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Date: 14 March 2014 To: Jemma Baker Response by: Emily Darian

## Consultation Response

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### Which? response to Ofgem's domestic Retail Market Review Evaluation - a proposed way forward

Which? is the largest consumer organisation in Europe. It is an independent, not-for-profit consumer organisation with almost 800,000 members. Which? is independent of Government and industry, and is funded through the sale of Which? consumer magazines, services and books. Which?'s mission is to make individuals as powerful as the organisations they have to deal with in their daily lives by empowering them to make informed decisions and by campaigning to make people's lives fairer, simpler and safer.

Which? has engaged with Ofgem's Retail Market Review (RMR) throughout its development. We are keen to understand and input into the regulators plans to monitor and evaluate the impact and success of this package of reforms, which are intended to improve consumer engagement with the retail energy market.

Which? has responded to RMR consultations throughout the process and Ofgem is aware of our position on the package. Whilst we support some of the changes, and recognise where there has been a step in the right direction for consumers, we do not think that the implementation of the RMR reforms will do enough to fix the broken energy market. Which? recently launched a new energy campaign, *Fix the Big Six*<sup>1</sup>, which highlights the unacceptable level of consumer dissatisfaction with the service they receive - official figures from the major energy companies show that they received more than 5.5 million complaints in 2013. Which?'s latest consumer tracking shows that eight in ten are worried about rising energy prices, and just one in five people trust gas and electricity suppliers.<sup>2</sup> If RMR is successful in achieving its intended

<sup>1</sup> Which? is calling for six fixes to the energy industry: 1. Increase competition and refer the energy market for a full competition investigation; 2. Transparent trading; 3. People power - simpler pricing and switching; 4. Cost control - controlling costs added to consumers bills; 5. Customer trust - including cost reflective direct debits and good levels of customer satisfaction; 6. Warmer homes - make the Green Deal fairer for consumers. For full details of the campaign visit <http://www.which.co.uk/campaigns/broken-energy-market/know-the-issue>.

<sup>2</sup> Which? Consumer Insight Tracker, February 2014.

#### Which? Is a consumer champion

We work to make things better for consumers. Our advice helps them make informed decisions. **Our campaigns make people's lives fairer, simpler and safer.** Our services and products put consumers' needs first to bring them better value.

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objectives we would hope to see, amongst other outcomes, reductions in the number of complaints, a fairer price for consumers, as well as increasing levels of trust.

A key measure of success will be not only whether more people are switching, but whether they are switching to a tariff which offers a better deal for them. As the main driver of switching in the domestic retail energy market is price, Which? believes it is crucial to monitor and evaluate the number of households who switch to a cheaper tariff. This should be a key indicator of a market that is working for consumers. Ofgem should include this measure in its tracking research, and evaluate the results throughout. The evaluation proposal fails to see paying a fair price, and being on the most appropriate tariff, as overarching objectives and indicators of an energy market that works for consumers.

### **Monitoring and evaluating**

Which? supports the clear differentiation made by Ofgem between monitoring and evaluating, and the importance of establishing causality where possible. It is essential to understand where the RMR changes have led to better, or indeed worse, outcomes for consumers, or where certain outcomes may be the result of changes or events occurring outside of RMR. This will be important in effectively evaluating the impact of the package as a whole. We agree with Ofgem that an effective evaluation should ‘coherently highlight correlations between our policies, and their impact on the market’.<sup>3</sup>

Which? recognises the challenge highlighted by Ofgem of establishing a baseline for the monitoring and evaluation of the RMR. We are aware that suppliers have made changes throughout the consultation process in anticipation of the reforms, as well as possibly the increased media spotlight on the energy sector in recent months. This makes it difficult to select a particular point in time against which a ‘new’ retail market can be examined. However Ofgem states that there will still be merit in doing so and that data collected in early 2014 can still be used to create a baseline, as not all of the RMR reforms have yet come into force. The regulator should clarify what their baseline will look like and what data is being used. It is currently unclear how Ofgem will develop their baseline given that different reforms came into effect at different times.

