

# Consultation response

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**TO:** Kersti Berge  
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## ENERGY SUPPLY PROBE - INITIAL FINDINGS REPORT

Which? consultation response.

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## SUMMARY

1. Which? is the largest independent consumer representative organisation in the Europe, with about 700,000 members. Which? offers advice to consumers in the UK and campaigns on their behalf to make consumers as powerful as the organisations they deal with every day.
2. Which? welcomes the opportunity to respond to the Ofgem's Energy Supply Probe Initial Findings Report. Ofgem has identified significant and serious shortcomings in the operation of energy (gas and electricity) markets that prevent consumers securing a fair deal. Ofgem's findings were echoed in the Business and Enterprise Committee 'Energy prices, fuel poverty and Ofgem' report<sup>1</sup>. Which? considers the proposed remedies form a package of measures necessary to address the range of significant and diverse problems Ofgem has identified. Which? would be happy to discuss any of our comments in more detail.
3. The results from Which? research<sup>2</sup> support many of the findings presented by Ofgem. Our research clearly shows that consumers are confused by the tariffs and do not get all the information that they would like<sup>3</sup>. These findings reflect two of the key overarching themes that are central to the problems in the UK energy sector: inadequate transparency; lack of clear and accurate information. Which? also wrote to energy suppliers in July this year, asking why prices were likely to increase so significantly and what steps had been taken to inform consumers. The responses invariably held global wholesale prices as responsible. Although plausible, Which? is not able to verify whether this is the case, due to insufficient disclosure between wholesale and retail activities.
4. Which? is generally supportive of the remedies proposed in Ofgem's report. Implementation of the proposals have the potential to make significant progress in addressing the transparency and provision of information issues that both affect consumers experience (the supply market) and the wholesale markets.
5. However in order for real change to be derived from this report it is imperative that Ofgem sets out a clear timetable in which the remedies will be further developed and implemented. **Which? recommends that Ofgem**

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<sup>1</sup> Business and Enterprise Select Committee 'Energy prices, fuel poverty and Ofgem' report, published July 2008

<sup>2</sup> Utilities Survey, Utilities Suppliers Report.

<sup>3</sup> Comments from Utilities Survey, and 70% wanted additional information about available tariffs.

**consider using a similar protocol to that of the Competition Commission in the development of a timetable.** Which? considers that the interests of consumers will best be served by a transparent process in which it is clear that energy suppliers are not able to impose undue influence. The timetable will enable stakeholders to monitor the reform of the energy sector and focus attention as to when Ofgem will refer the energy market to the Competition Commission if sufficient progress to resolve the problems identified has not been made<sup>4</sup>.

### Presentation of this response

6. Which? has responded to each of the remedies in turn where relevant, focusing on Action 1, promoting more active customer engagement, and Action 2, helping consumers make well informed decisions. Some additional comments are made in respect of Action 3, reducing barriers to entry and expansion, transparency, powers to intervene in wholesale markets and comments on the notification period for price rises.
7. Which? makes the following recommendations:
  - Ofgem consider using a similar protocol to that of the Competition Commission in the development of a timetable.
  - Ofgem conduct further research on what aspects of bills, and statements, consumers find difficult to understand.
  - Ofgem conduct research to develop the best way to present energy billing information. This should include exploring the development of a summary box for energy, to ensure consumers are able to use their bills fully and whether a summary box has wider use alongside presentation of tariff information.
  - Ofgem consider mandating energy supply companies to use a standardised form of information, or summary box, following its research.
  - Ofgem conduct further research on what aspects of bills, and statements, consumers find difficult to understand.
  - Ofgem conduct research to develop the best way to present energy billing information, this should include exploring the development of a summary box for energy, to ensure consumers are able to use their bills fully and whether a summary box has wider use alongside presentation of tariff information.

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<sup>4</sup> Ofgem stated in the Energy Supply Probe - Initial Findings Report overview that they will consider making a market investigation reference to the Competition Commission.

- Ofgem consider mandating energy supply companies to use a standardised form of information, or summary box, following its research.
- Ofgem examines the activities of the Big 6 in relation to:
  - Restricting the availability of tariffs on independent switching sites
  - Manipulating tariffs to increase the profile of the supplier on switching sites
  - Limited duration or supply of particularly attractive tariffs available
  - The frequency that changes are made, at a cost to both consumers and comparison sites
- Ofgem consider the development of minimum standards that:
  - Apply a minimum duration to all tariffs before any price increase may take effect
  - Ensure that any 'introductory' prices are made clear, or a minimum duration of 12 months is applied - allowing consumers' a reasonable time to make comparisons (in combination with an Annual Statement or Prompt); and
  - Ensure that specific, clear and direct notification is provided to consumers where their tariff is 'withdrawn' or superseded by a new more attractive offer.
- Ofgem may wish to consider mandating that customers are automatically migrated to any newer version of their existing tariff.
- Ofgem provide further clarification as to how they propose to make the switching process more efficient.
- Ofgem require energy suppliers to reduce the time it takes for customers to switch.
- Ofgem mandate energy supply companies to provide a timetable within ten working days of the customer switching to them and, at key points, contact customers again with a progress report (for example, every four weeks on the basis of the current switching timeframe).
- Ofgem require energy suppliers to automatically place customers on its cheapest tariff for a fixed period (say 18 or 24 months) while the debt is being repaid, in those circumstances where the supplier exercises its privilege of blocking a customer's transfer.
- Ofgem conduct a thorough analysis and assessment of any prospective price metrics of this type before pursuing the concept further. This should include engagement with stakeholders and we are happy to work with Ofgem on this further.
- That the tariff structure should be simplified.

- Ofgem review the issues present in Table 1 and undertake research to develop remedies to address these.

**Table 1, Proposed aspects of energy tariffs causing confusion**

| Area of concern                                    | Description of Issue   | Options to explore  |
|--|--|---|
| Standing Charges and 'non-standing' charge tariffs | <p>There is always some degree of fixed costs that energy supplies must recover. Historically, this has been achieved through 'standing charges', levied on a p/day basis.</p> <p>A 'non-standing charge' tariff adds additional complexity to price comparisons, with a separate 'tier 1' consumption rate up to a certain volume of energy. Given that the fixed costs must be recovered regardless, there appears little benefit to consumer from 'non-standing charge' tariff.</p> | <p>The removal of non-standing charge energy tariffs, with uniform application of a standing charge to recover relevant fixed costs. This could be used to recover regulated distribution costs alone, or include an element of wholesale energy costs (subject to further measures to improve transparency of retail and wholesale prices).</p>                |
| Discounts  | <p>Many advertised tariffs comprise a discount, for example for payment by direct debit or online tariffs. In some cases these discounts may be time limited.</p> <p>Not all discounts are presented in a comparable manner, for example direct debit discounts may be a percentage discount or a separate tariff.</p>   | <p>Energy suppliers be required to clearly detail whether the price is inclusive of a discount.</p>   |
| Duration of tariff offers                          | <p>As set out above (paragraph 28 to 29) many tariffs, in particular online tariffs, appear to only be available for a limited period. Existing customers may stay on these tariffs, but usually find that the tariff offer worsens relative to more recent tariffs. It is not clear to the consumers, or price comparison</p>   | <p>Which? considers that customers should have advance knowledge of key contract terms (see issue below about price change notification). Suppliers should be obliged to provide the customer precise details as to the minimum period of time an existing tariff offer will last, and under what circumstances it may change, in a similar fashion to that</p> |

|                   |   |   |
|-------------------|---|---|
|                   | sites, that such tariffs may be of limited duration.  | seen in the advertising of financial products. The minimum duration of a tariff should be the length of time it takes for a consumer to switch to another tariff.   |
| Number of tariffs | Which? considers that the number of energy tariffs available is excessive, given the nature of the product and levels of consumers engagement. Which? does not agree that this number of tariffs is indicative of innovation. The excessive number of tariffs adds a further layer of confusion for the consumer. | The above three measures should make energy tariffs easier to compare and instil consumers with greater confidence that the deal they were getting would be available for a reasonable period of time.<br><br>Failure to address these three elements would suggest that the absolute number of tariffs should be reduced, as indicated by the example from the Railway industry. |

