

**Metrics for a successful retail energy market**  
**DRAFT CONSIDERATIONS**

**Purpose**

This document sets out a draft set of measures against which the success of the market may be measured. It draws on internal and external sources, including historical Ofgem publications and the output of a recent Policy Exchange paper on this subject.

**Summary**

Measures of success in the retail energy market have traditionally been focused on a narrow set of indicators, namely price, the number of products and level of switching. Whilst these continue to be valid today, they do not in themselves reflect the full scope of what is expected of today's energy market. A highly competitive market for example, will not necessarily deliver the best outcome for vulnerable customers or improve customer trust. Outcomes such as these will be increasingly important as prices continue to rise.

Future measurements of the success of the market therefore need to be judged holistically, with a range of measures reflecting these different expectations. This draft proposes ten measures which, when combined, would achieve that.

**Market Indicators**

The extent to which competition delivers a range of products at best price.

<u>Outcome</u>	<u>Measure</u>	<u>Notes</u>	<u>Pros</u>	<u>Cons</u>
Low prices	Comparison of net prices vs other EU markets	Although imperfect, changes in the level of net prices between EU member states should provide an indication of how effective the UK market is at delivering low prices.	<ul style="list-style-type: none"> <li>• Comparison against nationalised markets should show whether competition is beneficial.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to get true like for like comparison.</li> <li>• As more cost is loaded on to the energy bill in the UK, comparisons likely to become less favourable.</li> </ul>
Cost reflective prices	Accurate charting of price vs movements in input costs (i.e. wholesale, T&D, Govt policy etc)	In a competitive market, prices should broadly move in response to changes in input costs. The absence of this either suggests below cost pricing or excessive rent taking.	<ul style="list-style-type: none"> <li>• Will help shift focus away from wholesale to a "whole cost" view.</li> <li>• Will, over time, help develop the narrative of changes in costs and the impact of that on bills.</li> </ul>	<ul style="list-style-type: none"> <li>• Will need to be retrospective in order to avoid competition law issues, and may not therefore reflect the extent to which future costs are priced in.</li> </ul>
Profit margins	Accurate retail market profit margins	In a competitive market, excessive profits would be competed away.	<ul style="list-style-type: none"> <li>• Retail profit margins are low – good indicator of how competitive the market is today.</li> </ul>	<ul style="list-style-type: none"> <li>• Requires complete stakeholder confidence in the Segmental Statement returns – which is not</li> </ul>

			<ul style="list-style-type: none"> <li>Reinforce the message that we are not profiteering.</li> </ul>	necessarily the case today.
Market Entry	Concentration Ratio	Objective demonstration of how much market power is in the hands of the largest companies.	<ul style="list-style-type: none"> <li>An accepted way of measuring how much control rests with the largest firms in the market.</li> <li>Will allow comparison with other markets, e.g. telecoms.</li> </ul>	<ul style="list-style-type: none"> <li>Does not detail the distribution of market shares. Limited conclusions may therefore be possible.</li> </ul>
Switching rates	External rates	Levels of switching are a good indicator of how effective competition is being in meeting customers' needs. Low levels of switching may suggest that improvements in price or service are not being made.	<ul style="list-style-type: none"> <li>A product of tariff innovation and price competition – signs of a competitive market.</li> <li>Allow comparison with other markets, e.g. telecoms or banking.</li> </ul>	<ul style="list-style-type: none"> <li>Can be distorted by other changes, e.g. end to doorstep sales.</li> <li>Doesn't show if customers are benefiting from better internal deals – themselves a product of effective competition.</li> </ul>
	Internal rates	Levels of switching are a good indicator of how effective competition is being in meeting customers' needs. Low levels of switching may suggest that improvements in price or service are not being made.	<ul style="list-style-type: none"> <li>A product of tariff innovation and price competition – signs of a competitive market.</li> <li>Can also be a proxy for customer satisfaction.</li> </ul>	<ul style="list-style-type: none"> <li>Can be distorted by other changes, e.g. RMR.</li> <li>Doesn't show if customers are benefiting from better external deals – themselves a product of effective competition.</li> </ul>
Innovation	Number of products in the market	Innovation is a key measure of how competitive a market is.	<ul style="list-style-type: none"> <li>Helps demonstrate suppliers adapting to meet customer's needs.</li> </ul>	<ul style="list-style-type: none"> <li>Innovation will be restricted through interventions such as the RMR, potentially meaning this will be a false measure.</li> </ul>

### Customer Indicators

The extent to which the most vulnerable are supported in mitigating the rising cost of energy, either through direct support or by ensuring fair access to the benefits of competition.

<u>Outcome</u>	<u>Measure</u>	<u>Notes</u>	<u>Pros</u>	<u>Cons</u>
Awareness	Proportion of	For competition to benefit all customer groups, all	<ul style="list-style-type: none"> <li>Easy to measure through</li> </ul>	<ul style="list-style-type: none"> <li>A poor proxy for</li> </ul>

of the ability to switch	customers who know they have the ability to change supplier	customer groups must know about their ability to access it. This still isn't the case today.	customer surveys. <ul style="list-style-type: none"> <li>• Within the gift of the market to deliver improvements.</li> </ul>	willingness to switch, but this could be combined as a supplementary question.
Erroneous Transfers (ETs)	Number of ETs in the market	ETs deter future engagement with the market and create a barrier to switching.	<ul style="list-style-type: none"> <li>• Data is readily available and already reported.</li> </ul>	<ul style="list-style-type: none"> <li>• Only a partial picture of the events which can erode confidence in the benefits of competition.</li> </ul>
Low complaints	Complaint volumes p/1000 customers	High complaint numbers may indicate that the market is not properly meeting the needs of customers.	<ul style="list-style-type: none"> <li>• A visible, and already reported, measure of customer satisfaction.</li> </ul>	<ul style="list-style-type: none"> <li>• Differences in the application of the definition will make meaningful comparisons between suppliers difficult.</li> <li>• A divisive metric which is not likely to get support from all suppliers.</li> </ul>
High satisfaction	Industry NPS	Low NPS may indicate that the market is not properly meeting the needs of customers.	<ul style="list-style-type: none"> <li>• Robust and independent of suppliers influence.</li> <li>• Will allow suppliers to benchmark their progress against the competition.</li> </ul>	<ul style="list-style-type: none"> <li>• Not all suppliers use – or favour – NPS as a measure. Agreement may be difficult.</li> </ul>