

Retail Energy Markets in 2015

Report

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Contact: Graham Reeve, Senior Economist

Team: Retail Markets

Tel: 0207 901 7000

Email: marketmonitoring@ofgem.gov.uk

Overview:

This document provides our annual update on the retail energy markets. It draws on a range of indicators to provide an overview of key trends in the supply-side and the demand-side of the retail markets over the last year. It also discusses key developments in the retail markets' contribution to four of the consumer outcomes set out in our corporate strategy: lower bills, better quality of service, benefits for society as a whole and reduced environmental damage.

The report is not an assessment of how well competition is working in the retail markets given the ongoing investigation of the Competition and Markets Authority (CMA), nor is it our response to the CMA's 'Provisional Findings' (which can be found [at this link](#)). We have been providing information and assistance to the CMA throughout its investigation (including sharing the analysis in this report), and we consider that our analysis supports the CMA's findings. We will continue to support the CMA in the next stage of its investigation.

Context

Market monitoring is a crucial part of our role as the regulator of the gas and electricity markets in Great Britain (GB). It helps us keep abreast of developments, informs how we develop new policy, and helps us to assess the impact of existing regulations.

We are looking to foster understanding, trust and confidence among stakeholders by publishing more information about the markets we regulate. This report is part of a wider package of monitoring publications, including an annual report looking at recent developments in the wholesale markets; a report detailing trends in liquidity in the wholesale electricity market; and a new suite of energy markets indicators, which we will publish regularly on a dedicated section of our website. We have also begun the regular publication of key indicators tracking the customer service performance of individual suppliers.

These – and other – regular publications will help to build a picture of how the market is functioning and to identify any specific issues. They will also help to track the contribution of the retail and wholesale markets – including the way in which we regulate them – in achieving the outcomes for consumers set out in our strategy.¹ We are keen to hear stakeholders' feedback on these publications to inform future monitoring outputs.

Associated documents

[Wholesale Energy Markets in 2015](#) (September 2015)

[Wholesale Power Market Liquidity: Annual Report 2015](#) (September 2015)

[The revenues, costs and profits of the large energy companies in 2013](#) (October 2014)

[Domestic Retail Market Review – Evaluation framework and baseline results](#) (July 2014)

[State of the Market Assessment](#) (March 2014)

¹ [‘Our Strategy’](#), Dec 2014

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Executive Summary

This report looks across a range of indicators to provide an overview of key developments in the retail markets over the past year. It covers:

- key developments on the supply-side of the retail markets. This includes profit and cost information from suppliers' annual financial statements. We previously published much of this information in our annual summary of the large suppliers' revenues, costs and profits.² Including it in this report allows it to be considered in the context of other market developments.
- key developments on the demand-side of the retail markets. In particular, this report sets out our analysis of whether our Retail Market Review (RMR) measures have increased consumer engagement since their introduction in 2013/2014; and whether these measures have had any negative consequences.
- the role of the retail markets in contributing to the consumer outcomes set out in our corporate strategy, and which we seek to achieve in our role as the GB energy regulator.

This report does not provide an assessment of the state of competition in the retail markets. Following our reference last summer, the CMA launched a full competition investigation. It issued its '[Provisional Findings](#)' in July 2015, and our response to these findings can be found [at this link](#). We have been providing information and assistance to the CMA (including sharing the analysis in this report) throughout its investigation, and consider that our analysis supports the CMA's findings. We will continue to support the CMA in the next stage of its investigation.

Supply-side: the significance of independent domestic suppliers is growing

A key development in the domestic retail markets over the previous year has been the continued growth of the independent suppliers (ie suppliers which have entered since market liberalisation). These suppliers now account for around 10% of all customers, and levels of new entry have been at their highest since the market was opened to competition, with 13 new independent suppliers entering the domestic markets since 2012, many using novel business models. It is not clear yet whether independent suppliers will continue to gain traction, and whether this will have a long term impact on the market.

The former incumbent electricity suppliers continue to supply a relatively large share of customers in their home regions: compared to their market shares in other areas, and compared to other suppliers. Similarly, the former incumbent gas supplier

² '[The revenues, costs and profits of the large energy companies in 2013](#)', Oct 2014

continues to supply more than twice as many domestic gas customers as its largest rival.

The six large suppliers³ annual financial statements show that their average domestic pre-tax margins increased between 2013 and 2014, rising from 3.9% to 4.5%. Domestic operating costs per customer also increased, and there continues to be significant variation in reported costs across suppliers. We are mindful of concerns raised by the CMA as part of its investigation about the comparability of different suppliers' statements, and we will work with the CMA and suppliers to improve consistency in this area.

Demand-side: engagement among domestic consumers is broadly flat

The overall level of domestic consumer engagement in 2015 is similar to that observed in 2014, with no significant change since the RMR measures were introduced. However, there are early signs that the RMR measures may have had some positive impact on consumers' understanding of and trust in the energy market. For example, there have been some small but significant improvements in how clear consumers say they find routine communications, and an increase from 48% to 67% in the proportion of consumers seeking out information to make comparisons. With only one year's data available, it is too early to tell whether any of these positive developments represent longer run trends: this will be a focus of future evaluation.

While there has been a small increase in the proportion of consumers reporting they find it easier to compare tariffs than a year ago, in general the RMR "simpler" tariffs rules do not appear to have had a significant impact on consumer engagement in the market. Suppliers have also reported the rules are restricting their ability to innovate. The CMA has provisionally found that the RMR "simpler" tariff rules may have had an adverse effect on competition. We will support the CMA as they consider whether aspects of the simpler tariffs rules should be amended or removed.

Micro-businesses: more aware of their contract terms

Like in the domestic market, the six large suppliers' supply most smaller non-domestic customers, and a significant proportion of meters associated with smaller business customers have never switched supplier. Smaller non-domestic customers pay significantly more for their energy than larger business customers.

Micro-businesses face a number of barriers to engagement. A particular issue has been a lack of transparency around contract terms and customers not being aware of when they can switch supplier. In response, we introduced new rules to help smaller businesses avoid being caught out when their fixed-term contracts come to an end.

³ We use the term 'six large suppliers' throughout this report as shorthand to refer to the former gas incumbent (British Gas), and the companies formed from the former regional electricity incumbents (EDF, E.ON, Npower, Scottish Power and SSE).

There is some evidence of positive trends in 2014. For example, micro-businesses appear to be more aware of their contract end dates. And 64% of those micro and small businesses responding to our survey that had both looked into another supplier or tariff in the past year and noticed contract and termination dates on their bills said that they were prompted to shop around by the dates on the bill, suggesting the new rules could be a trigger for switching.

Information provided by a sample of suppliers also shows the proportion of micro-businesses rolling over onto default contracts at the end of their fixed term has been declining.

Nevertheless, it is likely that many micro-businesses remain on default contracts (auto-rollovers, evergreen, out of contract or deemed), and there is evidence that those micro-businesses on default contracts continue to pay significantly more for their energy per kWh. As we continue to support the CMA as it considers remedies, we will continue to focus on helping smaller businesses engage in the market.

The retail markets are falling short of delivering our strategic outcomes for consumers

The retail market arrangements, including the way they are regulated, have a particular contribution to make in delivering four of the strategic consumer outcomes described in our corporate strategy – lower bills, better quality of service, benefits for society as a whole and reduced environmental damage.⁴ The report looks at a range of indicators that allow us to understand trends in the retail markets' impact on each of these outcomes.

Bills

Average domestic bills have declined in 2014 driven by a reduction in consumption, primarily as a result of mild temperatures and energy efficiency measures.⁵ At the same time, average prices per kWh continued a longer-term upwards trend.

A domestic consumer's bill will depend significantly on the type of tariff they are on. Since 2012, we have seen a significant increase in the number of fixed tariffs on offer. Fixed tariffs have been consistently less expensive than standard variable tariffs (SVTs) in recent years. The size of the gap has increased following significant

⁴ We do not consider the influence of the retail markets on reliability and safety (the other consumer outcome set out in our corporate strategy) in this report. While this consumer outcome will be influenced by aspects of the retail markets (for example, by metering technologies), in general the impact of the retail part of the supply chain is less direct than is the case for the other consumer outcomes. A number of the issues affecting the reliability and safety of the energy sector are examined in our report on [Wholesale Energy Markets in 2015](#) published alongside this document.

⁵ We recently updated our Typical Domestic Consumption Values (TDCVs) to reflect the decline in domestic energy consumption. The TDCVs for a median consumer have fallen from 13,500 kWh to 12,500 kWh for gas and 3,200 kWh to 3,100 kWh for electricity.

reductions in fixed tariff prices in 2014. Over two-thirds of domestic customers remain on SVTs and so have not benefited from the recent declines in the prices of fixed tariffs.

Consumption also fell among non-domestic consumers on average in 2014. Average prices rose for all sizes of business customer apart from the largest gas consumers, although there are signs of some falling prices in the first half of 2015.

