



Department
of Energy &
Climate Change

Collective Switching

Guidance for Scheme Organisers

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Executive summary

Collective switching has the potential to increase engagement in the gas and electricity markets and help consumers get a better deal on their energy bills. Since 2012, collective switching activity has increased significantly, and was boosted by Cheaper Energy Together, a DECC funding competition for innovative collective switching schemes held in 2012/13.

This document gives scheme organisers, such as local authorities, housing associations and charities, some guidance on what to think about before setting up a collective switching scheme and reflects best practice and feedback from previous schemes.

This publication is focused on collective switching schemes in the gas and electricity markets. It is not intended to provide legal advice or to replace the need for professional consultation on any aspect of your scheme. The information that follows should be treated as an introductory guide only.

Setting up a collective switching scheme

The purpose of a collective switching scheme is to allow consumers to group together to increase their buying power and to negotiate a better deal from gas and electricity suppliers.

There is no set model for how individual schemes should operate. The most common model is for consumers to register with, and operate through, a third party scheme organiser. The organiser will often appoint a collective switching service provider who negotiates with energy suppliers to secure a tariff on behalf of the group. The supplier that can offer the group the best deal wins the custom of the consumers within the registered group. Consumers then receive a personalised offer with details of the winning tariff and decide whether they want to switch to that new tariff. They are under no obligation to switch. If they decide to switch, they will enter into a contract with their new supplier.

In some circumstances, a scheme may by-pass the supplier and buy energy direct from the wholesale market for the purposes of supply (also known as “collective purchasing”). In order to do this the scheme organiser would need to become a licensed energy supplier or apply for an exemption from the requirement to hold a supply licence. Supplying without a licence may constitute a criminal offence and providers should seek appropriate legal advice. This guidance does not provide detailed guidance on collective purchasing schemes.

Gas and electricity markets are complex and involve a range of factors and variables that any potential scheme organiser will need to consider before deciding to set up a scheme. You may wish to seek advice from a consultancy or advisors who can offer expertise in how these markets work. You should also seek legal advice on your proposed scheme.

You may decide that you would like to work with a partner or outsource certain aspects of the work, for example marketing or negotiations, to a scheme provider. You should seek legal advice on the implications of this for your organisation, for example whether you need to undertake a procurement exercise. If you choose to work with a collective switching service provider, they should be able to provide further advice.

Below is a non-exhaustive list of important guidance points to consider before setting up a collective switching scheme.

Interaction with consumers

- How will you ensure consumers are informed and understand your scheme? You should set out the timeline for the proposed scheme and what consumers need to do to take part.
- You should also have clear criteria for assessing the winning tariff. You may wish to consider whether your registered consumers have clear preferences of the kind of tariff that is sought, for example in terms of payment method, green

preferences¹ etc., or whether you will be targeting a particular type of consumer - low users, high users, region specific, etc.?

- How will you ensure that consumers are provided with key pieces of information that is accurate and not misleading?
- You should be transparent about what the scheme is seeking to achieve and the nature of the offer it makes to the consumer, for example will you include a 'whole of market' comparison alongside the winning auction tariff? You should be careful around language publicising the scheme, for example, be clear whether you are aiming for the best available deal in the market, or rather a better deal than the existing tariff of registered consumers.
- You should also be clear in messages about how much consumers may save and that some consumers may not make any savings at all. Be clear that potential savings will vary between consumers depending on energy usage, payment type and existing tariff. You should consider using an average savings figure rather than maximum savings which may be unachievable for many consumers.
- How will you publicise your scheme?
- How will you communicate with vulnerable consumers? Not all consumers will have access to the internet or be confident online, others may be in debt to their current supplier and not be able to switch.
- Consider what customer assistance will be put in place to help resolve issues or complaints that arise during the scheme, and who customers should contact.

Facilitating consumer engagement

Through evaluation of recent collective switching schemes funded through the Cheaper Energy Together funding scheme, we have learned lessons about effective ways of engaging with consumers. Some are summarised here and more information is available in the links at the end of this factsheet.

- Schemes organised by organisations that are generally trusted, such as local authorities, charities and community organisations, have prompted people to sign up who haven't switched before. You may wish to partner with existing networks of trusted organisations that can help build awareness of the scheme and how consumers can take part.
- Consider a range of approaches to engagement as not one size fits all. An effective method of getting large numbers of sign-ups across an area is to advertise through a variety of media types, particularly through newspapers, newsletters and social media. For local authorities, inserting leaflets in the council tax bill has been effective in previous schemes.
- Working together with other organisations, for example several local authorities in a region, and sharing materials can reduce the resource needed in each and enable a larger group of consumers to be formed.

