

Energy market investigation

Ofgem Comparison Site

Further submission by



www.TheEnergyShop.com

Non-Confidential

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1. Introduction

In October 2015 we submitted our response to the Competition & Markets Authority Summary of provisional findings report and its Notice of possible remedies report.

In that paper we strongly supported the proposal for an Ofgem price comparison service arguing that not only could it meet the core objectives set by the CMA, but would also play an invaluable role in facilitating the development of important industry initiatives that would improve efficiency, reduce consumer confusion and provide a big boost to consumer engagement.

This submission is made following a review of the responses of Ofgem and Citizens Advice on the subject matter. We focus on the Citizen's Advice response because they specifically propose a service which they (appear to) believe is a viable alternative to Remedy 6.

In this response we refer to the following documents;

- Ofgem - Responses to CMA Notice of Remedies (revised with additional material).
- Citizens Advice and Citizens Advice Scotland – Response to Provisional Findings
- CMA Energy Market Investigation
Notes of a hearing with several advice organisations held at Competition and Markets Authority, Southampton Row, London on Wednesday, 2 September 2015

Definitions

Within this submission certain abbreviations have the following meanings.

AEC means Adverse Effect on Competition

CA means Citizens Advice

PCS means Price Comparison Service

PCW means Price Comparison Website

SVT means Standard Variable Tariff

TPI means Third Party Intermediary

WOM means Whole of Market

2. References

In this section we have copied, for ease of reference, sections from the submissions of Citizens and of Ofgem, which we refer to in our analysis and assessment. Relevant points are high-lighted by us.

2.1 Citizen's Advice (written submission)

Remedy 6

"The Citizens Advice Service has a high brand awareness amongst the consumer groups least likely to trust or use a traditional PCW. As a result, we are planning to introduce a new domestic price comparison service later this year. We will be working through a **white label partner** to provide full market comparisons. Given our formal role as the statutory consumer champion, we believe we could encourage additional suppliers to list their prices on our website. Not all suppliers are currently using PCWs as they cannot afford to pay the proposed commission rates and/or are unable to safely handle the volume of customers that would come through a PCW if their prices were top of the table."

"..Removing the requirement to list all tariffs would require bodies such as ourselves and Ofgem to encourage consumers to use several PCWs to carry out a price comparison. This can be time consuming and not in their best interests."

"We do not agree that allowing exclusive deals on individual PCWs would lead to good consumer outcomes. If this is allowed then any Ofgem site should seek to highlight all deals in the market so acting as a metaPCW."

2.2 Citizen's Advice (verbal submission)

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A. **(Ms Gallacher)** Citizens Advice is planning to launch a price comparison tool and that is in response to the level of demand from our network. We also run some programmes for DECC and Ofgem on energy issues. We have seen some real limitations to the current suite of internet price comparison websites that are available. We have some real issues ourselves about potentially giving people information that was not wholly accurate because even our own advisers did not know how to press the right filters to make sure they get the full results. So, we are acting on a demand that came from our network to provide services that help consumers and it is part of the wider strategy on energy advice and support.

I think there are also some limitations. So, the internet channel has been spoken about at length this afternoon in terms of people that do not have online access or do not have digital capabilities. What we would hope to do is provide information through different channels over the phone and face-to-face for the more vulnerable consumers. Right now, there is no source of independent advice for people that are not online, so you cannot -- you can phone up some price comparison services, I do not know how easy it is to find them. **Right now, there is no independent pricing information,**

independent in terms of pricing information that is not predicated on commercial payment. So, we are hoping to address that.

We have said that we would welcome additional sources of help and advice for consumers but we would also question whether Ofgem is the right organisation to provide a price comparison service given its role. We think an independent price comparison service it would be a valuable tool for consumers and particularly consumers that are not served by the current arrangements with commercial price comparison websites.

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Q. (Ms Ainsworth) Can I just ask one question? Is that going to be one where you can actually switch through your website or is it going to be information only?

A. (Ms Gallacher) At the moment, it is going to be information only. That is because there are obviously some questions around that have been raised about how this will be funded but also what are the consumer redress and protections that we could put in place, around something like that. What does it mean for the role of Citizens Advice as an independent charity? I think those questions could be true for Ofgem as well. But as a first step, it is definitely about getting information made available. We know as well from the internet price comparisons that are carried out online currently on the commercial sites, I think between about 6 and 25 per cent of consumers actually switched. We know the majority of people do use them as a comparison service rather than a switching service, so if we take that as a first step and then understand what the consumer experience is and what the impact has been, and make sure there is the right protections around it. I think at some point we could **move to a more transactional basis.**

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A. (Ms Gallacher) I think one other point, the proposition that you are putting together for consumers, again based on feedback from advisers who are dealing with people face-to-face is that there is a real -- people really want to save money on their energy bill but they are not even remotely interested in switching because it has happened before and they have been burned or they are worried about what it might do to payments. So, there are real issues about wanting a better deal but not wanting to switch supplier. One of the things that we are offering is what was the cheapest deal for the supplier you are currently with, which kind of leads into some of the things that we were speaking about earlier and the supply of cheapest deal and how you can get prompts and engagement and get people off the bog standard variable rates. **There will be a specific feature in that which right now does not exist in any way, shape or form on commercial sites because there is no commission in transferring somebody within the supplier side but we want to make that option fully visible to consumers that do not want to switch supplier but want a better deal.**

Please note that the highlighted comment above is both false and mis-leading.