- All pre-contractual (such as that issued by door-step sellers), contractual and statement notifications include a standardised summary box of the key pieces of tariff information.
- Ofgem must outline how they will ensure that should smart meters be rolled out across the UK that the full cost does not fall on the consumer.
- Ofgem ensure that any changes to the accounting practices are adequate to the extent that an independent observer, who does not necessarily have a background in energy markets, is able to make an assessment of the accounts.
- Energy suppliers give customers a minimum of notification in advance of a prices rise, equivalent to the minimum length of time it would take a customer to search for a new tariff and switch, and notification should be provided in a separate communication to the customer, not in their quarterly statement.
- Ofgem investigate how energy suppliers determine the amount of monthly direct debit payments. Ofgem should also examine whether changes (increases and decreases) to the direct debit amounts are in line with the changes in the retail prices.

## Introduction

### *Energy and the energy market*

8. Energy is a homogenous product supplied by public utilities. Access to energy for all consumers is a fundamental pre-requisite to participate effectively in social and economic life. It is an intangible product that consumers need to facilitate everyday activities of cooking, heating a home, leisure and work. Although increasingly expensive, energy does not have an intrinsic value.
9. Competitive energy markets should be driven by consumers switching to better deals, and different suppliers, in the face of a price increase or changes to other product characteristics that form a visible aspect of competition. Ideally, consumers should be well informed of the price offers available from different suppliers and face low switching costs.
10. Ofgem's probe has highlighted a number of serious failings of the energy markets in the UK. This is to the detriment of consumers and business. The issues affecting the wholesale and domestic markets are closely related. Ofgem has identified inadequacies too in the extent of consumer engagement with the market, but there is also a concern that the choices currently available to consumers are of poor quality.

### **Ofgem's Proposed Actions**

#### ***ACTION 1: promoting more active customer engagement***

##### ***Clearer information on customer bills***

11. Which? supports Ofgem's proposal to improve the information provided to consumers by energy suppliers. To make informed decisions all consumers should have a right to access appropriately presented and accurate information. The role and relevance of customers' bills is set out below, together with research that emphasises the positive outcomes from simply improving clarity of information and lessons that could be learnt from the approach taken to present credit information by the financial services industry (arguably a significantly more complex product than a utility should be).
12. As noted above, energy is a non-discretionary purchase: a pre-requisite for participating in modern economic and social life. For the majority of consumers (88 per cent)<sup>5</sup> energy is consumed on a credit basis, paying quarterly in arrears or a set amount via direct debit. The energy bill forms

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<sup>5</sup> Ofgem probe, table 3.2 page 42.

the main and most tangible point of ‘market contact’. Consumption is not transparent: reading meters is not a usual habit; interpreting meter information is difficult.

13. As a result, consumers have little knowledge of how consumption translates to everyday use of energy (e.g. the ‘costs’ of switching on a kettle) and how this may affect their bill. Payment by credit may also weaken price-sensitivity, knowledge of tariffs or their structure is likely to be low and adjustments to behaviour only occur after a bill has been received (in an anticipation of future bills)<sup>6</sup>. It seems likely that the characteristics of ‘bounded’ rationality, such as short-termism or procrastination, make learning from previous bills a hit and miss affair. The way that information is presented, and the link between using and benefiting from information, is therefore key to improving consumer behaviour by changing consumption and / or participation in the energy market.

#### *The function of a bill*

14. At its simplest, bills are a demand for payment for goods or services supplied. A bill should inform customers, quickly, as to the amount of their bill, enable them to assess how this amount was derived and use the information to evaluate if they have the right good or service for their needs. In order to achieve this it should include:
  - A description of the goods or services supplied
  - A total price, itemised if necessary
  - A statement of terms for payment, including payment address, forms of payment accepted and date by which payment due.
  - The name and address of the customer who is liable for the payment
  - The name and address of the supplier demanding payment
  - Contact detail of the supplier to resolve any queries
15. Energy bills may differ, in part due to the credit nature of the purchase and the ongoing relationship. (Energy suppliers are also mandated to supply

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<sup>6</sup> For example, evidence submitted to the Business and Enterprise Committee, paragraph 77, suggests a significant minority of customers switch to more expensive tariffs, while Ofgem’s own research (Probe paragraphs 4.11 - 4.12) suggests that despite consumers’ desire to switch to save this is not clearly achieved when assessing the outcomes.



specific information as set out in the standard license conditions<sup>7</sup>.) For energy suppliers:

- Mandatory information relating to customer meter identify, gas safety information, fuel mix, energy saving measures and (once the Energy Services Directive takes effect) consumption.
- A point of contact for cross-sales of other products, such as boiler repair and maintenance, home improvements etc.

For customers:

- Bills inform expectations of future consumption from past consumption.
- Check that they have received energy at the price they had agreed, i.e. their bill is correct.

16. Customers' bills are also the main source of information to make comparisons between competing offers. Which? considers that, given the importance of bills as key points of contact and low 'visibility' of energy as a key consumer product, Ofgem should not lose sight that bills are for customers' benefit in priority to any other uses that suppliers may put them to.

#### *Impact of poor bill comprehension*

17. Research conducted in the USA on water bills<sup>8</sup> has shown that consumers' response to price signals are weaker when the information necessary to make informed decisions is not conveniently available to them. In this case Gaudin illustrated that including clearer price information on water bills would increase price elasticity (responsiveness of quantity supplied to changes in price). This research builds on earlier work conducted by Fast<sup>9</sup> who found that after the 1985 change to 'plain language' there was a significant increase in price elasticity in response to domestic electricity bills in the State of New York.

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<sup>7</sup> Gas Act 1986, standard conditions of gas supply license, and the Electricity Act 1989, standard conditions of electricity supply license.

<sup>8</sup> Gaudin, S (2006) 'Effect of price information on residential water demand', Applied Economics, 38:4, 383-393

<sup>9</sup> Fast, J. E. (1990) 'The effect of plain language billing procedures on residential energy consumption, in Enhancing Consumer Choice: Proceedings of the Second International Conference on Research in the Consumer Interest' (ED.) R. N. Mayer, American Council of Consumer Interests, Columbia, MO.

## Summary Box

18. There are a number of recent examples of presenting complex information to optimise accessibility and engagement by consumers. These include the development of the summary box for financial services products, which was lead by APACS<sup>10</sup>. As set out in the APACS Best Practice Guidelines 2006 the Summary Box was introduced in “in response to customer demand and as part of the credit card industry’s drive to improve the transparency of its products for the benefit of consumers”. Versions of the Summary Box have now been developed for a number of products including the credit card statements where the primary objective is to “remind cardholder of the key features....allow them to compare their current card with others should they wish to review whether their existing product continues to best suit their needs”. This is clearly welcomed and the development of a similar concept for energy consumers, alongside other measures (as discussed under Action 2 below) would be a welcome development in the provision of clear information.

