

Flexible and Responsive Energy Retail Markets Consultation

Introduction

As a leading UK price comparison website (“PCW”), **comparethemarket.com** (“CtM”) has a strong interest in ensuring that the energy market encourages innovation and competition in order to improve consumer engagement and lower prices.

We are aware of the need to reform the energy market and recognise that current arrangements often fail to effectively and adequately provide consumers with the best range of deals and suppliers. We think that our business model as a PCW, and our proposals in this submission, can positively contribute to the reform process.

We recognise that Ofgem’s role as a statutory regulator is to ensure a competitive and open market, based on a reduction in consumer detriment. In this submission, we will propose that the way to sustainably reduce consumer detriment is to pursue fundamental energy market reform, based on competition and innovation.

We intend to provide CtM’s overarching views on the energy market, as well as our wider suggestions on long-term changes to deliver reform. We hope that this submission can assist Ofgem as it undertakes its work to implement an effective competition regime for the future.

Question 1: Do you agree with our vision for the future of the energy retail market, the outcomes we are seeking to achieve and our characterisation of the key challenges we need to overcome?

CtM agrees with Ofgem and the Department for Business, Energy and Industrial Strategy’s (BEIS) vision for the future of the energy retail market, particularly its emphasis on innovation and healthy competition, ensuring consumers pay a fair price and vulnerable consumers are protected with appropriate safeguards. We believe that providing innovative propositions and services that meet the needs of consumers across a wide range of products will be an important feature in reforming the retail energy market going forward.

As a price comparison website (PCW), CtM supports BEIS and Ofgem’s vision that the future energy retail market should deliver greater choice, better service and lower prices for consumers. CtM believes that the ease and speed with which consumers can switch energy supplier is an essential condition for effective competition and that the ease and speed of switching demonstrates that both the market is working competitively, and the process of switching is working efficiently. CtM demonstrated this through our response to Ofgem’s Default Tariff Cap Working Paper in March 2018, which stated PCWs have a valuable role in clearly presenting a range of energy tariff options, allowing consumers to easily switch energy providers and secure the best deal for them. PCWs help challenge the dominant market position of the ‘Big Six’ energy companies, providing a platform for new market entrants to directly compete with larger energy providers.

We also agree that consumer protection is extremely important, particularly in the face of greater innovation in the market. CtM recognises innovative trigger or service propositions are beneficial to our customers. CtM launched AutoSergei in December 2018, however it differs from some other switching propositions currently on the market, providing an ‘auto-check’ model as opposed to an ‘auto-switch’ service. This allows CtM to inform consumers, who have signed up for automatic checks on their tariff, of better offers in the market, whilst encouraging them to make the switch themselves

to ensure the customer remains engaged in the market and in control of making the final switching decision.

As a business, we have seen ‘loyalty penalties’ imposed on those who do not switch suppliers and we are continually looking at ways to incentivise and encourage customers to engage with the market and make informed decisions about their energy tariffs and deals. Although the price cap was considered a remedy to high energy prices for those on prepayment, standard and default tariffs, it is not considered the ‘solution’ to the fundamental structural problems in the market, including the loyalty penalty and monopolisation of the ‘Big 6’ energy companies. Nonetheless, we do strongly agree that consumers who are less active in the market, as well as those in the most vulnerable situations, should not be paying a ‘loyalty tax’ in the form of excessive prices.

In terms of the overall UK regulatory framework, CtM is of the view that simplification of the current regulatory regime would be of benefit to businesses and consumers alike; allowing greater understanding of the application of current rules and their intended effects. However, we are also clear as a business that simplification of the current framework should not equate to an undue relaxation of important and necessary regulation. For example, we believe that existing ‘fit and proper’ tests continue to apply to both firms looking to enter the market, as well as those already actively participating. Furthermore, regulators should continue to apply speedy and proportionate action to any firm found to fall short of the required standards of conduct.

Question 2: Are there examples of new products, services and business models that would benefit current and future consumers, but are blocked by the current regulatory framework?

We recognise that Ofgem’s role as a statutory regulator is to ensure a competitive and open market, based on a reduction in consumer detriment. We believe Ofgem and other regulatory bodies should work on robust preventative measures, with proportionate sanctions, on anti-competitive behaviour. This is to stop any collusion between firms, or wider malpractice, which would distort the market.

Regarding new products, services and business models, CtM has invested in remedies to simplify the way consumers use information from their energy bills, which are often complicated and confusing for consumers. One product the business sought to introduce, but deemed to be difficult due to regulation, was QR codes on energy bills. QR codes allow consumers to achieve keyless comparison, engage with their energy usage and more easily compare the costs with tariffs from other providers. However, whilst many providers are ‘just about’ compliant with the regulation, some appear to be bending the rules to the detriment of consumers. Consumers, and those firms using the QR code services, often find the information that sits behind the QR code unhelpful and not fit for purpose. CtM would like to see all energy companies who are required to include a QR code fully meeting their obligations. This will ensure customer data is presented in a clear, easy-to-use format which will help improve transparency in the energy market, allowing consumers to make informed choices about their consumption and supplier – ultimately helping to reduce their bills.