Q. (Ms Ainsworth) Will you be able to get information from suppliers?

A. (Ms Cooper) No, we don't need to because we will be operating a white-label site. There are currently a few suppliers who do not have prices displayed on other commercial price comparison websites. **We have had discussions with these suppliers and they have said that they would welcome putting their prices on our site.**

2.3 Ofgem

Ofgem's submission on Remedy 6 presents a number of alternative scenarios for a domestic Ofgem PCS. It is worth noting that most of the alternative options presented do not meet the Whole of Market (WOM) obligation which it is only too eager to impose on accredited sites. It seems strange that Ofgem should show such a lack of enthusiasm for an obligation which it itself mandated. An Ofgem PCS which did provide WOM coverage would clearly fail to meet one of the CMA's core criteria for Remedy 6 being the backstop to whole-of market coverage in the event that Remedy 3 RMR makes WOM unsustainable for domestic PCWs.

Ofgem also states that...

"Moreover, any regulator-operated service could be subject to intense media scrutiny and public expectation."

We very much agree with this view and note that this would in itself drive significant press coverage and consumer traffic to the site at relatively modest cost so reducing marketing and promotion costs.

3. Evaluation

In its Notice of Possible Remedies report dated 7 July 2015, the CMA noted that the rationale for Remedy 6 - Ofgem to provide an independent price comparison service for domestic (and microbusiness) customers was;

- To improve trust in PCWs, and thereby, to encourage greater use by customers.
- To address adverse features of the SME gas and electricity markets, namely actual and perceived barriers to microbusiness customers from accessing and assessing information as a result of a general lack of transparency, the role of TPIs, and the very limited number of PCWs for microbusinesses
- To provide a backstop to whole-of market coverage in the event that Remedy 3 (Removal from domestic retail energy suppliers' licences the 'simpler choices' component of the RMR rules) is likely to create significant practical difficulties for any price comparison service that wishes to provide whole-of-market coverage.

In this section we assess the Citizen's Advice proposal against one that could be provided by Ofgem against the criteria listed above.

In our response of October 2015, we noted that an Ofgem PCS could also have invaluable additional benefits including;

- Better regulatory oversight.
- Addressing tariff data quality and consistency issues (including a move towards electronic tariff data transfer)
- Encouraging PCWs to sign up to the Confidence Code
- Providing a facilitating mechanism for creation of a centralised switching platform.

We fully appreciate that these other factors are not central to the CMA's rationale for Remedy 6, but would like to offer them up for consideration as they can offer potentially invaluable benefits to consumers and competition.

Core Considerations	Ofgem PCS	Citizen's Advice PCS
<p>To improve trust in PCWs, and thereby, to encourage greater use by customers</p>	<p>An Ofgem PCW would fulfil the criteria provided that the Ofgem PCS was then used to list accredited PCWs where the consumer could go to fulfil the transaction / switch.</p>	<p>The CA proposed PCS will not be provided by CA directly but by a white label arrangement with another PCS. This is a paradox. It is both contradictory and absurd to believe that you can improve trust in PCWs by offering a service provided by a PCW in which there is little trust.</p> <p>Furthermore, the service will neither be accredited, nor will it be independently audited under the Code. As a white label it will not meet the criteria. Furthermore, to the extent that it aims to provide services over the telephone and in a face-to-face environment it should be noted that there are no Ofgem accreditations for consumer interactions through these channels - something Ofgem has long resisted putting into place. We fail to see how a non-audited non-accredited service can help promote trust in accredited, audited PCWs. Indeed, rather than improving trust, the CA PCS could actually create more confusion and even discourage consumers.</p> <p>In addition we note that the CA proposal does not plan to send enquiries onto other PCS. Indeed it plans to "move to a more transactional basis" over meaning that PCWs do not feature in its plan.</p> <p>Therefore, this proposal has no mechanism by which it can encourage greater trust or use of PCWs by customers.</p>

To address adverse features of the SME gas and electricity markets, namely actual and perceived barriers to microbusiness customers from accessing and assessing information as a result of a general lack of transparency, the role of TPIs, and the very limited number of PCWs for microbusinesses	An Ofgem PCW could readily fulfil this criterion by providing a low cost information only service.	We note that the CA proposal does not address the SME market and therefore fails to meet this criterion.
To provide a backstop to whole-of market coverage in the event that Remedy 3 (Removal from domestic retail energy suppliers' licences the 'simpler choices' component of the RMR rules) is likely to create significant practical difficulties for any price comparison service that wishes to provide whole-of-market coverage.	An Ofgem PCW could readily fulfil this criterion by providing a low cost information only service.	<p>Citizen's Advice has no formal powers to obtain pricing information from energy suppliers (nor indeed does its white label provider).</p> <p>Based on CA comments it appears that they will be able to get prices from all suppliers based on "conversations" they have had with suppliers. It only takes one supplier to either refuse or to "forget" to provide prices and the concept starts to fall apart. This is a very risky operating model for a service where the objective is to improve trust.</p>
Other Factors		
Regulatory oversight	Capturing real time tariff data would provide Ofgem with invaluable regulatory oversight at a crucial time in the development of retail energy markets. We are facing massive growth in the number of suppliers and tariffs as well as moving to smart metering which will create new information challenges not just for PCWs but also Ofgem. Ofgem's current detached role from real time market developments has often led to mis-interpretations and bad policy decisions. For example, Ofgem's initial reading on the growth of tariffs was seen as a	CA will not be capturing the tariff data themselves.