19. Which? recommends:

- **Ofgem conduct further research on what aspects of bills, and statements, consumers find difficult to understand.**
- **Ofgem conduct research to develop the best way to present energy billing information, this should include exploring the development of a summary box for energy, to ensure consumers are able to use their bills fully and whether a summary box has wider use alongside presentation of tariff information.**
- **Ofgem consider mandating energy supply companies to use a standardised form of information, or summary box, following its research.**

## Annual statement and annual prompt

20. Which? supports the proposals for annual statements and annual prompts. However these should not detract from the routine provision of clear and accurate information, such as consumption levels and structure of tariff, which should be included as standard in customers’ bills issued by energy suppliers or presented alongside key pricing and marketing.

21. Ofgem’s probe, and other enquiries (for example the Business and Enterprise Committee), have found substantial evidence that consumers are not

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<sup>10</sup> Association of Payment and Clearing Service Providers

actively engaged in the energy market or with managing their own energy demand. Which? considers this has distinct parallels with the provision of Payment Protection Insurance (PPI), given a similar problem of consumers' actively shopping around or comparing products in particular where approached by a doorstep salesman.

22. The Competition Commission provisional decision on remedies for its market investigation into PPI proposes an annual statement of costs and a reminder of the customer's right to cancel<sup>11</sup>. This would include information of how to access price-comparisons, in this case via the Financial Services Authority. The Competition Commission considers that 'an annual statement would increase transparency and would help customers compare prices of PPI policies against other PPI policies and other insurance products such as critical illness or income protection'<sup>12</sup>. This would allow greater customer awareness of the product, its cost and customers' ability to switch. The statement itself would be sent separately from other documentation in order to avoid confusion over the purpose of nature of the statement.
23. Given the similarities with the problems identified engaging consumers, Which? considers an annual statement could make a substantial impact at addressing the concerns identified.
24. Our research has also shown that seven out of ten customers would like more information about other tariffs<sup>13</sup>. An annual prompt as proposed in the report could provide this. As with an annual statement it may encourage more active engagement with their energy provision.
25. Ofgem may wish to consider whether the annual statement and prompt should fulfil separate functions (or can be combined), the extent that the structure and wording of these forms should be mandated and the opportunities for suppliers to offer further information about their own products.

## Promote confidence in price comparison and switching sites

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<sup>11</sup> Remedy option 6, for the full report and an example statement see [http://www.competition-commission.org.uk/inquiries/ref2007/ppi/provisional\\_decision\\_remedies\\_retail.htm](http://www.competition-commission.org.uk/inquiries/ref2007/ppi/provisional_decision_remedies_retail.htm)

<sup>12</sup> Paragraph 265, Market Investigation into Payment Protection Insurance, Provisional decision on remedies, 13 November 2008, Competition Commission.

<sup>13</sup> Utilities Survey

26. In part, the difficulties facing consumers using price comparison sites stem from the complex array of tariffs currently available and the difficulty in making meaningful comparisons. These issues are common to all consumers looking to switch and are explored more fully in paragraphs 40-56 in response to Action 2.

27. Research undertaken by Which? has found that the price comparison process, using a price comparison site, can operate in two ways, but fundamentally relies on the user having some level of knowledge in order to use them for maximum benefit. One way is to use the filtering system and compare the current tariffs to a selected kind. This system requires some *a priori* knowledge to make correct preferences on the types of tariff variables. The alternative is to carry out the filter process but compare the current tariff to all the types of tariff available. This will lead to the user being confronted with a greater number of tariffs, from which they will have to choose using the price information given and the other information supplied by the comparison sites e.g. consumer ratings. Both ways require the user to have some knowledge of their current tariff and to work properly rely on an accurate measure of consumption. Therefore, while the sites are a key way of accessing tariff data, in order to fully exploit their potential some degree of knowledge is required on behalf of the user. The absence of which can lead to sub-optimal usage<sup>14</sup>. Full details of the research findings can be found in the annex.

28. Ofgem's report sets out a number of serious difficulties facing consumers using price comparison sites, in particular if switching to tariffs managed 'online' (i.e. via internet access by logging on to a suppliers website, rather than by receiving traditional paper billing)<sup>15</sup>. Which? operates its own, not-for profit, switching service Switch With Which? (SWW), and has noted a number of incidents or outcomes that support Ofgem's concerns. In summary, the problems include:

- Partial choice for consumers, who are unable to access the full range of products from all suppliers from comparison websites
- Short notice and frequent tariff changes, in particular for online tariffs, detrimentally affecting both consumers and comparison websites
- No information as to the duration a tariff will be offered or its 'capacity' in terms of the number of accounts or customers that may switch to a certain tariff

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<sup>14</sup> Tariff and Comparison Sites, Which? participant observational research detailed in the annex.

<sup>15</sup> See paragraph 7.48, 7.62, 7.73 - 7.75 and 8.28.

- No updated information to consumers when a ‘new’ version of their existing tariff is released, potentially leaving many consumers stranded on an old and now uncompetitive tariff

29. SWW sets out tariff change history on its website. The clearest and most recent example of where online tariffs have changed in a manner that does not appear to benefit customers is with Click Energy offered by British Gas, as noted by Ofgem. In this case, Click Energy 5 was introduced in February 2008, with existing customers remaining on previous versions unless they actively switched. The price of Click Energy 5 was *reduced* in May 2008, in the lead up to and subsequent increase in the remaining British Gas’ tariffs that attracted a great deal of speculation and media coverage. Consequently, over the period July to October Click Energy 5 appeared highly price competitive with high rankings on the SWW comparison site and attracting a large number of switches<sup>16</sup>. From October, Click Energy 5 was withdrawn, its price increased for remaining customers and a new product (Click Energy 6) launched.

30. Which? cannot speculate on the strategic decisions of suppliers that may drive such behaviour. However, the consequences of this type of conduct for market outcomes more generally can be logically deduced:

- Increase in the absolute number of tariffs, which could potentially increase search costs.
- Loss leading products may temporarily rank highly in comparison website league tables, distorting consumers’ choices.
- Withdrawal or altering the price of products within a short period arguably exploits existing consumer behaviour, making it costly and difficult for consumers to keep up to date with the best deals available and further segmenting consumers identified as ‘active’. From the example above there was only seven months from introduction to withdrawal of the product, and about 12 weeks between a price drop and then price increase.
- Frequent price changes, and selectively denying comparison sites from offering certain tariffs, has the potential to raise costs - encouraging exit of independent price comparison sites and reducing the access to the market for new, potential suppliers that would otherwise have to invest heavily in a brand.

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<sup>16</sup> British Gas provided the largest number of switches through SWW in July and August. When the Click Energy tariffs became unavailable to switch too, they dropped to joint last in terms of volume.

31. These are potentially serious outcomes that would reinforce the weaknesses already identified by Ofgem in its probe. Which? recommends that Ofgem examines the activities of the Big 6 in relation to:

- Restricting the availability of tariffs on independent switching sites
- Manipulating tariffs to increase the profile of the supplier on switching sites
- Limited duration or supply of particularly attractive tariffs available
- The frequency that changes are made, at a cost to both consumers and comparison sites

Which? recommends that Ofgem consider the development of minimum standards that:

- Apply a minimum duration to all tariffs before any price increase may take effect
- Ensure that any 'introductory' prices are made clear, or a minimum duration of 12 months is applied - allowing consumers' a reasonable time to make comparisons (in combination with an Annual Statement or Prompt)
- Ensure that specific, clear and direct notification is provided to consumers where their tariff is 'withdrawn' or superseded by a new more attractive offer

Alternatively, Ofgem may wish to consider mandating that customers are automatically migrated to any newer version of their existing tariff.