Quality of service

Overall domestic satisfaction remains significantly lower than in earlier years. Complaints continued to rise in 2014, and suppliers have often failed to handle these complaints well. There is no clear relationship between prices charged and levels of service across suppliers.

We have, however, seen a significant fall in overall complaints in the first half of 2015. Another positive trend over the past year has been the significant decline in average switching times. Nevertheless, the switching process continues to be unreliable, and many consumers still perceive switching to be a hassle.

Benefits for society

Different consumers have different experiences of the retail energy markets. Three groups of domestic consumers that continue to have worse outcomes than other consumers are those that are disengaged, those in debt to their supplier, and those with prepayment meters. The recent increase in the gap between prices for those on fixed tariffs and those on SVTs may have exacerbated the differences.

While significant differences in outcomes persist, there have been some positive developments. For example, the proportion of accounts in debt declined in 2014, as did the number of disconnections for non-payment of debt. We have also seen the continued roll out of the Energy Best Deal and Energy Best Deal Extra programmes, designed to improve engagement among low income consumers. There have been over 600,000 visits to our www.goenergysshopping.co.uk website since we launched the 'Be An Energy Shopper' campaign in April 2014. Suppliers are offering some innovative prepayment tariffs, including via smart meters. And finally, following our report on prepayment meters, we are developing proposals to strengthen protections for prepayment customers, including abolishing charges for meter installation and removal.

Environmental damage

Retail markets affect the environmental impact of the energy sector by influencing consumption, and energy efficiency has continued to improve over the period. The retail markets are also playing an increasingly important role in the transition to a low-carbon energy sector. This is partly a result of innovation which is creating new ways for consumers to participate in the market; for example, while still accounting for only a small proportion of all electricity customers, there have been significant

increases in the number of consumers generating electricity themselves. Looking forward, there is significant scope for suppliers to set prices for domestic and smaller business consumers that reflect fluctuations in wholesale prices, although the role of these consumers in responding to intermittency in renewable generation remains limited to date.

Next-generation meters will be an important driver of consumer outcomes in the future

Smart and advanced meters have the potential to improve consumer outcomes in the retail markets. The information they provide should help consumers to better manage their energy consumption. As highlighted by the CMA in its Provisional Findings, they also have the potential to increase competition between suppliers, including by providing better service quality and new products and services. We have developed a vision for what a smarter energy market might look like in the future, and have a work programme in place to make progress towards this.⁶

The smart meter roll-out is still at an early stage, with most domestic and smaller business customers continuing to use a traditional meter. It is important that suppliers learn the lessons from their generally poor performance in the roll-out of advanced meters to larger non-domestic customers. Although there are exceptions, we also have some concerns around the overall level of innovation, product development, and attempts to engage customers and offer additional services that we have seen on the back of the advanced meter roll-out.

Given this, we are scrutinising the progress of the smart meter roll-out and suppliers' delivery plans and wider compliance with the Smart Meter Installation Code of Practice. As part of this process, we will require suppliers to set binding annual roll-out targets starting in 2016.

⁶ ['Infographic guide: What does a smarter energy market look like?'](#) Mar 2015

1. Introduction

The scope and purpose of this report

1.1. Our routine monitoring of market developments is a crucial part of our role as the regulator of the gas and electricity markets in Great Britain.⁷ It helps us keep abreast of developments, informs how we develop new policy, and helps us to assess the impact of existing regulations.

1.2. In 2013 we committed to reporting annually on the retail markets. This report draws on our ongoing monitoring activities to provide our 2015 update. It looks across various indicators to provide a largely descriptive overview of developments in the retail markets over the past year. It follows a number of previous Ofgem reports reviewing outcomes in the retail market, including most recently our 2014 State of the Market assessment⁸ (published jointly with the Competition and Markets Authority (CMA) and Office of Fair Trading (OFT) in March 2014) and our Retail Market Review⁹ (RMR), launched in late 2010. Given the ongoing CMA market investigation, this report does not seek to provide an assessment of the effectiveness of competition in the retail market, nor is it our response to the CMA's 'Provisional Findings' (which can be found [at this link](#)).

1.3. We are looking to foster understanding, trust and confidence among stakeholders by publishing more information about the markets we regulate. This report is part of a wider package of monitoring publications, including an annual report looking at recent developments in the wholesale markets; a report detailing trends in liquidity in the wholesale electricity market; and a new suite of energy markets indicators which we will publish regularly on a dedicated section of our website. We have also begun the regular publication of key indicators tracking the customer service performance of individual suppliers.

1.4. These – and other – regular publications will help to build a picture of how the market is functioning and to identify any specific issues. They will also help to track the contribution of the retail and wholesale markets – including the way in which we regulate them – in achieving the outcomes for consumers set out in our strategy.¹⁰

1.5. We are keen to get your views on our retail markets monitoring publications, and to understand how the retail markets are working for you. You can email us at marketmonitoring@ofgem.gov.uk. Feedback will be used to inform future monitoring outputs.

⁷ In this document we use the term “market” and “markets” as shorthand to refer to different segments of the energy sector. For the avoidance of doubt these are not intended to describe or otherwise suggest the approach that may be taken by Ofgem for the purposes of market definition in competition law investigations.

⁸ ‘[State of the Market Assessment](#)’, Mar 2014

⁹ ‘[The Retail Market Review – Findings and initial proposals](#)’, Mar 2011

¹⁰ ‘[Our Strategy](#)’, Dec 2014

The CMA investigation

1.6. Following our 2014 State of the Market assessment, last summer we referred the market to the CMA for a full investigation because we were concerned that, in the domestic and small business markets, competition between suppliers was not delivering the outcomes for consumers that we expect. That investigation is ongoing, and we have been providing information and assistance where possible (including sharing the analysis in this report).

1.7. The CMA published their '[Provisional Findings](#)' and '[Notice of Possible Remedies](#)' on 7 July 2015. In the report, the CMA provisionally found adverse effects on competition arising from the following features of the retail markets:

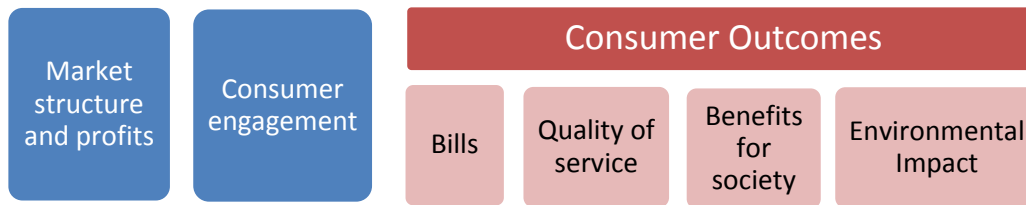
- a) Weak customer response among domestic and small and medium-sized enterprises stemming from customers' limited awareness of and interest in their ability to switch, and the barriers to accessing and assessing information faced by certain customers.¹¹ Domestic customers also faced barriers to switching; and constraints associated with prepayment meters, while some non-domestic customers were on auto-rollover tariffs which limited their ability to engage. These features gave suppliers a position of unilateral market power concerning their inactive customer base;
- b) Parts of the regulatory framework, including the simpler choices component of the RMR rules, which was provisionally found to reduce suppliers' ability to innovate and soften competition between price comparison websites. In addition, aspects of gas and electricity settlement were provisionally found to reduce efficiency and therefore competitiveness.
- c) A lack of robustness and transparency in regulatory decision making, which in turn increased the risk of poor policy decisions which have an adverse impact on competition.
- d) Aspects of industry code governance, which limit innovation and cause the energy markets to fail to keep pace with regulatory developments and other policy objectives.

1.8. We consider that the analysis set out in this report supports the CMA's findings. We will continue to support the CMA as they work towards their final report.

How have we structured this report?

1.9. The report draws on a range of different indicators to provide an overview of recent trends in the retail markets. Figure 1.1 shows how the report is structured.

¹¹ See p370-371 of the CMA's [Provisional Findings](#) for a description of how they define small- and medium-sized enterprises.

FIGURE 1.1: **Structure of this report**

1.10. We begin by setting out recent trends in certain aspects of the supply side of the retail markets, providing important context for the remainder of the analysis. We first look at developments in market structure, and then discuss profit and cost information from suppliers' annual financial statements. We previously published much of this information in our annual summary of the large suppliers revenues, costs and profits.¹² Including it in this report allows this information to be considered in the context of other market developments.

1.11. We then look at trends in the demand side of the retail markets, focusing on consumer engagement in particular. An engaged customer base is an important condition for effective retail markets, as it is the threat of customers choosing an alternative supplier that will drive competition between suppliers. Our analysis includes an assessment of whether our RMR measures have increased consumer engagement since their introduction in 2013/2014; and whether these measures have had any negative consequences, drawing heavily on evidence from our consumer surveys.

