contract that tenants are not allowed to switch. The exception is if they pay via their landlord for any bills (ie, as part of the rent).
- Tenants are often on expensive pre-payment meters.

Clear, unambiguous laws are needed so those privately renting can switch and be taken off pre-payment meters if they ask to be. It is vital to have a way to enforce these rules on landlords.

In light of the introduction of smart meters, we are considering whether any other remedies may be required to address barriers to switching for domestic customers. For example:

(a) Does the 'Midata' programme, as currently envisaged, provide sufficient access to customer data by PCWs to facilitate ongoing engagement in the market? Should PCWs – with customer permission – be able to access consumer data at a later date to provide an updated view on the potential savings available?

Yes, we agree with this, provided consumers give permission to a trusted intermediary as suggested. For example, if MSE's Cheap Energy Club could access data in this way it would be more precise, produce better outcomes for users and ensure more trust in the potential savings offered.

Remedy 5 – Requirement that energy firms prioritise the roll-out of smart meters to domestic customers who currently have a prepayment meter

Yes, we agree with the prioritisation of the roll-out of smart meters to domestic customers who have a pre-payment meter.

Although many like pre-payment meters as they can allow people to take control of their energy costs, generally those on prepayment meters are paying over the odds for their energy. Some providers still charge to switch from a prepay meter to a credit meter. Providing those on prepay meters with a new smart meter would allow them to switch to a credit meter – and access cheaper tariffs – far more easily than is currently possible.

Remedy 6 – Ofgem to provide an independent price comparison service for domestic (and microbusiness) customers

Frankly, this idea is bonkers.

The Money Advice Service is evidence that government services like this are not the most effective way to reach people. They waste enormous amounts of money on marketing that could be better spent elsewhere.

The price comparison market is a complex, competitive industry which spends a great deal on marketing, which it would be difficult for a government website to compete with. Instead the money should be spent on properly regulating price comparison sites, or national switching campaigns like DECC and Ofgem's recent campaign.

The problems with price comparison sites are trivial and they remain the best way in most cases for consumers to check if they're getting a good deal.

While it's preferable that sites default to show all tariffs (something MSE's Cheap Energy Club has always done), the commission structures used by comparison sites are trivial in comparison to the losses incurred by people not switching. For the £10-30 loss in commission bias, there is a risk of putting people off saving hundreds of pounds.

The idea the Government can solve this and is more trusted than comparison sites is not true. There are more trusted intermediaries out there, but also, people care more about ease than trust. This is an issue with regulation of comparison sites – not an issue of competing with them.

Remedy 9 – Measures to provide either domestic and/or microbusiness customers with different or additional information to reduce actual or perceived barriers to accessing and assessing information

(a) Does the current format and content of energy bills facilitate engagement by customers? Is there additional information that should be included on bills? Should the quantity of information on bills be reduced to enhance clarity?

The most important point is that every bill should tell people what their usage is, what the cost is and what the EXACT name of their tariff is which should match up with what suppliers provide TPIs and use in any other communication. Suppliers often require comparison sites to refer to tariff names in a particular way, yet they call the tariff something different on the bills consumers see.

This makes it extremely difficult for consumers to find the right tariff on comparison sites and it undermines the switching process. This is a huge problem that we have flagged to the regulator and industry bodies many times.

The amount of information on bills is not the issue, but the way that information is displayed is not helpful. For example, people do not understand the use of credit and debit balances in relation to their energy bill.

(c) Should customers be prompted to read their meters (quarterly or annually), either by information on their bill or by a phone call from their energy supplier? Would this increase engagement by improving the accuracy of billing?

Yes. The key differentiator is that customers who do not read their meter should be prompted to, but this should not be an annoyance and a form of spam.

We suggest:

- This should be only for those who need prompting and have requested it.
- If anyone wants to opt out at any point this is easy to do.
- This is only needed for people who haven't opted out and are more than 2 or 3 months late in reading their meters, so are therefore causing themselves a problem by not doing it.

(d) Once customers reach the end of a contract period, should subsequent bills highlight that they have now been moved onto the standard variable tariff and/or other default tariff and encourage them to check whether they are on the most appropriate tariff for them?

Yes. This should happen before, during and after they reach the end of their contract period and are moved to the standard variable or default tariff. People should be encouraged in these reminders to check whether they can move to a better tariff. People's lack of awareness of this is a barrier to switching, and each bill is an opportunity to remind consumers of this and prompt them to engage.

Remedy 10 – Measures to prompt customers on default tariffs to engage in the market

Measures are necessary to encourage better engagement in the market from customers who are on default tariffs.

(a) What information should be included in the prompts to customers on default tariffs in order to maximise the chances that they are acted upon?
(i) Should customers who have failed to engage be informed that they are 'no longer under contract for energy', that they have been 'rolled onto a safeguard tariff', or an alternative message, for example, emphasising how many customers in their area have switched in the last year?