### Simplify the supplier switching process

32. Which? understands that it currently takes between six and eight weeks to switch energy supplier in the UK. This is significantly longer than other European countries, where switching energy suppliers can take two weeks<sup>17</sup>. While it may be speculated that consumers are not necessarily unhappy with this our research has shown that four in ten (31%) consumers experience some kind of problem during the switching process, and the main problem reported was that the switch took longer than expected<sup>18</sup>.

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<sup>17</sup> Supplier Switching in the Nordic Countries, September 2005, Nordic Energy Regulators (NordREG)

<sup>18</sup> Question 10, Which? Utilities Survey

33. Clearly in order for consumers to be as responsive as possible to the changes to the market the process needs to be more efficient, and as such Which? supports any actions to do this. **However Which? would like further clarification from Ofgem as to how they propose to do this. We would support Ofgem requiring energy suppliers to speed up the time it takes customers to switch.**
34. We believe that consumers would feel more confident in the actual process of transferring energy supplier if they were kept informed of how the process works, how long it will take and receive regular updates from their new supplier. For example, the customer's new supplier could write, or email, the customer providing them with a time table of the process. Which? is surprised that new suppliers do not appear to make more effort to welcome and therefore establish loyalty with new customers. **Which? recommend that Ofgem mandate energy supply companies to provide a timetable within 7 working days of the customer switching to them and, at key points, contact customers again with a progress report (for example, every 4 weeks on the basis of the current switching timeframe).**

#### Debt blocking

35. Which? welcomes the commitment from Ofgem to review debt-blocking. Which? understands that the debt-blocking standard licence condition was brought in to ensure that those with outstanding debts would be required to make repayments at an affordable rate. While the debt is being repaid, the energy provider 'blocks' the consumer from switching to a different, potentially, more affordable energy supplier and tariff.
36. Which? is concerned that the emphasis of the debt-blocking function has shifted from protecting consumers to allowing energy suppliers a unique and privileged debt-recovery scenario that is not consistent with the principles of competition or protects those customers in debt. Which? recognises that the removal of debt-blocking entirely may expose already vulnerable consumers potentially to further detriment, for example through suppliers' recourse to bailiff services. However, blocking a customer from switching supplier appears contrary to a competitive market and may further exacerbate fuel poverty as the customer languishes on what potentially is a poor value tariff.
37. Which? considers more could be done to balance this considerable advantage held by suppliers to manage bad debt while allowing switching where

possible. Which? recommend that Ofgem require energy suppliers to automatically place customers on its cheapest tariff for a fixed period (say 18 or 24 months) while the debt is being repaid, in those circumstances where the supplier exercises its privilege of blocking a customer's transfer.

### **Customer awareness programme**

38. Which? welcomes the launch of a customer awareness programme to promote switching. Any activities that will increase engagement of consumers with their energy supplier should help consumers to drive improvements in market outcomes. However a customer awareness programme can only form part of the activities to bring about reform of the energy markets.
39. The information provided to consumers must be clear and non-partisan. Consideration should be given to targeting consumers on the basis of the existing customer segmentation. This activity should be supported with appropriate routes for those consumers who wish to, switch energy supplier. For example, a recent initiative by Consumer Focus with Citizens Advice Bureau appears to offer significant advantages in capturing 'inert' consumers. Ofgem may wish to consider whether other cross-cutting routes (for example, efforts to raise financial capability by the FSA and OFT) may offer cost-effective access to customers.

### **ACTION 2: helping consumers make well-informed choice**

#### ***Introduction - switching outcomes***

40. Ofgem's probe has identified a number of considerable problems with switching as a mechanism to dynamically drive improvements in market outcomes for all consumers. In particular, switching appears to have had no impact on recent unprecedented prices, which continue to rise, and consumer satisfaction levels are at a low. Which?'s recent Utilities Survey has shown energy companies rank below banks in levels of consumer satisfaction<sup>19</sup>. The quality of switching choice made also appears to be poor<sup>20</sup>. Consumers' themselves differ significantly in their level of engagement, as characterised in Ofgem's probe. Energy suppliers appear to

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<sup>19</sup> Consumer satisfaction, Utilities survey.

<sup>20</sup>



have developed strategies, such as door-step selling or rapidly changing online tariffs, to exploit this segmentation.

### ***Energy tariffs and complexity***

41. For what is in essence a uniform, identical product, there appears to be a bewildering array of tariffs and tariff structures. Comments on tariffs from consumers made in the course of the Utilities Survey clearly illustrate the confusion that existing tariffs create<sup>21</sup>:

- “It is not easy to make sure you are on the best tariff for your particular consumption pattern. I would like all suppliers to make their tariff details available on request.”
- “It should be much easier to understand tariffs. All utilities should charge the same way for direct comparisons. We need different tariffs but comparisons charging should be simple for all utilities.”
- “The whole area of Gas supply is a minefield. It would be useful to have a source of reliable information that made consumer choices easier to make. Simpler tariffs would help.”
- “Would definitely appreciate more help with different tariffs available.”
- “A big business interested in profit only. Very dissatisfied with the numerous and confusing different tariff rates and price rises”.

42. The number of tariffs on offer to customers in itself can prove daunting. Although using a price comparison site may help the sorting of information, as noted in the annex, this requires a degree of knowledge about the options available or customer’s own preferences<sup>22</sup>.

### ***Rail tickets - analogy to energy tariffs***

43. The confusion and lack of confidence in understanding the number and type of tariffs available has clear parallels with the rail tickets prior to their reform earlier this year<sup>23</sup>. A number of pieces of research<sup>24</sup> commissioned by Passenger Focus<sup>25</sup> found that:

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<sup>21</sup> Utilities survey

<sup>22</sup> Tariff and Comparison Sites, Which? participant observational research detailed in the annex

<sup>23</sup> [http://www.nationalrail.co.uk/times\\_fares/simple\\_fares.html](http://www.nationalrail.co.uk/times_fares/simple_fares.html)

<sup>24</sup> ‘Passenger Requirements From Rail Fares Report of Quantitative Research Findings’ July 2006; ‘Passenger Requirements From Rail Fares Report of Qualitative Research Findings for Passenger Focus’ April 2006

<sup>25</sup> Passenger Focus is the independent rail consumer watchdog

- Approximately half of commuters and leisure travellers feel confident of being able to find the best value tickets for the journeys they make<sup>26</sup>.
- Consumers often feel that they are unable to achieve the best value tickets for journeys being made as a consequence of the confusing and inconsistent variety of tickets available across the different Train Operating Companies<sup>27</sup>.
- Rail passengers perceive that there are a number of barriers to finding and purchasing best value tickets. The number of ticket types available from each company, and indeed across the network as a whole, can feel overwhelming, with seemingly meaningless names adding little to help potential purchasing decisions<sup>28</sup>.
- In particular there is a general feeling amongst rail passengers that rail fares are unfairly priced and that the fares structure is difficult to understand<sup>29</sup>.