	positive indicator of competition. Only after some time did it transpire to be a cause of complexity and consumer confusion leading to dis-engagement amongst consumers and requiring radical policy intervention by Ofgem (4-tariff rule).	
Tariff data quality and consistency issues (including a move towards electronic tariff data transfer)	Tariff quality and consistency issues are a source of confusion and inefficiency in energy markets leading to consumer confusion over tariffs and higher costs and prices. This also impedes the development of initiatives such as Midata and QR codes. An Ofgem PCS would be uniquely positioned to impose common data standards on the industry leading to better information, lower costs more consumer engagement whilst setting the groundwork to allow competition and innovation in service provision to flourish.	CA will not be capturing the data themselves. Their white label partner has no power or influence over suppliers in this area.
Encouraging PCWs to sign up to the Confidence Code	With the ability to obtain distribution through an Ofgem PCS, more PCWs would sign up to the Confidence Code. This would create greater engagement and trust with consumers and encourage new entrants to come into the PCW market.	The CA proposal does not plan to send enquiries onto PCWs and would therefore do nothing to encourage new PCWs. Indeed it will likely deter the entry of new players.

Overall assessment

We have no problem with Citizen's Advice launching a service targeted at disadvantaged customers. They are a charity that also receives substantial public sector funding, in excess of £70m annually. If energy PCSs are to be provided to consumers as a public service then CA are both well positioned and adequately funded to provide this.

However with respect to Remedy 6, the CA alternative to the proposal for an Ofgem PCS fails to meet any of the core criteria set by the CMA. Furthermore, it cannot deliver any of the additional benefits that would come from an Ofgem PCS.

On balance, we believe that the CA proposal could backfire spectacularly if it put itself up as a backstop service and it became apparent, which it very quickly would, that it was nothing more than a rebadged service from a potentially dis-credited partner. This proposal, as an alternative to an Ofgem PCS, poses significant risks to consumer trust without meeting any of the core criteria. This seems to us a risk that is not worth taking.

4. Funding

In our previous submission we showed clear evidence that a non transactional Ofgem PCS could be delivered within 3 months at very low cost. This was based on a detailed analysis of the costs of small, intermediate and large comparison sites.

In terms of funding, it should be noted that Ofgem currently source tariff data from third parties. Terminating these commercial arrangements would allow Ofgem to self-fund the collection of its own tariff data.

Additionally, Ofgem's own PCS, in terms of having unique access to whole of market data, could make that data available to third parties through datafeeds. This data would have commercial value to third parties and could be provided on a subscription basis. We appreciate that this might require a change to Ofgem's terms of reference to allow it to generate revenue. However, it should not be discounted as a potential way of funding an Ofgem PCS service.

5. Conclusions

We re-iterate our view that we support the creation of an independent Ofgem comparison service with WOM coverage. Our support is qualified in that it is based on the service satisfying the conditions set out below.

- It must be wholly operated and managed by Ofgem with respect to tariff data collection, processing and presentation. It cannot be out-sourced to another PCW whether accredited or not.
- It should be non transactional.
- It should provide a list of accredited PCWs (not energy suppliers) where the customer can go to verify and fulfil the transaction (as per the current goenergys shopping.co.uk site).
- It should be transitional in nature over a 2-4 year period while the retail energy industry transitions through the post-CMA, 1-day / real time switching, smart meter roll-out world.
- It should start with domestic markets and roll out quickly to SME markets.

5. About TheEnergyShop.com

TheEnergyShop.com is an award winning energy price comparison and switching website. Since launching our new website in June 2012 we have won a number of prestigious awards some of which are listed below.



We have invested heavily in creating a website and user experience that is quick and extremely simple for users to understand. We are probably the only website that does anything truly innovative in the energy PCW sector. Key features of our product offering include;

- 1 page data capture to results screen - no personal information required to get a quote
- Only 5 keys data inputs to get an all of market quote
- Whole of market results in a single screen - patent pending technology driving a unique graphical representation of the whole market.
- Filtering on 16 variables

All of which means customers get energy quotes and savings quicker than any other comparison site.

However, as a specialist service offering just domestic energy comparison and switching services, we are particularly exposed and vulnerable to regulatory interventions such as Ofgem's WOM obligations and the predatory / parasitic actions of energy suppliers that it encourages. It has had a massive adverse impact on conversions and has undermined our ability to continue investing in innovative products for consumers.

