

Wednesday 5th August,

Response to CMA energy market notice of provisional findings and remedies

Note: thePeoplesPower CIC have requested additional information from the CMA to help us respond to the provisional findings. This information has not yet been received.

This is a short response querying why a much simpler approach has not been considered in your research, provisional findings and possible remedies:

We note that you have concluded that the gas and electricity customers consume is a homogeneous product unaffected by the supplier:

(p12 para 37 and 38)

“The gas and electricity that customers consume is a homogeneous good, entirely unaffected by the choice of supplier, which means that customers are likely to attach a particular importance to the price of energy”

and

“Moreover, in the case of domestic customers, we observe that:

(a) energy bills are a significant proportion of expenditure in many households, and a higher proportion for those on low incomes; and

(b) our survey evidence shows that there is a somewhat higher proportion of those with some of the characteristics of vulnerable customers among the most disengaged and inactive.”

The results of this disengagement are manifested by millions of people being unnecessarily cold resulting in thousands of avoidable deaths.

Your report even estimates the amount of money that is being overpaid for this homogeneous service.

Why then have you not considered remedies that will simplify the market?

A simple electricity and gas supply market

Gas and electricity tariffs should be as simple to compare as petrol forecourt prices.

- in effect this would mean that tariffs would need to be reduced to a simple usage tariff per kWh
- standing charges would need to be fixed either on a national or regional basis – so in effect would be identical for everyone in a region

- if fixed price tariffs are deemed useful for consumers and suppliers then these would need to be for a standard single term – a 12 month fixed tariff seems ideal

What are the implications for this?

- It would be immediately apparent for a consumer to see if they are on an expensive tariff and how much they could save
- consumers would be able to compare supply companies without the need for a complex comparison
- consumers would only have 2 choices – a 12 month fixed rate or a variable rate
- all supply companies would be easily comparable
- no possibility of confusion marketing with a plethora of complex tariffs
- comparison engines would have less work to do in monitoring, comparing and estimating savings so could lower their commissions and thus help reduce the cost for consumers
- no hidden “standard tariffs” where consumers pay far more for their energy than they should

Allowable discounts

There are circumstances where discounts could be allowed – for example where the supplier can discount a product where they are making a saving.

Examples

- direct debits make billing cheaper for a supplier to manage their billing so they could be allowed to offer a discount for customers paying by direct debit
- online only discount – again this makes the service cheaper for the supplier- so the consumer should get a discount

We hope you will reconsider your remedies and include some thought and analysis on radically simplifying tariffs making them as easy for consumers to compare as petrol forecourt prices.

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