44. In response to these consumer concerns Passenger Focus commissioned research on the structure of fares, published in May 2007 'Fare Structure?, Report of Research Findings for Passenger Focus'. The findings in the report include:

- The research provided further confirmation of the perceived complexity of the current fare structure. The complexity caused by the current range of fares available tends to obstruct rather than facilitate decisions making for most passengers, many of whom are forced to make uninformed decisions that they fear may result in them selecting the wrong tariff<sup>30</sup>.
- This perceived complexity leads many to conclude that the current fare structure is an obstruction rather than an aide to making informed purchase decisions<sup>31</sup>.

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<sup>26</sup> Table 10, 'Passenger Requirements From Rail Fares Report of Quantitative Research Findings' July 2006

<sup>27</sup> Page 4, 'Passenger Requirements From Rail Fares Report of Qualitative Research Findings for Passenger Focus' April 2006

<sup>28</sup> Page 30, 'Passenger Requirements From Rail Fares Report of Qualitative Research Findings for Passenger Focus' April 2006

<sup>29</sup> Page 5, 'Passenger Requirements From Rail Fares Report of Quantitative Research Findings' July 2006

<sup>30</sup> Management Summary, page 3, 'Fare Structure?', Report of Research Findings for Passenger Focus', May 2007.

<sup>31</sup> Section 3.2 Ticket Types- Awareness of Tickets Available, page 9, 'Fare Structure?', Report of Research Findings for Passenger Focus', May 2007.

- When faced with such a broad range and variety of ticket types, many passengers feel bewildered and bereft of the necessary knowledge to make informed purchasing decisions<sup>32</sup>.
- Although in many situations in which consumers are required to make purchase decisions the concept of choice tends to be regarded as desirable, breadth and complexity of choice does not present an advantage to consumers in this instance, especially when buying online<sup>33</sup>.

### Easy to understand price metric - pros and cons

45. Which? understand the term ‘price metric’ to refer to a common measure of prices that enables products to be compared easily, such allowing price offers to be ranked from highest to lowest. Price ranking is useful for homogenous products. However, consumers may need additional information if quality aspects, such as standards of service, of a product matter or differ from product to product.
46. Consumers may face difficulty using a price metric as intended if: purchases are infrequent; a clear explanation of the metric’s purpose (and limitations) is not easily available; or the information itself is poorly presented. The OFT’s research of the Annual Percentage Rate (APR) found very few consumers knew the actual meaning of the term or its primary purpose.<sup>34</sup> A larger proportion considered it told you how much interest was charged - which would allow comparisons but may result in significant under or over-estimation of actual credit costs.
47. Which?’s own work (via the APR Supercomplaint) found that despite the method of calculation of APR being mandated, the actual way that interest charges were applied to accounts varied (e.g. the balance charges applied to, when interest would start accruing, differences in interest-free periods). This resulted in widely varying charges for products that had the same APR value. Consumers themselves are largely unaware that calculation methods vary between credit cards. Which?’s solution is standardisation of actual charging methods. This has been rejected because of its (alleged) effects on innovation and competitiveness, and this seems to be based on assertion

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<sup>32</sup> Section 3.2 Ticket Types- the Choice/Complexity Paradox, page 9, ‘Fare Structure?, Report of Research Findings for Passenger Focus’, May 2007.

<sup>33</sup> Section 3.2 Ticket Types- the Choice/Complexity Paradox, page 10, ‘Fare Structure?, Report of Research Findings for Passenger Focus’, May 2007.

<sup>34</sup> *Consumers’ appreciation of Annual Percentage Rates*, 1994, OFT.

not evidence. John Vickers, former Director General of the OFT, noted that if a product characteristic is invisible to consumers it cannot form a dimension of competition. The solution has instead been to improve the Credit Card Summary boxes - indicating upfront how these charges may apply.

48. Ofgem's report proposes the development of a tariff price metric to help consumers assess and compare which is the most appropriate tariff for them, which in turn should translate into consumers making 'better' choices and promoting their confidence in the benefit of switching. However Which? feels that much of the confusion may be resolved by directly addressing the issues with energy tariffs that confuse consumers, these have been summarised in Table 1 below.
49. We are concerned that the introduction of an additional 'new' piece of information that is central to choosing a tariff may simply confuse consumers further. APR is the most well-recognised price metric in the UK. However there has been extensive confusion regarding what it actually means and it's usefulness to consumers when they are trying to make a choice.
50. The recent request by the Chancellor and Secretary of State for Energy and Climate Change that Ofgem publish quarterly reports over the coming year to show the relationship between wholesale prices, estimates wholesale costs and average prices for gas and electricity<sup>35</sup> may go some way to providing a comparator that consumers can use when evaluating energy products. Although, given that many of the energy suppliers are also energy generators we do have some reservations regarding the assessment of the information provided.
51. **We would strongly recommend that Ofgem conduct a thorough analysis and assessment of any prospective price metrics of this type before pursuing the concept further. This should include engagement with stakeholders and we are happy to work with Ofgem on this further.**

*Current energy tariff structure - identifying barriers to confident consumers*

52. **Which? considers there are a number of aspects of energy tariffs that present barriers to confident energy consumers and we believe that the tariff structure should be simplified. Table 1 presents proposed problems**

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<sup>35</sup> Paragraph 7.69, Pre-Budget Report, November 2008, HM Treasury.

with the current tariff structure together with options to explore to address the problems. Which? recommend that Ofgem review the issues present in Table 1 and undertake research to develop remedies to address these.

**Table 1 Proposed aspects of energy tariffs causing confusion**

| Area of concern                                    | Description of Issue  | Options to explore   |
|--|---|--|
| Standing Charges and 'non-standing' charge tariffs | <p>There is always some degree of fixed costs that energy suppliers must recover. Historically, this has been achieved through 'standing charges', levied on a p/day basis.</p> <p>A 'non-standing charge' tariff adds additional complexity to price comparisons, with a separate 'tier 1' consumption rate up to a certain volume of energy. Given that the fixed costs must be recovered regardless, there appears little benefit to consumer from 'non-standing charge' tariff.</p> | <p>The removal of non-standing charge energy tariffs, with uniform application of a standing charge to recover relevant fixed costs. This could be used to recover regulated distribution costs alone, or include an element of wholesale energy costs (subject to further measures to improve transparency of retail and wholesale prices).</p> |
| Discounts  | <p>Many advertised tariffs comprise a discount, for example for payment by direct debit or online tariffs. In some cases these discounts may be time limited.</p> <p>Not all discounts are presented in a comparable manner, for example direct debit discounts may be a percentage discount or a separate tariff.</p>  | <p>Energy suppliers be required to clearly detail whether the price is inclusive of a discount.</p>  |
| Duration of tariff offers                          | <p>As set out above (paragraph 28 to 29) many tariffs, in particular online tariffs, appear to only be available for a limited period. Existing customers may stay on these tariffs, but usually find that the tariff offer worsens relative to more recent tariffs. It is not clear to the consumers, or price comparison</p>  | <p>Which? considers that customers should have advance knowledge of key contract terms (see issue below about price change notification). Suppliers should be obliged to provide the customer precise details as to the minimum period of time an existing tariff offer will last, and under what circumstances it may</p>                       |

|                   |   |   |
|-------------------|---|---|
|                   | sites, that such tariffs may be of limited duration.  | change, in a similar fashion to that seen in the advertising of financial products. The minimum duration of a tariff should be the length of time it takes for a consumer to switch to another tariff.  |
| Number of tariffs | Which? considers that the number of energy tariffs available is excessive, given the nature of the product and levels of consumers engagement. Which? does not agree that this number of tariffs is indicative of innovation. The excessive number of tariffs adds a further layer of confusion for the consumer. | The above three measures should make energy tariffs easier to compare and instil greater confidence to consumers that the deal they were getting would be available for a reasonable period of time.<br><br>Failure to address these three elements would suggest that the absolute number of tariffs should be reduced, as indicated by the example from the Railway industry. |

#### *Energy tariffs and tracking the wholesale cost of energy*

53. It is important that consumers have confidence in the prices offered by suppliers, for example that these prices are determined fairly and relate to costs incurred in providing an energy supply. Our research has shown that only 12 per cent of Which? members believe that their energy supplier is doing all they can to avoid price rises<sup>36</sup>. Ofgem’s proposal for a price metric recognises that consumers need to be able to make an informed judgement of tariffs and so help promote more confidence in energy products (and suppliers) by consumers.