Question 3: Are there current or emerging harms to energy consumers which are currently out of scope of the regulatory framework? Do these differ for domestic and non-domestic consumers?

As a PCW, our knowledge and experience does not cover the full extent of the supplier licence conditions and regulatory framework. However, from our limited perspective, we can see no current or emerging harms to energy consumers, which fall out of scope of the regulatory framework.

Question 4: Would it be beneficial to allow suppliers to specialise and provide products and services to targeted groups of customers? If so, how can this be delivered while balancing the need for universal service?

CtM conducts research into vulnerable consumers, particularly the elderly, who are faced with worries around cold weather in addition to financial and health problems. With so many elderly consumers on standard variable rate tariffs, and often financially penalised for being loyal to their supplier, they have the most to lose from wholesale energy cost increases.

CtM therefore believes that it would be beneficial to allow suppliers to specialise and provide products and services to targeted groups of customers, particularly those considered vulnerable. It is evident that direct market intervention from the regulator such as the price cap has not solved the problems facing the energy market, and vulnerable consumers are facing higher bills than others. Citizens Advice's super-complaint to the Competition and Markets Authority (CMA) on the loyalty penalty highlighted the stark financial penalties consumers faced when they do not 'shop around' for better deals in markets including energy. More therefore needs to be done by suppliers to ensure they are able to provide the right process and services to these vulnerable consumers. CtM understands that the method by which this is delivered is complicated, however greater pressure needs to be placed on suppliers and other firms to do more to protect the vulnerable and provide specialised services to meet differing consumer needs in differing segments of the market.

Question 5: Are incremental changes to regulation sufficient to support the energy transition and protect consumers? Or does this require a more fundamental reform, such as moving to modular regulation?

As a PCW, our knowledge and experience does not cover the full extent of the supplier licence conditions and regulatory framework. However, from our limited perspective, it would seem that in order to achieve the faster pace of change needed to support the energy transition necessary to meet future obligations, a nearer term and larger pivot is needed, rather than incremental changes to regulation over time.

Question 6: Are there any other potential market distortions we should be considering as part of our review?

CtM agrees with Ofgem and BEIS' assessment that a potential market distortion exists in the way high cost-to-serve consumers are distributed around the market, particularly those in vulnerable situations with a higher customer service need and/or customers at a high risk of indebtedness.

The business also recognises another potential market distortion exists around consumers who do not use the internet, or have poor access to broadband, which should be considered as part of the review. CtM's own data shows that factors including the income of a consumer, their age and familiarity with technology often play a large part in determining the prevalence of a 'loyalty penalty' in any particular market. For example, CtM's work in the energy sector has shown that consumers who remain on a supplier's standard variable rate, which is often more expensive than a like-for-like fixed rate, do so because they do not have the opportunity to access online switching services because of inhibited internet access. Those who do not have access to the internet are less able to 'shop around' for a better deal and are therefore financially penalised for remaining with a supplier having to pay a loyalty tax in the form of excessive prices.

We believe that, as a business model, PCWs can positively contribute to the reform process as it encourages competition and innovation in the energy market. However, PCWs also rely on consumers

accessing the internet and using an online platform to find these deals. Those without access to the platform therefore contribute to potential market distortion and are considered high cost-to-serve customers.

At a wider level, CtM recommends Ofgem considers the potential market distortion which could follow from allowing suppliers to choose how they meet their carbon neutral targets. This includes the need to oversee how collusion between market participants could lead to distortion in market outcomes, as well as the need for consistency in how suppliers meet their mandated carbon neutral targets.

Question 7: Would removing the thresholds for the Energy Company Obligation and Warm Home Discount help remove imbalances in the retail market, and could this be done without significantly increasing barriers to supplier entry or expansion in the retail market?

It could be seen that all suppliers working on an even playing field in areas such as ECOs and WHDs would help remove imbalances in the retail market. However, as inferred in this question, we agree there would be little chance of levelling the playing field in these areas for all suppliers without increasing barriers to supplier entry or expansion in the market.

Question 8: How could the delivery burden on suppliers from the Energy Company Obligation be reduced, for example through the introduction of a buyout mechanism?

Question 9: What effect does the range of Energy and Climate Change Policy Levies have on the retail market?

Question 10: What actions could government take to reduce any negative impact of Energy and Climate Change Policy Levies?

We strongly believe that any actions Government takes to reduce any negative impact of Energy and Climate Change Levies should not result in creating significant distortions to competition in the retail market.

Question 11: Do you agree that now is not the time to make further changes on system and network cost recovery, metering and access to data as part of this retail market review?

As an online company, with a strong interest in data-driven solutions and innovation, CtM is strongly of the view that Ofgem should take a holistic approach to the future of the energy market, including focusing on improving the wider energy network and improving the use of meters. This is important because increased information – for suppliers, intermediaries and consumers – will be vital in improving competition, identifying vulnerable customers and highlighting existing problems in the UK's energy system. Furthermore, it is through continual measurement that data will be gathered to ensure that Ofgem's objectives are being met over a period of time.