1.12. We next discuss the contribution of the retail markets in influencing four of the consumer outcomes described in our corporate strategy, and which we seek to achieve in our role as the GB energy regulator. These are lower bills, better quality of service, benefits for society as a whole and reduced environmental damage.¹³ We look at a range of indicators that allow us to understand the retail markets' impact on each of these outcomes. This provides us with an overview of developments over the past year in the extent to which the retail markets are delivering the consumer outcomes that we expect.

1.13. We include three appendices at the end of the report. Appendix 1 comprises a summary of stakeholders' responses to our call for evidence on the impact of the domestic RMR measures. Appendix 2 provides a list of the key datasets underpinning the analysis in the report, as well as a description of each dataset and the period it cover. Appendix 3 provides a glossary of the key terms used in the report.

¹² ['The revenues, costs and profits of the large energy companies in 2013'](#), Oct 2014

¹³ We do not consider the influence of the retail markets on reliability and safety (the other consumer outcome in our corporate strategy) in this report. Although this consumer outcome will be influenced by aspects of the retail markets (for example, by metering technologies), in general the impact of the retail part of the supply chain is less direct than for the other consumer outcomes. A number of the issues affecting the reliability and safety of the energy sector are examined in our report on [Wholesale Energy Markets in 2015](#) published alongside this document.

2. Market structure and profits

Chapter Summary

Levels of entry observed in recent years in both the domestic and non-domestic segments are high by historical standards, and there has been significant expansion among independent suppliers. This is particularly noteworthy in the domestic markets, where independent suppliers now supply 10% of all gas and electricity customers. Nevertheless, the former incumbent electricity suppliers continue to supply a relatively large share of domestic and smaller non-domestic customers in their legacy areas: compared to their market shares in other regions, and compared to other suppliers. Similarly, the former incumbent gas supplier continues to supply more than twice as many domestic gas customers as its nearest rival. Suppliers other than the former gas and electricity incumbents have acquired much greater market shares among larger non-domestic gas customers.

Despite falling market shares and low consumption because of mild weather, the six large suppliers' annual financial statements show that their average domestic margins remain high by historical standards, and have increased year-on-year: rising from 3.9% in 2013 to 4.5% in 2014. In contrast, the average non-domestic margin of the six large suppliers has declined since 2010, and fell slightly year-on-year from 2.5% in 2013 to 2.4% in 2014. Note that this average margin pools together non-domestic customers of different sizes: as the CMA has identified, there may be considerable differences in the profitability of smaller and larger business customers.

Costs per MWh continued to rise in 2014, and the six large suppliers' per-customer domestic operating costs also increased. Historically, we have observed both operating and wholesale costs vary significantly across the suppliers, and this remains the case.

Market structure

Domestic

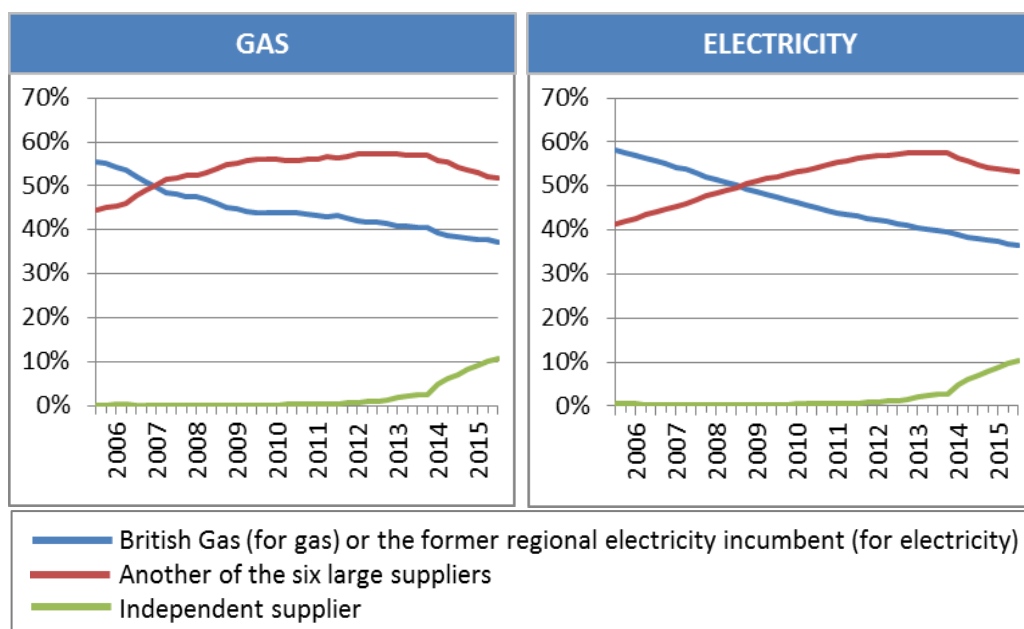
2.1. As of June 2015, there were 31 active suppliers in the domestic retail markets. These consisted of the six large vertically-integrated former gas or electricity incumbents (British Gas, EDF, E.ON, Npower, SSE and Scottish Power, which we refer to as the 'six large suppliers'¹⁴) and a number of smaller suppliers which have entered post-liberalisation, and which in most cases are not vertically integrated (we refer to these as the 'independent suppliers'). Most of these suppliers offered both gas and electricity. Current levels of entry are high by historical standards: nine suppliers became active during 2012 and 2013 and eight more between the end of 2013 and June 2015.

¹⁴ While we present information averaging or aggregating across these six large suppliers at various points in this report, we note that there are some significant differences in the different firms' business models, and how they are organised.

2.2. Around 90% of domestic gas and electricity customers in GB were supplied by one of the six large suppliers as of June 2015, with the largest and second-largest market shares in each segment being held by British Gas (37% in gas and 24% in electricity) and SSE (13% in gas, 16% in electricity) respectively.

2.3. As shown in Figure 2.1, the expansion of independent suppliers to 10% of the domestic market is a relatively recent development. The three largest independent suppliers as of June 2015 were First Utility, Utility Warehouse and Ovo Energy, with a combined market share of above 6%. The independent suppliers are a heterogeneous group with a large variety of entry pathways and business models (although, unlike with the establishment of the largest six suppliers, in nearly all cases their entry and expansion has taken place organically).

FIGURE 2.1: Share of GB meter points served by different types of supplier



Source: Ofgem analysis of data provided by DNOs/Xoserve.

2.4. The penetration of independent suppliers has not been homogeneous across different groups of domestic customers and products. For example, in March 2015:

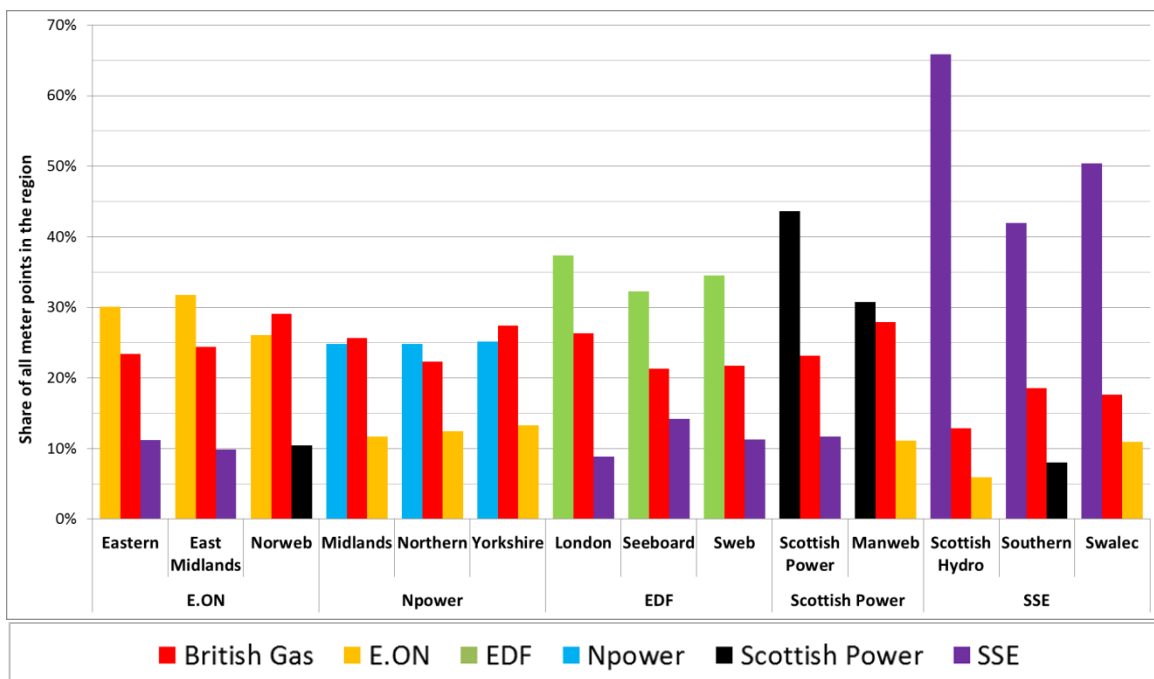
- 53% of the independent suppliers' customers were on a fixed tariff, compared to 27% for the six large suppliers. The high share of independent suppliers' customers on fixed deals is a recent development, and is not consistent across all suppliers.
- Independent suppliers tend to have a greater proportion of direct debit accounts (83% compared to 58% for the six large suppliers), a smaller share of prepayment accounts (12% against 15%) and many fewer standard credit accounts (3% against 24% for the six large suppliers).
- Their penetration of the online account segment is relatively high, with a share of around 14% of all online customer accounts, compared to 3% of offline accounts.