¹ You will want to be aware of the [Green Energy Supply Certification Scheme](#), an independent scheme that verifies the claims made by energy suppliers against their Green Energy tariffs. Similar to a kite mark, the scheme awards a 'Green label' to renewable energy products that will deliver a real, measurable environmental difference.

- Previous schemes have found that using real life examples of consumers who have saved money through participating in a collective switching scheme can be useful, although you should be clear that different savings may be achieved.
- Face to face contact can be helpful particularly when engaging with vulnerable consumers. It takes time to understand a consumer's individual circumstances, such as energy usage, and payment type, assist consumers in finding the right information they need to switch and explain how the scheme may help them. You will need to consider the implications of certain license conditions when engaging with consumers face to face, or via telephone (see section below on Ofgem licence conditions).
- Ensure you consider how you may be able to offer support once consumers have received their personalised offers to maximise switching rates.

Information gathering

You should consider what information you will need about your group in order to identify the most suitable deal for the consumers involved and how you will collect and store information. Here is a list of items that you are likely to need to know:

- Name, address and contact details.
- Current tariff and energy supplier.
- Whether registered consumers are on a fixed term contract and whether this is subject to an exit fee.
- Energy consumption.
- Payment method and account management preferences.
- Whether registered consumers are interested in a green tariff.
- Whether consumers currently receive Warm Home Discount². You should highlight to consumers that they may not be guaranteed to continue to receive this if they switch, depending on their new supplier.
- Whether the consumer is currently on the Priority Services Register of their existing supplier.

From 31 March 2014, consumers will receive information on their Bills (in a tariff summary box) and on their Annual Statements about the key features of their tariffs: tariff name, payment method, tariff end date, exit fees and annual consumption. This should help participating consumers to locate the necessary information.

If you are collecting data, you will need to think about your obligations under the Data Protection Act 1998. The [Information Commissioner's Office](#) can help you understand your obligations in this regard. It is also useful to consider data sharing agreements to help control the use of personal data for future promotions, data analysis and evaluation requirements.

² Through the [Warm Home Discount Scheme](#) large energy suppliers are obligated to provide £135 discount on the electricity bill to eligible consumers. Eligibility varies between suppliers and not all suppliers offer the discount.

Negotiation with energy suppliers

It is important to consider how you will engage with energy suppliers at an early stage.

- Will you approach all energy suppliers? Having all suppliers offer a tariff to your scheme will make the auction more competitive and could result in a better tariff for consumers. If you decide against this and target specific suppliers you should be clear that this is the case to consumers. You may also not be able to benefit from the tariff cap exemption (see license condition section below) unless all suppliers are able to bid into the scheme. If you decide to target specific suppliers they will be able to participate however they will be required to use one of their four core tariffs to bid into the scheme. Ofgem have available on their website a list of energy suppliers operating in the market.
- Number of customers: The scale of schemes can have an impact on which suppliers participate. Schemes with a large number of registrations can be challenging for some independent suppliers to bid as it may be difficult for them to take on a large number of customers in one go. On the other hand, the cost of creating a special tariff for a scheme can be significant and so large suppliers may only offer these if they expect to gain a significant number of customers. One option is to cap the number of customers an independent supplier can take on.
- You may also wish to consider allowing suppliers to bid for customers in certain geographical regions since not all suppliers operate in each region.
- You should also consider the length of time your collective switching process will take to complete. Energy suppliers that make an offer to a collective switching scheme may typically only be able to guarantee the terms and price for a short time as their costs are subject to changes.
- It will also be useful to be aware of the relevant license conditions set by the energy regulator Ofgem (see section below).

Costs of setting up and running a collective switching scheme

- These could include:
 - Legal - you will need to seek legal advice on your specific scheme (see further below).
 - Running costs - establishing and running a scheme will cost money; you may have costs associated with administration, IT, marketing & publicity; and staff costs to provide customer service.
 - If you choose to work with a service provider you should also consider the cost of their services.
- To cover these costs you may want to consider charging a fee for your services. This usually is usually achieved by charging a commission from the 'winning' supplier for each customer that switches to the deal. When working with a service provider, it is common to share the fee between your organisations.

- It should be clear and transparent to consumers if you are taking commission or fees before they agree to participate in a scheme and you may wish to disclose what you plan to do with the revenues received.