We support these suggestions.

(b) How should prompts be communicated to customers? For example, there is some evidence from the financial sector that text prompts are particularly effective at raising awareness in terms of overdrafts etc.

It's important people can be contacted in a way of their choosing and most importantly can reply using the same medium they've been contacted via. For example, if they are contacted via text, they ought to be able to respond by text.

It's worth pointing out that when we recently provided alerts to Cheap Energy Club members by text (as requested by users), this was not necessarily a successful method in prompting engagement in switching. But that is not to say it's not worth trialling.

It would also be worthwhile including a leaflet written by independent, trusted organisations, to provide information about switching with people's bills. MSE and *Which?* have successfully done this to encourage people to reclaim unfair PPI costs. This has been explored before but suppliers, unsurprisingly were reluctant to engage. This is where Ofgem and DECC could help.

(d) Who should provide the prompts: customers' energy suppliers, Ofgem or another party?

Suppliers already have the vehicle to reach consumers with bills and other communications but information should be written by independent, trusted brands as they're likely to have a bigger impact on prompting people to switch.

As above, an example of similar successful work we have undertaken in the past is working with *Which?*, along with five banks and a credit card company, to produce a leaflet to be included with PPI offer letters.

(e) Are there particular groups of customers who should receive prompts at specific points? For example, should house-buyers be prompted to engage with the market on completion of their purchase?

This is a sensible idea, as particular groups of customers would be more likely to engage with the market at specific moments – and house-buyers is a good example of this. We also reiterate our comment that private renters too often fail to engage with the energy market – so similarly, when a new tenancy is signed, renters should also be prompted to engage with the market.

Remedy 11 – A transitional 'safeguard regulated tariff' for disengaged domestic and microbusiness customers

If you accept a competitive market is the best option, then price differentials are needed to make it work. The alternative solution would be to heavily regulate pricing – but this has been ruled out by the current political consensus.

Therefore this remedy, targeted at the right people, would ensure vulnerable people – those not operating within the competitive marketplace - are safeguarded. You could define someone as not within the competitive marketplace if they haven't switched in the last three to five years.

When calculating the headroom, we suggest the safeguard regulated tariff should always be cheaper than the standard tariff and no more than 20% more expensive that the cheapest tariff offered by that company, either directly or via any collective or sub-brand.

We do not see a reason to restrict the safeguard cap to just the Big Six. We hope to see continued competition in the whole of the market; it is not just up to the Big Six.

It's worth highlighting that cheapest is not always the best answer for everyone – for some people being on a longer fix at a slightly higher price can be better. It's about the individual.

Remedies not being considered

Remedy C – Opt-out collective switching of disengaged customers

We don't think the CMA should re-consider opt-out collective switching, but there are other ways to assist disengaged customers. Our Cheap Energy Club is an example of a service that helps people navigate the switching process more easily.

Currently consumers can easily compare and action a switch. This system could be further improved and streamlined by a trusted intermediary switching people (who have previously agreed to delegate the decision) unless they opt out. All the hard work would be done for them.

In order to achieve this, rules would need to be changed and regulation issued to facilitate trusted intermediaries to do this.

About MoneySavingExpert.com

MoneySavingExpert.com is the UK's biggest consumer website dedicated to saving people money on anything and everything by finding the best deals, beating the system and campaigning for financial justice. It's based on detailed journalistic research and cutting edge tools, and has one of the UK's top ten social networking communities.

During July 2015 the site had 15 million users visiting the site almost 28 million times and looking at more than 68 million pages. Over 10 million people have opted to receive our free weekly email and more than 1.3 million users have registered on the forum.

About Cheap Energy Club

Cheap Energy Club is part of MoneySavingExpert.com. Over 1.6 million consumers have signed up to Cheap Energy Club since its launch in February 2013. It is more than just a comparison site. Cheap rates normally only lasts 18 months or so before the price is increased. That means it is hard work to stick with the cheapest. So we do that work for consumers using a three step process:

- Step 1. We find consumers the cheapest deal. They register for the Club and we check they are on the cheapest deal. If they are, great – it's on to step 2. If not, we'll do a full market comparison to find the cheapest (with lots of guidance) and we'll handle the switch. Plus there's up to £30 cashback if consumers switch via the Club, which is not available direct with suppliers.
- Step 2. In the background, each month we do a comparison for consumers. Energy prices change - theirs may hike, others could get cheaper. So without consumers doing anything, whether they switched or not, from then on we do a comparison for them in the background each month to check they're still on the cheapest deal.
- Step 3. Alert consumers when it's worth switching again. Consumers tell us what 'worth it' means. If they tell us they want to save £100/yr, once they can we'll email them; and without them entering new information (unless it's changed), we'll tell them what the cheapest deal is, and let them shift at speed.

Although we are impacted by some of the CMA's proposals, we have replied to the consultation based on what is best for consumers.