- The joint market share of the independent suppliers for customers with restricted meters¹⁵ was 8%, compared to 10% of those on unrestricted meters.

2.5. The former incumbent gas supplier British Gas remains the largest supplier of domestic gas customers by some distance. And around 36% of domestic electricity customers continue to take energy from the former electricity incumbent in their region (see Figure 2.1).

2.6. Figure 2.2 provides more detailed information on the regional structure of the domestic electricity market. It shows the electricity market shares of the former incumbent supplier in each region, as well as the share of British Gas and the next largest supplier in the region. In most cases the former incumbent continues to have the largest market share in their home region - in regions where this was not the case, British Gas is the largest electricity supplier. In all regions, the former incumbent has a considerably higher market share than the third largest supplier. On average the former electricity incumbents have market shares among domestic electricity customers between three and five times as high in their home regions compared to other regions.

FIGURE 2.2: The three largest suppliers of domestic electricity meter points by region, June 2015



Source: Ofgem analysis of data provided by DNOs. The former incumbent electricity supplier in each region is shown on the x-axis beneath the names of the regions.

2.7. New suppliers have continued to enter the market in late 2014 and early 2015. After reaching a peak of around 50% in mid-2014, the proportion of those

¹⁵ Meters that can differentiate between peak and off-peak consumption, eg Economy 7.

domestic customers switching supplier that chose an independent provider fell in early 2015, before increasing again to just under 50% for both gas and electricity by June 2015.

Non-domestic

2.8. Non-domestic energy consumers range from small users, such as micro-businesses¹⁶, to larger users, such as industrial and commercial consumers. Despite only making up a relatively small proportion of all customers, non-domestic users account for around 65% of total electricity consumption and around 40% of total gas consumption.¹⁷

2.9. As of June 2015, there were 59 active suppliers in the non-domestic market (some of which also supplied domestic customers). Of these, 24 supplied both gas and electricity, 17 only gas and 18 only electricity. They included British Gas and the five former electricity incumbents, a number of other firms with upstream gas production or power generation businesses, and various smaller suppliers. Many suppliers focus on a single fuel, as businesses negotiate separate contracts for gas and electricity, and many do not have a gas supply. For example, only 40% of micro-businesses and small businesses report using both mains electricity and mains gas.¹⁸

2.10. Historically, rates of entry have been higher in the non-domestic segment than domestic. Nevertheless, as with the domestic segment, entry levels have risen rapidly in recent years: since 2012, 18 companies began supplying gas and/or electricity to non-domestic consumers, compared to a total of eight new entrants between 2005 and 2010.

2.11. Figure 2.3 shows the market shares of the largest non-domestic suppliers in June 2015 among different sizes of business customers.¹⁹ The shares are based on the total volumes of energy supplied rather than the number of sites: this reflects the heterogeneity of business customers' energy use.²⁰

¹⁶ We define a micro-business as a non-domestic electricity consumer with annual consumption not more than 100,000 kWh or a non-domestic gas consumer with annual consumption not more than 293,000kWh, or a non-domestic consumer with fewer than 10 employees and an annual turnover or annual balance sheet total not exceeding €2 million.

¹⁷ Ofgem calculation based on data received from Elexon and Xoserve.

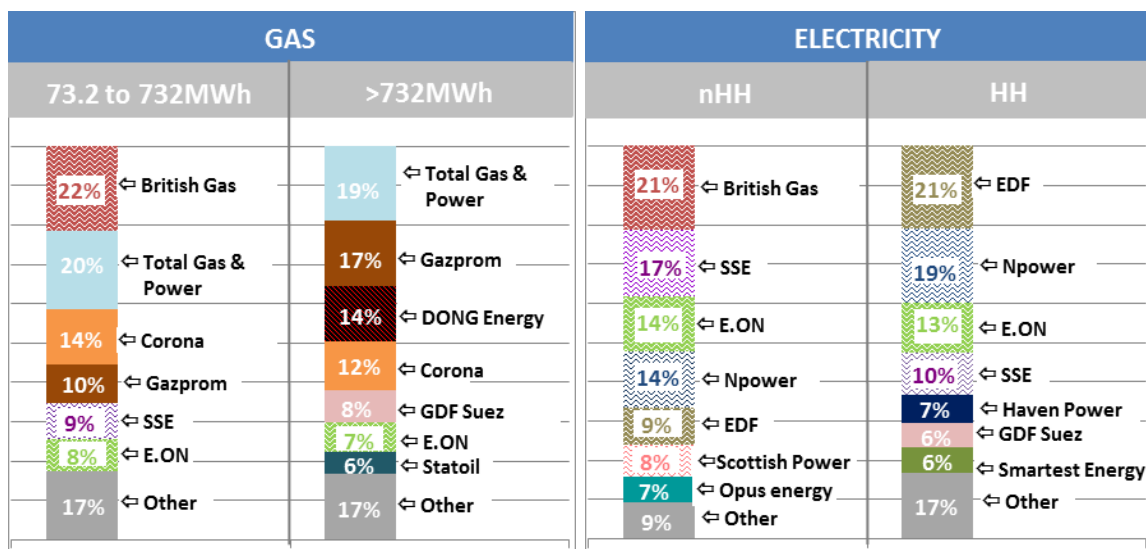
¹⁸ ['Micro and small business engagement in energy markets'](#), BMG Research, Mar 2015.

¹⁹ For electricity, we look separately at supply to non-half hourly (nHH) meters (typically smaller businesses) and those using half hourly (HH) meters (typically larger businesses with high electricity consumption), as recorded by DNOs/Elexon. For gas, we look separately at supply to consumers with annual consumption between 73.2MWh and 732MWh, and those with consumption above 732MWh. In both cases, these consumers are likely to be larger businesses. Market shares among smaller non-domestic gas users, ie with consumption less than 73.2MWh are not shown, as we are unable to distinguish these customers from domestic customers in the data provided by Xoserve.

²⁰ Some significant differences emerge when market shares are calculated using meter points, with some suppliers tending to supply a higher share of customers than volumes.

2.12. The figure shows that suppliers other than British Gas and the former electricity incumbents have acquired larger market shares among non-domestic gas customers than in the domestic segment. This is particularly the case for the largest business gas customers, where all of the five suppliers with the largest market shares as of June 2015 entered after liberalisation. British Gas is the largest supplier among non-domestic gas customers with consumption between 73.2MWh and 732MWh, although its share is significantly smaller than for domestic customers.

FIGURE 2.3: **Non-domestic market shares by volume, June 2015**

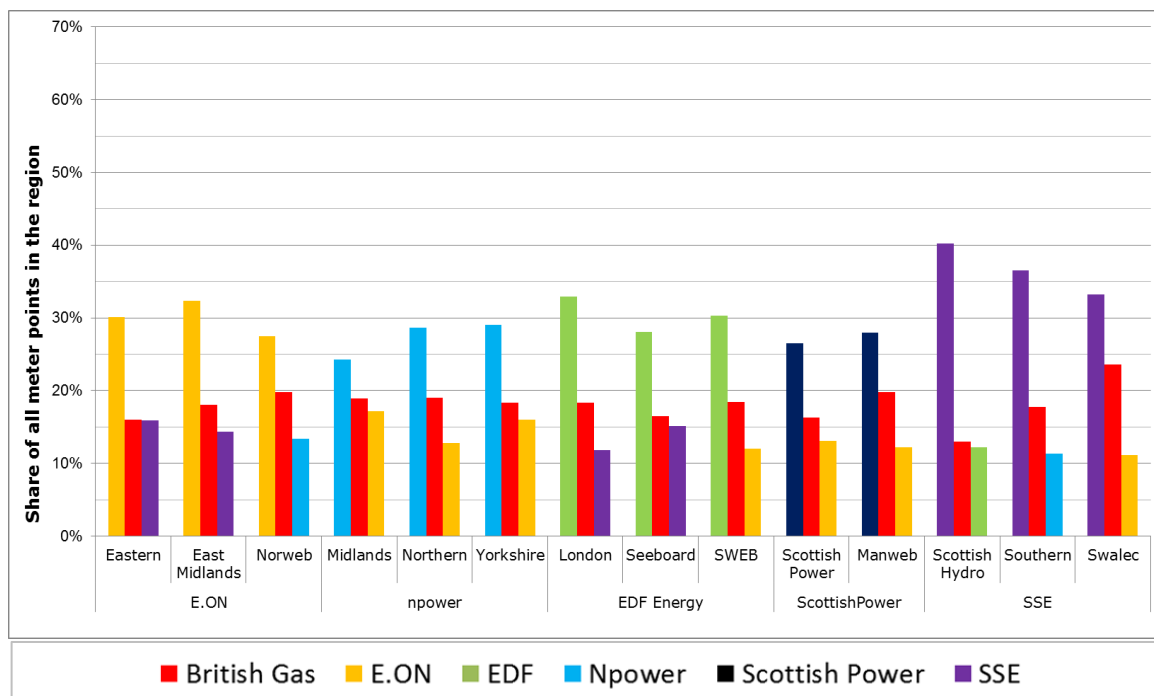


Source: Ofgem analysis of data provided by Elexon (electricity) and Xoserve (gas). Note: British Gas and the former electricity incumbents are shown as patterned colours – other suppliers are shown as block colours.