Ofgem³ licence conditions relevant to collective switching

- Licence requirements do not necessarily prevent suppliers in engaging with collective switching schemes. However, it is the licensee that is responsible for ensuring their compliance with the terms of their licence, and licensees should seek their own advice on potential involvement in schemes.
- Ofgem's Retail Market Review (RMR) is intended to make the market simpler, clearer and fairer for consumers. The structure of tariffs has been simplified, and the number of tariffs that may be offered limited. It is planned that information provided in communications on Bills and Annual Statements will improve from 31 March 2014, so that consumers will receive personalised information about their tariff, usage, and their switching options.
- From 31 December 2013, energy suppliers may only offer up to 4 tariffs per fuel per meter type. However, there will be an exemption from this cap for tariffs offered as part of a collective switching scheme, provided suppliers are satisfied that certain criteria are met. These conditions include that schemes should not be run by a licensed supplier or an affiliate; that schemes are transparent and have well publicised participation rules; and that schemes are open to any supplier to participate. If a supplier is satisfied that the collective switching scheme meets Ofgem's criteria for the tariff cap exemption they are able to offer new fixed term, fixed price tariffs outside of the cap. The precise requirements are available [here](#).
- Ofgem has also banned cash-back and placed restrictions on bundled products. For more information, see [here](#).
- Ofgem has introduced an obligation on suppliers and their representatives to treat all consumers fairly (Standards of Conduct). Suppliers and their representatives will have carry out their interactions in an honest, transparent and professional manner. Any information provided must be clear, easy to understand and written in jargon-free language. When dealing with consumers their needs need to be taken into account and customer service arrangements must be fit for purpose and transparent.
- [Guidance](#) has been published on some of the licence conditions that must be considered in relation to collective switching schemes:
 - You will need to be aware of the requirements of the sales and marketing licence condition for domestic suppliers (SLC25), especially if you are engaging consumers face to face or via telephone. Ofgem published a [letter](#) in October 2012 clarifying the operation of SLC 25 following concerns on the potential limits that SLC 25 places on face to face selling.

³ Ofgem is the Office of Gas and Electricity Markets, an independent National Regulatory Authority.

Related initiatives

- Ofgem currently looks after the Confidence Code for price comparison websites which may be a helpful document to consider and is available [here](#).
- Ofgem are also considering whether to expand the Confidence Code accreditation to cover collective switching service providers and are due to consult on this in early 2014.

Legal issues

Any organisation dealing with consumers will be subject to consumer protection laws and organisers of collective switching schemes are no exception. Individual organisations should seek their own legal advice specific to their individual circumstances and proposals.

Much of the relevant consumer law is intended to ensure that services are provided with reasonable care and skill, that information provided is accurate and not false or misleading and that organisations act fairly towards consumers. Scheme organisers should take steps to ensure that they stay within the law.

Aside from general consumer law, you may also want to consider:

- If there will be a contract between you and the consumer? In the majority of collective switching schemes, consumers do not enter into a contract directly with the scheme organiser.
- If you are working with a scheme provider, what sort of contract will be in place? Your scheme provider will also need to have contracts with suppliers that participate in the scheme.
- You will also need to consider expectations / requirements of the final selected supplier(s) concerning your communications and arrangements with the consumers.
- Potential competition law issues that may arise in relation to parties who bid into and participate in collective switching schemes.

Useful contacts and information

- [“Helping Customers Switch: Collective Switching and Beyond”](#) contains evaluation of the DECC Cheaper Energy Together funding scheme.
- [“Learning from the DECC Local Authority Competition 2012/13: A case study approach”](#) a process evaluation of selected case studies from Cheaper Energy Together.
- [“Collective switching: Exploring opportunities for low income energy consumers in Wales”](#), a research project by Consumer Futures Wales.
- [“Consumer Sentiment Towards Collective Switching”](#), a research project by Consumer Futures.
- [Evaluation](#) of the Big London Energy Switch by the Energy Saving Trust.
- [Evaluation](#) of Bristol Switch and Save by Centre for Sustainable Energy
- [Evaluation](#) of Cornwall Together by Eden Project

- A practical guide to setting up and running a collective purchasing or community buying group is available [here](#).

The Local Government Association has launched a collective switching framework that is open to all English Local Authorities as well as SMEs. It offers councils and SMEs a free and quick OJEU compliant solution to procuring a switching partner. It is run in partnership NEPO, North East Procurement Organisation and will run for a 2 year period and fit into the quarterly auction model which the winning supplier iChoosr operate. For further information or to sign up for the framework email: productivity@local.gov.uk.

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