### **Ofgem’s proposed framework**

Ofgem’s framework to a) monitor and measure change over time, and b) carry out contribution analysis in order to understand the changes observed, appears to be a sensible approach combining quantitative and qualitative consumer research, as well as supplier metrics. Ofgem should make clear; what data it will obtain from suppliers, if this includes any new data reporting requirements, and if suppliers will be required to collect this in the same way to ensure consistency. Further, Which? would like to establish which aspects of this supplier information to be used for the purposes of RMR monitoring and evaluation is already publically available, and where commercially sensitive information will inform the process. Which? hopes to see Ofgem using its powers to request all the information necessary to evaluate the consumer experience of the energy market.

Which? will also be interested to see Ofgem’s bespoke annual consumer survey and would welcome further details from the regulator on how the findings will be made available, when the survey will first go into field and if Ofgem’s Consumer First Panel will be used. Which? is also keen to understand how this will feed into the market assessment, following the

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<sup>3</sup> Ofgem, Domestic Retail Market Review Evaluation - a proposed way forward, January 2014, p. 2.



commitment that findings will be contextualised ‘with wider market monitoring and assessment’.<sup>4</sup>

### **RMR objectives**

Which? recognises Ofgem’s rationale for the grouping of policies according to their primary aims - building trust, improving understanding and simplifying tariff choices.<sup>5</sup> We support the regulator’s proposal to perform contribution analyses to understand how RMR policies contribute to their primary aim, and then how much these have contributed towards broader market changes identified at the market assessment level, compared to other factors.

Consumers should feel confident and empowered in the retail energy market. Our research consistently shows that energy prices are a continual worry and many consumers think that companies are overcharging them.<sup>6</sup> Therefore a crucial objective of reforms to the retail energy market, and of the wider market assessment, should be for consumers to feel satisfied that they are paying a fair price for their gas and electricity. Ofgem fails to recognise this as critical to increasing engagement overall, and therefore driving trust, understanding and better tariff choices, which make up the primary aims of the RMR. In terms of simplifying tariff choices, Which? continues to believe that Ofgem must carefully examine whether its attempts at demystifying the process of comparing and choosing energy tariffs does in fact result in more homes choosing the best tariff for them. As mentioned previously, Which? does not think that the RMR goes far enough to achieve this and the evaluation proposal fails to see paying a fair price, and being on the most appropriate tariff, as overarching objectives and indicators of an energy market that works for consumers.

### **Policy outcomes and indicators**

The Theories of Change (ToC) process appears to have been thorough in assessing the expectations of each individual policy and ultimately using this to establish indicators which can be tracked over time. Which? supports the flexible approach suggested so that the indicators can be built upon throughout evaluation. Which? has recently established an Energy Tracker to monitor and track changes in consumer behaviour and attitudes towards the energy market. While there is significant overlap with Ofgem’s high level indicators<sup>7</sup>, Which? is keen to remain in dialogue with Ofgem so that there are opportunities to suggest additional useful indicators going forward, based on our own research and consumer insight. This would include, for example, the outcome of switching as well as switching numbers. Which? has stressed the importance of evaluating this outcome throughout the RMR consultation process.

In terms of switching figures, Which? notes that Ofgem will now collect data on the number of customers switching energy tariffs within the same supplier, as well as between suppliers.<sup>8</sup> We support this move and look forward to this data being published and available for scrutiny. However we would also like to see Ofgem collecting data as to whether these switches have resulted in a saving for consumers, particularly where this was the primary reason for the switch.

<sup>4</sup> Ofgem, RMR evaluation, January 2014, p. 4.

<sup>5</sup> Ofgem, RMR evaluation, January 2014, p. 5.

<sup>6</sup> Which? Consumer Insight Tracker, January 2014, found that eight in ten people are worried about the price of energy.

<sup>7</sup> Ofgem, RMR evaluation proposal, Table 6, p.16.

<sup>8</sup> Ofgem, RMR evaluation proposal, Table 6, p.16.



