CMA - Market Study of Digital Comparison Tools: Statement of Scope

OVO Energy’s response

24th October 2016

For more information please contact [ ]
1. **Introduction**

1.1. OVO is the 8th largest domestic retail energy supplier in Great Britain. We were an active participant in the CMA's investigation into the energy market and consistently argued that there were two major problems preventing the energy market from functioning in the best interests of domestic customers. The first major problem we identified was that there are a high number of disengaged customers in the market. The second major problem we outlined was that unfair pricing practices had become commonplace in the market, especially amongst the regional incumbent suppliers.

1.2. We initially welcomed the CMA's findings that there was both an engagement problem and a problem with overcharging in the market. We were disappointed however with the CMA's proposals to address these problems. Specifically, we were particularly concerned about the CMA's proposal to introduce a remedy that would modify the voluntary industry standard that the majority of price comparison websites (PCWs) in the energy market subscribe to, called the “Confidence Code”.

1.3. The primary reason we were against this remedy was that we felt that removing the whole of market requirement (WoMR) within the Confidence Code would be ineffective at increasing engagement of domestic customers with the energy market. We discussed this concern in detail in section five of OVO’s response to the CMA’s provisional decision on remedies paper\(^1\) and so will not reiterate the points we made here.

1.4. The secondary reason we did not support the CMA’s proposal and continue to have concerns is that we believe removing the WoMR might lessen competition in the Energy Market. We discuss these concerns in the next section.

2. **Competition concerns of removing the WoMR**

2.1. Comparing energy supplier tariffs via a PCW website is currently the most popular means for energy customers to shop around, according to the GfK

---

\(^1\) OVO Energy: Response to the CMA’s Provisional Decision on Remedies for the Energy Market Investigation, section 5.
customer survey commissioned on behalf of the CMA (GfK survey)\textsuperscript{2}.
However, the PCW market is quite concentrated with regard to market power, with a smaller number of sites enjoying quite high market shares.

**PCW energy supply market concentration**

2.2. The GfK survey\textsuperscript{3} also found that the majority of energy customers using a PCW site consult two different sites or less, indicating that customers do not extensively compare tariffs between PCWs and therefore do not encourage PCW sites to actively compete with each other on price. [ ]

2.3. Evidence from [ ]

**Increasing PCW sites’ commercial leverage by removing the WoMR**

2.4. At present all PCW sites that sign up to Ofgem’s Confidence Code are obliged to display all tariffs available in the market. This means that all suppliers must compete on the same platform with regard to the prices they offer potential customers. Removing the WoMR removes any obligation for PCW sites to show all available tariffs in the domestic energy market. This means that PCW sites can choose not to display an energy supplier’s tariff price on their website unless the supplier commits to having a commercial arrangement with the PCW site. Removing the WoMR thus increases the commercial

\textsuperscript{2} Energy Market Investigation: A report for the Competition and Markets Authority by GfK NOP, February 2015, paragraph 16.

\textsuperscript{3} Energy Market Investigation: A report for the Competition and Markets Authority by GfK NOP, February 2015, Figure 64.

\textsuperscript{4} [ ]
leverage a PCW site can exert over suppliers in relation to commissions payable for displaying an energy supplier’s tariffs on its website.

Implications of increasing commercial leverage in a concentrated market

2.5. As we have stated, the domestic energy PCW market is quite concentrated. This fact, combined with the removal of the WoMR, is likely to significantly improve the ability of certain PCW sites to exert market power over energy suppliers with regard to the commissions they charge for the use of their site. As we have stated, switching via a PCW is the most popular means of switching energy supplier, therefore suppliers that wish to continue to grow or retain customers must participate in the PCW market.

2.6. In light of the concentration of the PCW market, OVO is concerned that removing the WoMR will increase the transaction cost paid to PCW sites by energy suppliers unilaterally. Suppliers that are incapable of paying higher transaction costs for using PCW sites are unlikely to be capable of competing in the market and are likely to exit, lessening choice in the market for customers. Customers are also likely to suffer, as the increased transaction cost that suppliers face is unilateral, making it more likely that energy suppliers will simply pass on the additional cost to energy customers in the shape of higher energy bills.