2.13. Suppliers other than British Gas and the former electricity incumbents also supply a significant proportion of larger electricity customers (ie those on HH meters). While the share of these suppliers is more limited among smaller non-domestic electricity customers (ie those on nHH meters), as in the domestic market this share has grown over the last year (rising by 4 percentage points between December 2013 and June 2015, from 12% to 16%).

2.14. Nevertheless, as at June 2015, British Gas and the former electricity incumbents are the largest suppliers for non-domestic electricity customers, and the market for smaller non-domestic electricity customers continues to show the influence of privatisation. Figure 2.4 shows that in all regions the former incumbent electricity suppliers continue to have the largest share of supply to nHH electricity customers in their home region, and a significantly higher proportion than the next largest supplier. On average, the former electricity incumbents' market shares are between one and three times as high in their home regions compared to other regions, slightly lower than in the domestic market.

FIGURE 2.4: The three largest suppliers of non-domestic nHH electricity meter points by region, June 2015



Source: Ofgem analysis of data provided by Elexon. The former incumbent electricity supplier in each region is shown on the x-axis beneath the names of the regions.

The financial statements of the six large suppliers

2.15. Ofgem requires that the six large suppliers publish annual statements of their revenues, costs and profits for their generation and supply businesses, known as the Consolidated Segmental Statements (CSS).²¹ This information allows us to understand trends in these suppliers' financial performance and provides greater transparency around their profitability. In this section, we discuss recent developments in the six large suppliers' financial performance, based on this data.

2.16. In its [Provisional Findings](#), the CMA raised concerns over the comparability of different suppliers' statements. We are considering these findings carefully, and have been mindful of these potential limitations in interpreting the data in this section.

Combined revenues, costs and profits

2.17. The financial statements show a significant decline in the total volume of gas and electricity supplied to domestic customers by the six large suppliers between 2013 and 2014. This resulted in a decline in total domestic revenues and costs. The decline in volume is likely to be a result of a combination of the mild weather in early

²¹ We provide links to the suppliers' statements in [this](#) document.

2014, the longer-term trend of improving energy efficiency, and the six large suppliers' loss of customers to other suppliers. Non-domestic gas and electricity volumes were flatter over the period, and in contrast to the domestic segment, combined non-domestic supply revenues rose slightly between 2013 and 2014. Note that for both domestic and non-domestic, the figures are aggregated across the six suppliers, and not all suppliers saw the same trends over the period.

TABLE 2.1: **Combined EBIT, revenue, costs and volumes**²²

		2013	2014	% change
EBIT (£m)	Domestic	1,151	1,160	0.7%
	Non-domestic	423	407	-3.9%
	Total	1,575	1,567	-0.5%
Revenue (£m)	Domestic	29,206	26,020	-10.9%
	Non-domestic	16,694	16,847	0.9%
	Total	45,900	42,868	-6.6%
Costs (£m)	Domestic	28,055	24,861	-11.4%
	Non-domestic	16,271	16,440	1.0%
	Total	44,325	41,301	-6.8%
Volume, gas (TWh)	Domestic	325	262	-19.4%
	Non-domestic	53	54	0.0%
	Total	378	315	-16.7%
Volume, electricity (TWh)	Domestic	106	96	-9.9%
	Non-domestic	152	146	-4.1%
	Total	258	242	-6.5%

Source: Ofgem analysis of CSS.

2.18. Total supply profits – measured as earnings before interest and tax (EBIT) – fell very slightly between 2013 and 2014. While non-domestic supply profits declined, domestic supply profits increased marginally on 2013, despite the six large suppliers' falling market shares and lower consumption in 2014.

2.19. In previous years we have seen an inverse relationship between generation and supply profitability.²³ However, in 2014, *both* supply and electricity generation profits declined in £m year-on-year. Please refer to our report on [Wholesale Energy Markets in 2015](#) for discussion of the profitability of electricity generation.

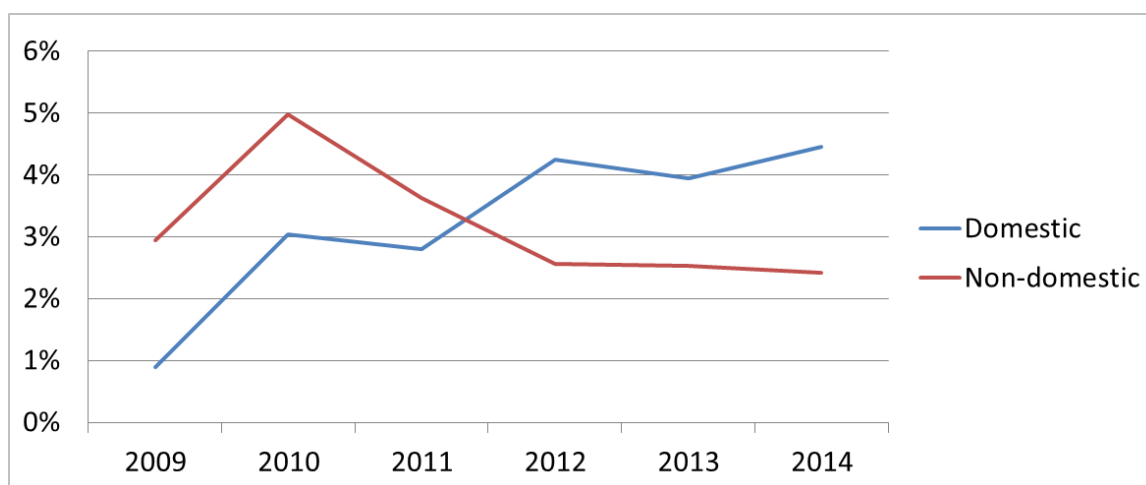
²² EBIT is equivalent to revenues minus direct costs, indirect costs and depreciation and amortisation. Note that we have made the following adjustments to the published CSS figures to be consistent with our guidelines: we excluded £18m of supply losses from British Gas's 2013 statement which had been included in indirect supply costs, and excluded £2.4m of impairment losses that had been included in indirect supply costs from its 2014 statement. We also excluded £18.2m of restructuring costs that had been included in indirect supply costs from E.ON's 2014 statement. 'As reported' figures can be found in [individual companies' CSS](#).

²³ [The revenues, costs and profits of the large energy companies in 2013](#), Oct 2014

Margins

2.20. Figure 2.5 shows that domestic dual fuel EBIT margins averaged across the six large suppliers rose between 2013 and 2014, from 3.9% to 4.5%, remaining significantly higher than in 2009 and 2010. In contrast, the average of the six large suppliers' non-domestic dual fuel EBIT margins fell slightly, from 2.5% to 2.4%.

FIGURE 2.5: **Average dual fuel EBIT supply margins**



Source: Ofgem analysis of CSS. Note: dual-fuel margins are calculated by summing suppliers' gas and electricity EBIT in each year in £m, and then dividing by the sum of suppliers' gas and electricity revenues.