One such innovation which should be a continual focus for Ofgem, is in the rollout of smart meters. CtM believes that smart meters are a useful innovation that could potentially transform how consumers engage with their energy ecosystem. Once the current barriers in implementation have been overcome, this could lead to effective competition. However, we concede that, until such a process is complete, smart meters cannot be considered to generate better outcomes for all consumers, on default or any other tariffs. Therefore, this is a prime example where regulatory focus can enable useful market innovations going forward.

Question 12: What total costs do suppliers face with regards to bad debt and supporting consumers who struggle to pay for their energy?

As a PCW, we do not have a detailed understanding of the bad debt costs suppliers face. However, it is the assumed normal practice that the cost of such bad debt is recovered from their credit customers, in the form of increased prices. We agree with Ofgem that consumers on default tariffs with suppliers with a greater proportion of consumers in debt would therefore face higher prices unless they shop around.

Question 13: How could any potential distortions related to high cost-to-serve customers be addressed, for example by the provision of additional support services for customers struggling to afford their energy?

CtM believes that for suppliers to effectively support customers, it is not enough for energy companies to improve their existing offers and services, but they should also enable their customers to actively search for alternative providers. This is to ensure that consumers are not only given the best deal that a specific supplier can provide but are enabled to search for the best possible deals available across the board. Specific measures to enable this include regular customer notification systems, whereby customers are actively informed by their existing supplier when their current deal is about to expire, to allow them to actively search for alternatives and to avoid falling into a more expensive default tariff.

Question 14: Would addressing market distortions (for example size-based obligation thresholds for some policy schemes, supporting those who are struggling to afford their energy bills) help reduce incentives for suppliers to adopt pricing strategies that lead to excessive prices for loyal consumers? If so, to what extent (providing quantitative evidence, where possible)?

Question 15: What are your views on the measures being considered to address loyalty penalties in different markets? What approach or – combination of approaches – would be most effective in the energy retail market?

In CtM's submission to Ofgem's recent discussion paper on conditions for effective competition, we agreed with the regulator that using consumer outcomes to assess whether the conditions are in place for effective competition will vary across individual consumers. We also agreed that competition in the market is important and will deliver good consumer outcomes, but also understand that competition will not necessarily deliver outcomes that meet the needs of all customers, including vulnerable consumers, and that provisions to complement effective competition may be required for these consumers.

The loyalty penalty is most problematic when consumers have a very limited choice of alternatives to switch to (or perhaps no choice). CtM is of the belief that consumer inertia can lead to loyal customers being penalised in the energy market. We are continually looking at ways to encourage customers to take the time to shop around through incentive schemes or innovative tools such as our 'AutoSergei' tool. As a business, we recognise the best consumer outcomes are achieved when individuals are engaged with the product they purchase. BEIS has recognised that a loyalty penalty exists across a number of markets and we look forward to the publication of the Consumer Markets White Paper, which will seek to introduce further protection for consumers and ensure they benefit from better deals and services.

The existence and impact of loyalty penalties varies from market to market, and so do their root causes. Therefore, CtM is unable to pinpoint one overriding factor which explains why loyalty penalties

exist. However, in line with Citizens Advice's own findings, CtM's experience demonstrates that broadly loyalty penalties exist due to a combination of factors related to provider's pricing practices, levels of competition within a market and the extent of consumer engagement with the market itself.

As outlined in question six, CtM's own data shows that factors including the income of a consumer, their age and familiarity with technology often play a large part in determining the prevalence of a loyalty penalty in any particular market.

Question 16: What other approaches could be adopted to ensure loyalty penalties do not re-emerge?

CtM believes that structural changes, when delivered with executional excellence, are necessary to facilitate innovation and enhancements to the competitive process. However, as outlined in question 11, the current smart meter programme has experienced significant issues and delays – meaning that the lack of interoperability of the SMETS1 meters has hindered the competitive process, rather than facilitated it. Furthermore, we are also of the view that in a competitive market, new ways for consumers to engage with their energy will emerge. For example, we believe that further innovations in automated checking and switching services will become more mainstream and widespread, enhancing the competitive landscape.

In addition to that, the competitive process must work well in the absence of the default cap on Standard Variable Tariffs (SVTs). This will be imperative in demonstrating to policymakers that market-wide reform can deliver better outcomes for customers, without the need for undue and ongoing external intervention.

Question 17: What protections or support may be required to engage consumers in vulnerable situations in the future market?

As argued throughout this submission, CtM is of the view that egregious loyalty penalties, due to a lack of switching and market engagement, is of a particular detriment to disengaged and vulnerable customers. This is due to the fact that they are less likely to use online tools available to them to switch provider and are more likely to remain loyal to their existing provider (irrespective of service).

CtM believes that loyalty penalties are of particular concern when they affect vulnerable consumer groups, who find it difficult to engage with the market and find it harder to switch. The most effective long-term protection to the vulnerable paying a loyalty penalty is to ensure that more customers become increasingly engaged in the marketplace so that they are not financially penalised for failing to switch. Providing ways to encourage customers to switch – through tackling the reasons customers do not – is a proactive way to achieve this. To this end, the Government should encourage an increasing number of consumers to engage in collective switching models, as this is an invaluable means to allow unengaged consumers to benefit from an active market.