54. Which? has observed a significant increase in a range of fixed, ‘price protection’ or capped tariffs and ‘tracker’ from many energy suppliers. These tariffs offer customers a fixed price for a certain period, perhaps up to two years. In some circumstances, such tariffs may offer comfort to consumers genuinely concerned with steep and volatile price rises. However, if such tariffs involve a penalty charge for switching before the end of the deal, this may clearly inhibit switching. Further, it is difficult to understand how such deals may be compared or judged appropriate by consumers given

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<sup>36</sup> Which? Utility companies survey, October 2008.

the difficulty in judging future price movements and low levels of transparency of wholesale and retail pricing.

55. 'Tracker' tariffs raise greater concern. These purport to adjust a customers' tariff in line with wholesale price movements. As Ofgem's report has demonstrated, wholesale prices are not transparent and are highly illiquid. Further, customers have no external 'barometer' against which to monitor or compare the price adjustments made - which wholesale price is being tracked? These 'tracked' price adjustments appear non-transparent and wholly in the control of individual suppliers.
56. Which? feel that there may be an opportunity to develop a metric to allow consumers to compare their domestic tariff to an objective wholesale rate. For example, consumers are able to compare their financial products, primarily savings accounts and mortgages, to the Bank of England base rate. However, for this to be meaningful, it appears there are many difficulties to overcome in encouraging a greater level of liquidity, such that consumers can have confidence that a measure of wholesale prices properly reflects the costs incurred by their supplier in providing energy. The recent announcement in the Pre-Budget Report, outlining Ofgem's role in monitoring wholesale and retail price, may offer a route to set out a price index that tracked tariffs could be linked to.<sup>37</sup>

### Supplier's sales and marketing activities

57. As noted above, it is important for consumers to be able to make an informed choice. Which? supports any steps that would require energy suppliers to present consumers with clearer information that consumers can easily use to compare and so enable them to make a more informed choice.
58. As detailed in paragraph 18, Which? considers that there is significant potential for the development of a Summary Box, such as the one which exists for financial service products, for energy. **We recommend all pre-contractual (such as that issued by door-step sellers), contractual and statement notifications include a standardised summary box of the key pieces of tariff information.**

### Roll-out of smart meters

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<sup>37</sup> Paragraph 7.69, pre-budget report, November 2008, HM Treasury.

59. Smart meters present an opportunity for consumers to take greater control of energy use, although this is dependant on the type of smart meter and associated display unit installed. However the potential consumer benefit should not detract from the significant benefits that smart meters will also offer to the energy suppliers. For example, energy suppliers would better be able to balance their daily energy suppliers, minimising distribution and balancing costs. Energy suppliers should therefore pay a fair proportion of the cost of rolling out smart meters; these costs should not fall on wholly on consumers. **Ofgem must outline how they will ensure that should smart meters be rolled out across the UK that the full cost does not fall on the consumer.**

### **ACTION 3: reducing barriers to entry and expansion**

60. In an effectively functioning competitive market we would expect to see suppliers freely entering and exiting the market. Ofgem has identified serious barriers to entry and has noted the insignificant scale of those market entrants that remain, none of which appear to present a serious challenge to the established Big 6<sup>38</sup>.
61. As Ofgem recognises, new competitors can spur meaningful innovation and intensify price competition<sup>39</sup>. Which? considers that firms supplying industrial and commercial customers offer the potential to become active new entrants to supply domestic consumers. Such firms may form a competitive fringe to the very large established players, possibly acting as ‘maverick’ innovators. The situation has recently worsened considerably with the exit of two small but robust industrial and commercial suppliers.<sup>40</sup>
62. Which? supports any steps taken to make realistic progress opening supply and generation markets to new entrants or expansion. However, given the history of ineffective entry into both the wholesale and retail energy markets, Which? questions whether the current energy market model is sufficient to deliver the value for money and quality products for consumers that are essential to participate fully in society. Competitive markets for

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<sup>38</sup> Paragraph 6.3, Ofgem’s probe.

<sup>39</sup> For example First Utility and the roll out of smart metering based tariffs.

<sup>40</sup> E4B went into administration on 22 October 2008 with its customers transferring to British Gas (<http://www.britishgas.co.uk/business/help-and-advice/e4b.html>) and BizzEnergy went into receivership on 31 October 2008 again with customer passing to British Gas (<http://www.britishgas.co.uk/business/help-and-advice/bizzenergy.html>). These businesses comprised about 4.6 per cent market share for small business customers (Chapter 10, Ofgem probe).



essential utility services are still a relatively recent development, there is not necessarily any reason to assume that competition is the 'natural' state of affairs. The purpose of a competitive market is to deliver value for consumers, and where markets fail appropriate regulation should be considered.

### **Separate regulatory accounts**

63. Which? is supportive of actions that will make the wholesale and retail UK energy markets more transparent.
64. In July Which?'s Chief Executive, Peter Vicary-Smith, wrote to a number of UK energy suppliers, including the Big 6 but also a number of smaller energy suppliers asking what was being done to make retail energy price rises a last resort and to explain to customers what was happening to their energy prices. Overall, the explanation from energy companies held global prices rises responsible - and clearly they have had a part to play. However, due to the current lack of transparency it is not possible for Which?, or another party, to conclude whether this is in fact the case and that the price rises are fair and proportionate.
65. Therefore in addition to providing additional valuable information to prospective market entrants; increasing the transparency will make a significant step to resolving this and providing the consumer with the confidence to know that the energy product they are buying constitutes good value for money.
66. **Which? requests that Ofgem ensure that any changes to the accounting practices are adequate to the extent that an independent observer, who does not necessarily have a background in energy markets, is able to make an assessment of the accounts.**

### **Wholesale market liquidity**

67. Ofgem has identified some of the serious implications of an illiquid market for energy: increased barriers to entry, greater price volatility. Which? supports appropriate steps to improve trading conditions and efficiency of wholesale markets. However, Ofgem should consider the direct link between wholesale reforms and the delivery of material benefits to consumers.
68. It is common practice for producers and distributors to use wholesale and futures markets to hedge against uncertain future price movements. This

can be beneficial to end-consumers where it can help smooth the volatility of prices. This applies equally to energy prices. As noted above, the Governments Pre-Budget Report set out a role for Ofgem to monitor wholesale and retail price movements. Clearly, if wholesale prices are themselves distorted or subject to weak competitive pressures, there is relatively little comfort to consumers that they are necessarily getting a good deal, even if retail prices are adjusted in line with wholesale price movements. Further, domestic consumers in particular may benefit from a greater level of price stability, therefore, reactive changes to retail price in line with small movements in wholesale prices may not be desirable.