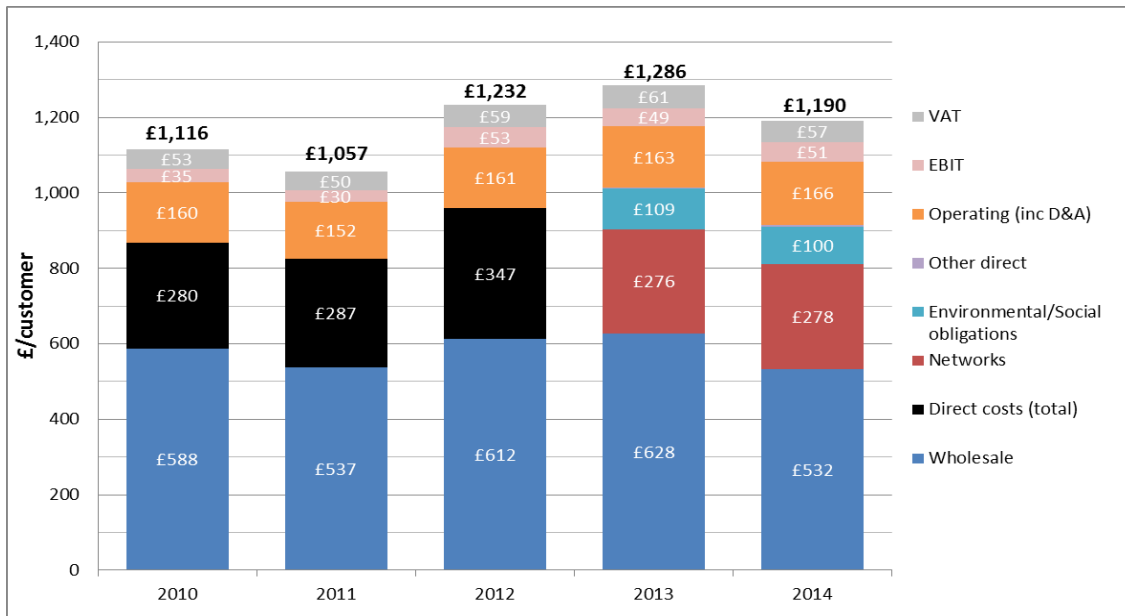
2.21. There are major differences between individual suppliers' domestic margins (see 'Large suppliers: Pre-tax supply margins on domestic dual fuel tariffs GB' indicator on our [website](#)), and also differences between suppliers' margins in the non-domestic segment. Non-domestic profitability also varies significantly for different types of non-domestic customer: the CMA has provisionally found that EBIT margins were over twice as high for small and medium enterprises in the period 2009 – 2013 than for industrial and commercial customers.

Per-customer and unit costs – domestic

2.22. Continuing a longer term upwards trend, total costs per unit of gas and electricity supplied to domestic customers increased between 2013 and 2014: from £43 to £45 per MWh for gas, and from £133 to £138 per MWh for electricity.

2.23. Figure 2.6 illustrates the trend in the size of the different costs making up a domestic customer's bill. It shows that like margins, suppliers' operating costs per customer (ie their own costs associated with supplying energy) rose between 2013 and 2014, both in absolute terms and as a proportion of the bill. Historically, we have seen costs vary across the six large suppliers, and this remains the case in 2015. The range between the supplier with the highest and lowest operating cost (including depreciation and amortisation) per dual fuel domestic customer increased from £86 in 2013 to £90 in 2014 (compared to an average operating cost per customer across the six large suppliers of £166).

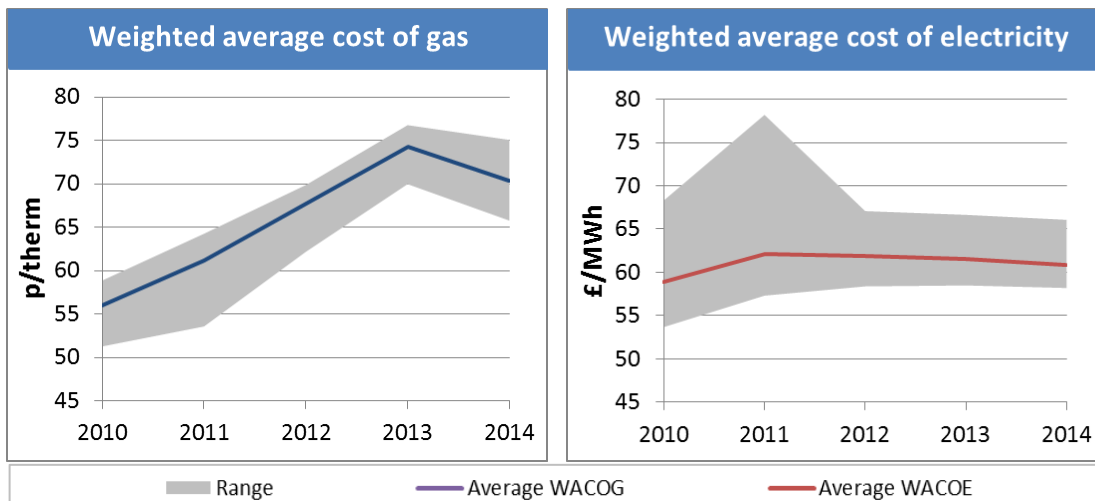
FIGURE 2.6: Domestic costs and margins per customer



Source: Ofgem analysis of CSS, with customer number data from Datamonitor for 2010 -2013. Nominal figures as reported for each CSS year. From 2013 'Direct Costs' are split into 'Network', 'Environmental/Social Obligations' and 'Other Direct' costs.

2.24. Figure 2.6 also shows that per-customer wholesale costs fell between 2013 and 2014 – as a result of falling consumption and falling average wholesale prices. Trends in wholesale prices – the largest component of bills – are discussed in detail in our report on the [Wholesale Energy Markets in 2015](#). Figure 2.7 illustrates that – taken at face value – the CSS data suggests there is significant variation across suppliers in the weighted average cost of wholesale gas and electricity for domestic customers (although the CMA has raised some questions around comparability).

FIGURE 2.7: Domestic weighted average cost of energy



Source: Ofgem analysis of CSS. The weighted average cost of gas (WACOG) and weighted average cost of electricity (WACOE) are the average costs companies incurred in purchasing energy in the year.

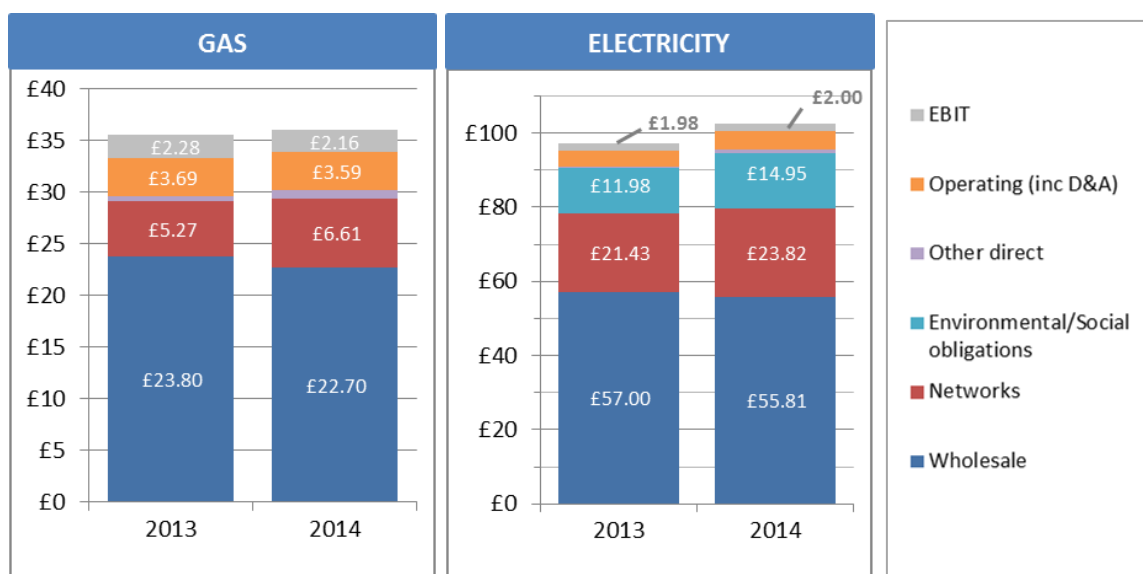
2.25. The per-customer costs associated with network charges remained similar in 2014 compared to 2013, while environmental and social obligations costs fell in line with the reduction in volumes.

Unit costs – non-domestic

2.26. The six large suppliers' costs per unit of energy supplied to non-domestic customers rose between 2013 and 2014 from £33 to £34 per MWh for gas, and from £95 to £100 per MWh for electricity (although note that this includes both smaller and larger non-domestic consumers, and costs may vary significantly for business customers of different sizes).²⁴

2.27. Figure 2.8 breaks down this trend by category of cost. It shows that the wholesale cost per unit of energy fell between 2013 and 2014, following the decline in wholesale prices. As with domestic suppliers, there is variation across suppliers in the WACOG and WACOE.

FIGURE 2.8: **Non-domestic supply costs and margins per MWh**



Source: Ofgem analysis of CSS.

2.28. Operating costs per unit make up a much smaller part of average prices than for domestic consumers, and increased slightly between 2013 and 2014, both in absolute terms and as a proportion of all costs. The figure also shows that the six large suppliers' network costs increased as a proportion of the cost of a unit of both gas and electricity supplied between 2013 and 2014. Environmental and social obligation costs also increased per MWh of electricity supplied.

²⁴ For example the CMA found that some indirect costs, such as those associated with writing off bad debt, varied significantly across different sizes of non-domestic customer.