### The Impact of Ofgem's Tariff Comparison Rate (TCR)

We recognise the challenge in attributing change to individual policies and that policies will work together to achieve outcomes, as well as being influenced by external factors. However, Which? believes that there is merit in isolating the impact of the Tariff Comparison Rate (TCR) on consumers' ability and willingness to engage with the market. Throughout the RMR consultation process Which? has had reservations about the effectiveness of the TCR in helping consumers to choose the best deals, leading to greater confusion rather than simplicity.

Our recent research revealed that only 8% found the TCR display easy to understand. In our test when people were asked to pick the cheapest deal for a very low-energy user, nearly two thirds (64%) chose the supplier with the lowest TCR figure.<sup>9</sup> However this would not have provided the cheapest deal for a very low user as there is no way of working that out using the TCR. We are concerned that as TCRs are likely to appear in advertising and on comparison sites, some consumers could end up worse off by incorrectly using them to compare and decide on a new tariff.

Which? has long called for the introduction of single unit pricing (SUP) which would allow consumers to make comparisons at a glance, and remove the need for the TCR 'prompt'. In our research, eight in ten (81%) picked the cheapest deal when they were presented with the tariffs in the simple pricing format of a unit rate and no standing charge that Which? has championed. Less than one in ten (8%) picked the wrong tariff.<sup>10</sup>

Ofgem should establish a method of measuring the overall usefulness of the TCR for consumers, from when they think about comparing their deal, to actually choosing an energy tariff to suit their needs.

### Compliance

The way that suppliers and third parties interpret and implement the new RMR rules is likely to impact greatly on their outcomes, and ultimately on the way in which consumers engage with the retail market. Which? therefore supports Ofgem's intention to monitor and understand how suppliers and third parties comply with RMR. It is primarily through interaction with energy companies, or third parties such as switching sites, that consumers engage with and gain experience of the energy market. Consequently Which? sees the actions of these organisations as integral to the RMR achieving its objectives and believes that Ofgem has an important responsibility to monitor, and to use its powers where organisations are not implementing the RMR rules to achieve the overall intention of improving the retail market for consumers. Ofgem should make available full details of what it intends to monitor and how this will be recorded. For example, will this correlate to the original policy groups previously used in RMR consultations<sup>11</sup>, or will it use the three primary objectives detailed in

<sup>9</sup> Which? Magazine, 'Simplified' energy tariffs aren't simple, April 2014 publication. Methodology: In January 2014, we ran an online survey of 1,515 UK energy bill-paying adults aged 18 and over, based on three different energy-tariff scenarios. The sample was split so that each respondent only took the test for one of the three scenarios. For the RMR scenario, we asked 505 people to compare six deals from the big six energy suppliers' standard tariffs (as presented on their websites) in the standing charge plus unit rate format. The details were correct as of 3<sup>rd</sup> January 2014 for a customer based in the Midlands and paying by direct debit. The Tariff Comparison Rate scenario was calculated from these tariffs at medium use (3,200kWh of electricity a year) and the simple unit rates were hypothetical.

<sup>10</sup> Which? Magazine, 'Simplified' energy tariffs aren't simple, April 2014 publication.

<sup>11</sup> Simpler tariff choices, clearer information, fairer treatment. The RMR - final domestic proposals, March 2013.



this RMR evaluation consultation<sup>12</sup> so that supplier and third party activity is monitored and assessed in the same way?

It is important that the regulator provide suppliers and third parties with guidance when necessary. But Ofgem should also move quickly to use its powers where energy companies or other organisations interacting with consumers in the retail energy sphere are not implementing RMR rules in line with their intended objectives, or indeed where there are adverse unintended consequences for consumers.

#### **Unintended consequences**

Which? will follow closely any unintended consequences identified by Ofgem throughout the evaluation process and wider market assessment. Through our own research and monitoring, we will also highlight where we believe the RMR leads to unintended consequences and will feed this back to Ofgem, the Department for Energy and Climate Change (DECC) and suppliers.

Which?  
March 2014

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<sup>12</sup> Building trust, improving understanding and simplifying tariff choice. Ofgem, Domestic RMR Evaluation, January 2014, p.4.