### Issues surrounding price rises

#### Notification

69. Energy suppliers are required to notify their customers within 65 working days of a price rise, customers then have on average between 10 days to respond to the notification<sup>41</sup>. These terms appear quite unbalanced in favour of the energy suppliers. If a customer were for example on holiday they may miss the opportunity to counter act the price rise, by switching to a new tariff. We do not believe that this is fair.
70. Energy suppliers often argue that price can not be lowered because they have bought such a significant proportion of the energy in futures markets, which allows them to buffer price volatility. We question why then energy suppliers are not able to provide customers with more notice of price increases.
71. Notification of the price rise is also often done through customers' quarterly statements where it is not often explicitly presented. This is unlike banks and building societies, which are required to provide separate notification to customers of changes of equivalent changes.
72. **We recommend that energy companies give customers a minimum of notification in advance of a prices rise, equivalent to the minimum length of time it would take a customer to search for a new tariff and switch, and notification should be provided in a separate communication to the customer, not in their quarterly statement.**

#### Changes to direct debit payment amounts

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<sup>41</sup> Notification of unilateral change, paragraphs 23.3-23.7 of the Gas Act 1986, standard conditions of gas supply license; and paragraphs 23.3-23.7 of the Electricity Act 1989, standard conditions of electricity supply license.

73. Our research has shown that our members most commonly pay their energy bills by monthly direct debit, 75% pay for their gas by monthly direct debit with 82% paying for their electricity in this way<sup>42</sup>. Of these members only 3% had a balance of zero at the time of their last bill or statement. Gas users were more likely to owe money to their supplier but electricity customers were more likely to be in credit with their supplier<sup>43</sup>. In the case of Scottish and Southern Energy customers 50% of those with a gas product and 60% with an electricity product were in credit<sup>44</sup>. This clearly indicates that there is a problem with the processes used by energy suppliers to determine the amount of the monthly direct debits payments.
74. The problem is further exacerbated by the apparent lack in transparency how payment changes, which at the moment are primarily increases, are determined. **Which? recommend that Ofgem investigate how energy suppliers determine the amount of monthly direct debit payments. Ofgem should also examine whether changes (increases and decreases) to the direct debit amounts are in line with the changes in the retail prices.**

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<sup>42</sup> Utilities Survey, October 2008, Which?

<sup>43</sup> Utilities Survey, October 2008, Which?

<sup>44</sup> Utilities Survey, October 2008, Which?

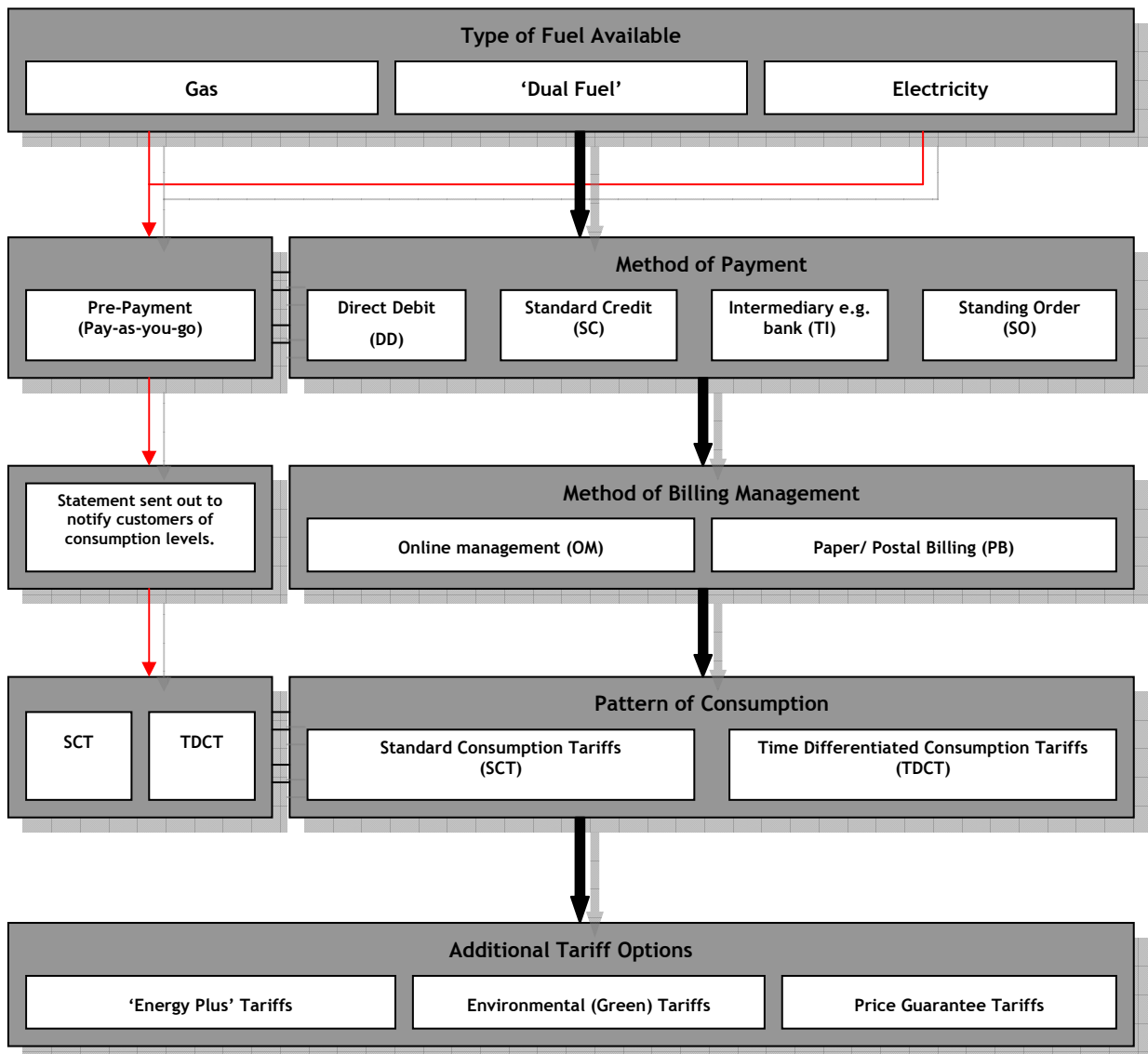
## **Annex**

### **Tariffs and Comparison Sites, Which? Participant Observational Research**

#### **Tariff Architecture**

Purchasing a tariff requires consumers to get to grips with a range of variables as outlined in Diagram 1 below. It outlines some of the key decision points in the process of choosing a tariff, illustrating how the consumer ends up with the tariff they do.