3. Consumer engagement

Chapter Summary

The overall level of domestic consumer engagement in 2015 is similar to that observed in 2014, with no significant change since the RMR measures were introduced. However, there are early signs that the RMR measures may have had some positive impact on consumers' understanding of and trust in the energy market. For example, there have been some small but significant improvements in how clear consumers say they find routine communications, and an increase from 48% to 67% in the proportion of consumers seeking out information to make comparisons. With only one year's data available, it is too early to tell whether any of these positive developments represent longer run trends: this will be a focus of future evaluation.

While there has been a small increase in the proportion of consumers reporting they find it easier to compare tariffs than a year ago, in general the RMR "simpler" tariffs rules do not appear to have had a significant impact on consumer engagement in the market. Suppliers have also reported the rules are restricting their ability to innovate. The CMA has provisionally found that the RMR "simpler" tariff rules may have had an adverse effect on competition. We will support the CMA as they consider whether aspects of the simpler tariffs rules should be amended or removed.

Smaller non-domestic consumers are affected by many of the same barriers to engagement as domestic consumers. One particular problem has been around these consumers' understanding of their contract terms, so in 2014 we introduced new rules in this area as part of the RMR reforms. There is some evidence of an improvement in smaller businesses' engagement with their contracts and awareness of contract details in 2014. Nevertheless, it is likely that nearly half of all micro-businesses remain on default contracts, and as with the domestic market, many smaller non-domestic meter points have never switched supplier.

3.1. Effective competition between suppliers is driven by consumers that are sufficiently engaged to incentivise rivalry for their business. In the domestic market, we have previously identified a number of issues that can negatively impact consumers' experience of engaging, including complex tariffs; a lack of clear information about tariffs, products and contract terms; and a lack of trust in suppliers and the market. Smaller non-domestic consumers are affected by many of the same issues, as well as additional factors such as a lack of transparency around prices and contract terms.

3.2. As part of the Retail Market Review (RMR), we introduced measures to address these barriers to consumer engagement. Figure 3.1 summarises the changes in the domestic market. In the non-domestic market, we introduced new rules to help smaller businesses avoid being caught out by automatic renewal when their fixed terms contracts come to an end (see Table 3.4). In a similar way to the domestic sector, we also introduced enforceable Standards of Conduct that require suppliers to act fairly in their interactions with micro-business consumers (although the scope of activities covered by these is more limited than for domestic consumers).

FIGURE 3.1: **Overview of domestic measures introduced following the RMR**

Simpler Market	Clearer Market	Fairer Market
<ul style="list-style-type: none"> • Limit suppliers to four core tariffs and simpler tariff structure • Additional restrictions on the types of discounts and bundles that are allowed 	<ul style="list-style-type: none"> • Improvements to routine communications to provide consumers with key bits of information in a clear manner • New comparison tools to help consumers find the right deal for them 	<ul style="list-style-type: none"> • New Standards of Conduct to improve supplier-consumer interactions • Additional consumer protection measures for consumers on fixed term tariffs

3.3. In this section, we describe recent trends in consumer engagement. We begin by looking at engagement among **domestic** consumers, considering:

- a) Trends in, and drivers of, overall **consumer engagement**
- b) Levels of **trust** in the market
- c) Measures of consumers' **awareness** of their ability to switch provider and the alternatives that are available to them
- d) Indicators relating to consumers' **understanding** of their tariff and routine supplier communications
- e) Indicators relating to consumers' ability to **compare** tariffs
- f) Indicators of consumers' **participation** in the market.

3.4. As well as describing key developments, we provide our evaluation of the impact that the RMR measures have had on the market, based on our evaluation framework.²⁵ Our findings are based on a comparison of our 2015 survey results with the baseline results collected in 2014, supplemented by the submissions received from stakeholders. As we have only a single year's data to compare with the baseline we are not in a position to draw any strong conclusions about the impact of the RMR at this point.

3.5. At the end of the chapter, we discuss recent developments in engagement among **non-domestic** consumers. We present evidence of trends in micro and small businesses' understanding of contract terms since the new rules were introduced. We also look at trends in non-domestic consumers' use of TPIS, and the proportion of non-domestic consumers switching supplier.

3.6. We have shared the underpinning analysis and evidence for this chapter with the CMA in the run-up to the [Provisional Findings](#) it published in July this year.

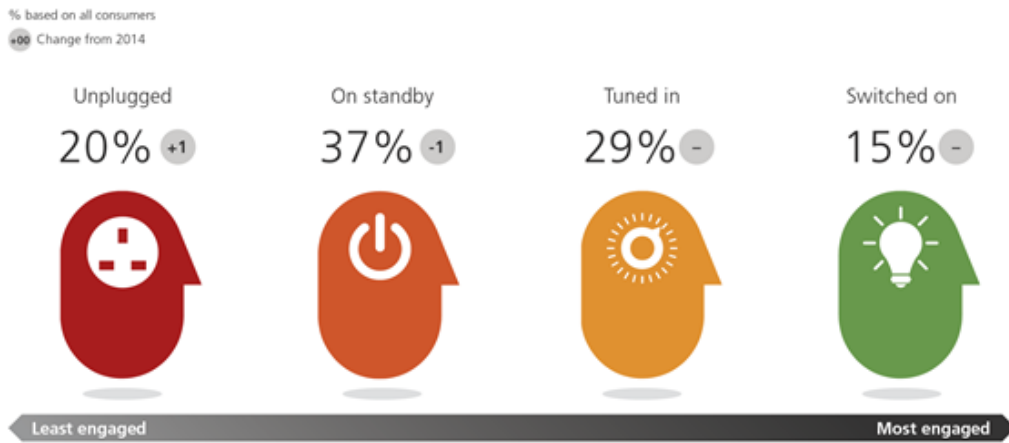
²⁵ [Domestic Retail Market Review – Evaluation framework and baseline results](#), Jul 2014

Domestic consumer engagement

Overall levels of consumer engagement

3.7. To understand how domestic consumer engagement is changing over time, we created an 'index of engagement'. The index scores consumers on their awareness and activity across a range of indicators, and places them in different engagement segments depending on their score. Typically those at the more engaged end of the spectrum regularly compare and switch tariffs or suppliers, and read routine communications in detail. Those that are less engaged tend to have glanced at a bill, for instance, but have not had any interactions with the energy market beyond that.

FIGURE 3.2: Consumer engagement segments in 2015



Source: TNS BMRB/Ofgem, Retail Market Review 2015 survey, July 2015. The findings are based on a large nationally representative face-to-face sample of approximately 6,000 respondents.

3.8. Figure 3.2 shows the proportion of consumers falling into each engagement segment in 2015. The distribution of consumers between the four segments of engagement in 2015 is very similar to 2014, showing that overall levels of engagement among domestic consumers have not changed much year-on-year. However we have found that, similar to last year, consumers in certain socio-demographic groups are disproportionately represented in the less engaged segments. This is discussed further in Chapter 6.

Drivers of engagement

3.9. Many things affect consumers' perceptions of the market, which may in turn affect how they engage. These include trust, understanding, and how easy they find it to compare tariffs. In conjunction with an expert academic, we used our survey

data to analyse the interactions between these factors, and what drives them individually.²⁶

3.10. Most significantly, we found that consumers' understanding has a reasonably strong positive influence on how easy they find it to compare tariffs, and, to a lesser extent, their level of engagement overall. There is a small positive effect of both understanding and ability to compare on consumers' level of trust.

3.11. The analysis also points to a very slight negative relationship between trust and engagement. This indicates that, on the whole, more engaged consumers tend to trust suppliers less. We know from qualitative research conducted last year that the interaction between trust and engagement will vary depending on the individual consumer.²⁷ Some will have a higher level of trust, and will be more comfortable engaging, whereas others don't trust suppliers to treat them fairly and so are more likely to engage to ensure that they don't get a poor deal. We continue to see trust as an important objective in its own right, which may increase in importance as smart meters are rolled out.

Levels of trust in the market

3.12. It is important for consumers to be confident that they will be treated fairly and can trust the information that suppliers give them. A bad experience with one supplier can undermine consumers' confidence in the energy market as a whole, causing them to disengage in the long term. And, because energy is an essential service, consumers should be able to expect to receive fair treatment from their own and other suppliers. Our research found that levels of confidence and trust in the retail energy markets are lower than in many other comparable industries.

3.13. As part of the RMR reforms, we introduced measures to make the market fairer for consumers and improve their level of trust in energy suppliers. These included:

- Binding Standards of Conduct to ensure that consumers are treated fairly in their interactions with suppliers and their representatives.²⁸
- New protections for domestic consumers on fixed term contracts, such as banning automatic rollovers from one fixed term tariff to another.²⁹

²⁶ The full findings of the analysis are included in '[Retail market review: a structural equation modelling analysis](#)'. We also conducted analysis internally to explore the drivers of consumer perceptions of the ease of comparing tariffs and consumer perceptions of the clarity of the information on the annual summary. The findings of this analysis are included in '[Analysis of the drivers of tariff comparability and clarity of the annual summary](#)'.