**Diagram 1: Breakdown of the tariff architecture**



## Findings from the research:

### The role of knowledge

Which? research into using comparison sites to comprehend energy tariffs revealed:

- > The key to successfully using a comparison site is the consumer knowing their consumption levels or at least understanding how much they pay for their energy<sup>45</sup>.
- > Consumers will require some knowledge of the component parts of their current tariff e.g. the user is required to input how they pay for their energy and whether it is capped, fixed or has a standing charge among other information.
- > Consumers will need to have some preferences regarding the component variables they would like in their new tariff<sup>46</sup>. This *a priori* method can cause problems as it assumes a certain level of knowledge and even foresight.
  - The consumer by choosing *a priori* one option path may close off a range of potentially cheaper tariffs, also adding time and complexity to the search.
  - If a consumer is purely interested in the cheapest price and is not concerned by having the structure of the tariff pre-determined then the comparison sites offer solutions of varying kinds to the above issue<sup>47</sup>.
  - This latter route will mean the comparison sites will present a wider variety of tariffs to users as alternatives to their current tariff because of the reduced filtering. Although helpfully for those purely interested in price the tariffs are usually ranked in the order of the amount of monetary savings.

### Provision of additional information

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<sup>45</sup> Clearly accurate consumption figures are the best way to get an accurate comparison of tariffs. Using the amount a consumer has paid is a poor substitute. The potential inaccuracy of price as an indicator of actual consumption means that searching for alternative tariffs using it will potentially lead to the tariff options laid before the user not being the optimum alternatives. Leading to sub-optimal switching.

<sup>46</sup> The research used looked for an alternative tariff to a dual fuel, quarterly payment by cheque option for 'typical' gas and electricity consumption of 20,500kWh and 3,300kWh respectively, for a north east address, every comparison site produced over forty separate tariff variations.

<sup>47</sup> One of the comparison sites in the sample negate this problem, to some extent, by highlighting that direct debit payments are usually the cheapest option but still requires the consumer to choose a type of tariff. The remaining two in the sample negated the problem by allowing consumers to choose an option that will display 'all' tariff options no matter their specific requirements/ pre-determined structure.

The comparison sites examined, once the final tariffs are presented to the user, offers access to the detailed information laying behind the headline tariff figures presented on the website. This appears to be done in a reasonably user friendly way. A user, by clicking on the correct links, can access the key product details:

- > Payment and account management methods e.g. whether it is by direct debit, standing order, paper billing and so on.
- > A description of the unit rates including explanatory notes e.g. how much each kWh of consumption costs in pence and notes on what a kWh is.
- > Customer reviews of the tariff and company including giving overall rating e.g. individual comments posted by customers and a percentage rating offering an evaluation of the service levels offered by the supply company.
- > Detailed Terms and Conditions pertaining to that product e.g. the standard terms and conditions offered by the supply company on their products.

## Conclusion

The findings of the research showed that the price comparison process, using a price comparison site, can operate in two ways but fundamentally relies on the user having some level of knowledge in order to use them for maximum benefit. One way is to use the filtering system and compare the current tariffs to a selected kind. This system requires some *a priori* knowledge to make correct preferences on the types of tariff variables. The alternative is to carry out the filter process but compare the current tariff to all the types of tariff available. This will lead to the user being confronted with a greater number of tariffs, from which they will have to choose using the price information given and the other information supplied by the comparison sites e.g. consumer ratings. Both ways require the user to have some knowledge of their current tariff and to work properly rely on an accurate measure of consumption. Therefore, while the sites are a key way of accessing tariff data, in order to fully exploit their potential some degree of knowledge is required on behalf of the user. The absence of which can lead to sub-optimal usage.

## Methodology and Results

Using a participant observation method<sup>48</sup> Which? undertook to investigate a sample of internet price comparison websites. The aim was to discover:

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<sup>48</sup> Participant observation is a qualitative research method. It is an *internal*, as opposed to an external method, in the sense that it involves the researcher participating in/ becoming part of the activity/ group/ entity that is being researched in order to gain a better understanding of its workings. The stages that doing participant observation must go through are the stages *which arise out of the phenomenon and settings* that are being investigated.

- > Does the use of a comparison site simplify the complexity of tariffs faced by the consumer?
- > To what extent does the consumer have to be knowledge-able about energy tariffs to use the sites?
- > The level of user friendliness of the comparison process including how clear is the presented information?

Deciding to research three comparison sites on a purposive basis<sup>49</sup> a Which? researcher, using two scenarios<sup>50</sup>, undertook work to understand the comparison process and evaluate the effectiveness of it in relation to the stated aims, logging at each stage their observations.

The results of the participant observation research are laid out below by comparison site.

- > Comparison Site 1:
  - First stage - Asks for postcode, current tariff details including how the consumer pays their bill and the name of the consumer's current plan and usage. These questions are asked for both gas and electricity.
  - The second stage - Asks for consumption details. These can be given in a variety of ways including kWh and the amount the consumer was charged on their last bill. Supplementary questions are also asked in relation to the size of the house they live in, the number of residents and how they heat their home and cook.
  - The third stage - Asks consumers what types of tariff the consumer would prefer e.g. 'capped', 'no standing charge'. It also asks what variable the consumer wants to order the tariffs by: price, 'rating' or 'Greenest'.
  - Fourth stage - Displays 26 tariff options for the NE address. The same figure was given for the SE address. Lists key tariff points and the saving to be made if this one was 'switched' to. There is a service rating and customer reviews. There is a link to the terms and conditions pertaining

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<sup>49</sup> The sample was chosen deliberately, for a specific purpose. In other words they were chosen because of their relevance to the research aims. This determination led to the two of the comparison sites being chosen because of their perceived popularity and high profile among the public, while the third was chosen because of its recommendation from experts in energy issues.

<sup>50</sup> The first consumption scenario used:

- > 'Dual fuel' option.
- > Gas consumption of 20,500 kWh per annum.
- > Electricity consumption 3,300kWh per annum.
- > Quarterly standard payment option.
- > North East of England address.

The second scenario is identical except a South East of England address was used.



to that tariff and links to show the details of the tariff including unit prices and supplier details.

> Comparison Site 2:

- First Stage - Asks for the consumer to decide whether they want a dual fuel, single electric single gas or a green tariff.
- Second stage - Asks for details on the consumer's current tariff and consumption. It also asks the consumer for their preferences on payment method and what kind of tariff they would prefer e.g. 'capped', 'green' or 'internet managed' accounts. It also offers the option of 'all' tariffs - this was the chosen option.
- Third stage - Displays the tariffs available to the consumer given the details inputted on the previous pages. The page displays 107 tariff options for the NE address (83 of which give a discount on the current tariff). For the SE address 105 tariff options were shown (although only 76 gave a discount on the current tariff). It lists for each tariff the savings to be made over the current tariff, customer reviews and offers an overall rating for the tariff. It offers key tariff details such as the payment method and has links to further details such as unit costs and the terms and conditions pertaining to the tariff.

> Comparison Site 3:

- First stage - Asks the consumer to input their postcode and fuel type e.g. dual fuel, single gas or electric.
- Second stage - Asks the consumer to describe their existing supplier including tariff details such as payment method. Additionally asks for consumers to input their current consumption levels for the year in terms of kWh or the monthly/ yearly amounts the consumer pays to their energy company. It also asks for details on the consumer's preference in terms of payment method e.g. direct debit. Finally it asks for what types of tariff the consumer wants, it calls this the '*Comparison Criteria*', the consumer can choose 'standard', 'capped', 'internet' or 'green' tariffs.
- Third stage - Displays the tariffs the consumer can 'switch' to in light of the information given on the previous pages. 33 tariff options detailed for the NE address were given. An equal number of tariffs were shown for the SE address. For each tariff the savings over the consumer's current tariff is highlighted as well as the service rating. Additionally links are provided which allow the consumer to see more tariff details such as the unit charges, including notes explaining for example two tier

tariffs and also links to the terms and conditions pertaining to that tariff.