²⁷ '[Consumer engagement and trust in the energy market – RMR reforms](#)', Big Sofa/Ofgem, Oct 2014

²⁸ The domestic Standards of Conduct came into effect in August 2013.

²⁹ The fixed-term contract rules came into effect in October 2013.

Findings of our RMR evaluation survey

3.14. Table 3.1 shows some of the key trends over the previous year in consumers' level of trust in the market. Overall, consumers' trust and confidence in energy suppliers has remained broadly stable between 2014 and 2015, although there are some small positive signs.

TABLE 3.1: Trends in indicators of domestic consumers' trust³⁰

Indicator	Finding
<i>Trust in suppliers to treat consumers fairly</i>	In 2015, 64% (up from 62% in 2014), of consumers say they either completely trust or tend to trust their current energy supplier ³¹ to treat them fairly. Fixed term consumers tend to trust their supplier more (67%, up from 64% in 2014).
<i>Trust in suppliers to provide clear and helpful information</i>	64% of consumers trust their energy supplier to provide clear and helpful information (65% in 2014).
<i>Trust in suppliers to charge a fair price</i>	55% of consumers trust their energy supplier to charge them a fair price. This is a slight increase since 2014 (51%). Consumers are less likely to trust their gas supplier to charge a fair price (46%) where they are supplied with gas and electricity separately, or where they have don't have an electricity supply.
<i>Trust in energy suppliers versus service providers in other markets</i>	In 2015, around 43% of consumers trusted energy suppliers in general, unchanged since 2014. Energy consumers' levels of trust in providers in other industries have also remained similar to 2014, with insurance companies still the least likely to be trusted (34%). Energy suppliers continue to fall behind the three other service sectors included in the survey: landline phone providers (49%), banks (51%) and water suppliers (63%).

Impact of the RMR reforms

3.15. The Standards of Conduct were introduced with the intention of engendering a culture change in the way suppliers interact with consumers. As such, we did not expect them to take effect immediately, but to improve trust over time as suppliers embed them in their businesses.

3.16. In late 2014, Ofgem established an independent 'Challenge Panel' of experts to see what progress suppliers have made in embedding the Standards, and what impact this was having on customer service levels.³² The Panel process highlighted some examples of good practice developing. Over time, these may help to more consistently achieve better outcomes for consumers. Nevertheless, the Panel thought that more needs to be done by suppliers to ensure consumers are placed at the heart of their business. The Panel made recommendations intended to support suppliers in managing the culture change required to consistently deliver fair outcomes for all energy consumers.

³⁰ ['Retail Market Review 2015 Survey'](#), TNS BMRB/Ofgem, Sep 2015, and ['Retail Market Review Baseline Survey'](#), TNS BMRB/Ofgem, Jul 2014

³¹ Where respondents are supplied with gas and electricity by different suppliers, these figures represent the higher of the two. In most cases the answer given was the same.

³² ['Treating customers fairly, findings from the 2014 Challenge Panel'](#), Mar 2015

3.17. Although the overall picture is similar in 2015 compared to 2014, the results of our evaluation survey set out in Table 3.1 show some small positive signs in terms of levels of consumer trust. This positive trend is supported by data from our 2015 tracking survey, which shows that the degree to which consumers trust suppliers to be open and transparent has increased from less than 30% in both 2013 and 2014 up to 35% in 2015, returning to levels similar to those observed in 2012.³³

3.18. It is unclear at this point what effect the Standards of Conduct and fixed term rules may have had on the level of trust. We will continue to monitor this closely. In order to better inform our view of what trust means to people, we intend to conduct some qualitative studies with consumers. We will publish the results later this year.

Awareness of alternatives

3.19. To engage in the market, consumers must be aware of the options that are open to them. Most domestic consumers are aware that they can switch suppliers – 90% in 2015, up from 88% in 2014. Most domestic consumers are also aware that they can change tariff or payment method with their current supplier – 83% and 85% respectively in 2015, representing a 2 to 3 percentage point increase on 2014.³⁴

3.20. Increases in recent years show that consumers' awareness of their ability to switch is improving over time. Nevertheless, too many consumers remain unaware that there are options open to them. The CMA has suggested potential remedies to give consumers more prompts to engage. We will work with the CMA as it refines these remedies.

Supplier communications and consumer understanding

3.21. Consumers should have clear and understandable information about their current tariff and consumption so that they can effectively compare tariffs and engage with the market. Our research before the RMR found that it was often difficult for consumers to find and understand information in their communications.

3.22. In April 2014, RMR rules to improve a number of suppliers' routine communications came into force.³⁵ We also introduced new information tools such as the cheapest tariff message, Tariff Comparison Rate (TCR) and Personal Projection to

³³ ['Customer Engagement with the Energy Market: Tracking Survey 2015'](#), Ipsos Mori/Ofgem, Sep 2015

³⁴ We note that the [CMA's consumer survey](#) showed lower levels of consumer awareness of their ability to change tariff or payment method (76% and 81% respectively). Our survey results also differ slightly from those of the CMA in a small number of other cases. These variances are likely due to differences in sampling methodology, question wording and the proportion of the sample at which certain questions are directed.

³⁵ In this section, we use the term 'routine communications' to refer to bills and statements of account, annual summaries, price increase notifications and end of fixed term notices.

help consumers compare.³⁶ These rules were designed to make the market clearer for consumers and ensure that they have access to the information they need to understand their current circumstances and options.

Findings of our RMR evaluation survey

3.23. Table 3.2 shows some of the key trends in indicators of consumers' understanding. Overall we find that those consumers who at least skim-read a routine communication generally found them to be clear. This proportion has increased slightly since 2014. We have also seen a marked increase in consumers reporting that they sought out information about their current tariff and/or energy use in the last year.

TABLE 3.2: Trends in indicators of domestic consumers' understanding³⁷

Indicator	Finding
<i>Consumers' recollection of routine communications</i>	82% of consumers remembered receiving one or more routine communications from their supplier in the preceding 12 months (83% in 2014). Of the different communications, consumers were most likely to recall receiving a bill (69%). ³⁸
<i>Clarity of routine communications</i>	Between 87% and 90% engaged with each routine communication they recalled receiving in some way, though in general slightly more tended to glance at them (eg 46% for the bill) rather than read them in detail (41%). Of those who at least skim read their communication, a large majority found the information in the communications clear (75%-81%). There has been a small increase in the clarity of all routine communications since 2014 (2-3%).
<i>Information sought out to compare tariffs</i>	The share of consumers that reported looking for more information about their existing tariff or current energy use when comparing suppliers or tariffs in the previous 12 months increased significantly, from 48% in 2014 to 67% in 2015.
<i>Ease of access to information</i>	The majority of consumers who looked for tariff or energy use information found it very or quite easy to find (76%) and understand (73%). This is broadly in line with the equivalent figures for 2014.
<i>Familiarity with tariffs</i>	Consumers' familiarity with tariffs remains unchanged from 2014, with a very similar proportion (39-41%) of consumers reporting being either fairly or completely familiar with each of: their own tariff, the other tariffs available from their current energy supplier, and the tariffs available from energy suppliers in general. Around a quarter of consumers continue to feel that they are "not at all familiar" with their own and other tariffs.
<i>Action taken because of communications</i>	Of the routine communications, we found that end of fixed-term notices were most likely to prompt action: 43% of consumers checked the features of the tariff they were on, 34% looked into switching tariffs with their own supplier, and 24% looked into switching supplier.
<i>Consumer recollection and use of the RMR comparison tools</i>	Consumer recall of cheapest tariff messaging is higher than that of the other comparison tools (34%). Consumers were more likely to take some action after seeing it, such as checking their current tariff details (38%), comparing it with others (31%) and switching tariff or supplier (25%). Recall of the Personal Projection was slightly lower (31%), and for the TCR was significantly lower (19%). The proportions taking some action after seeing these tools were broadly similar to the cheapest tariff messaging.

³⁶ A brief description of these comparison tools is included in the glossary in Appendix 1.

³⁷ 'Retail Market Review 2015 Survey', TNS BMRB/Ofgem, Sep 2015, and TNS BMRB/Ofgem, 'Retail Market Review Baseline Survey', Jul 2014

³⁸ We use 'bill' in this chapter to refer also to statements of account, eg for direct debit.

3.24. We also found evidence that being a regular internet user has an influence on consumers' familiarity with tariffs which – all else equal – is in turn positively linked to levels of understanding.³⁹ Because lack of internet access may also be associated with a higher risk of a consumer being in a vulnerable situation, this may indicate that vulnerable consumers could have a lower level of understanding and familiarity with tariffs than others.

Impact of the RMR reforms

3.25. There are some small signs that the RMR "clearer information" measures have helped consumers better understand the energy market. In particular, there have been some, albeit slight, improvements in how clear consumers find routine communications. They are also more inclined to seek out information about their current tariff or energy use when comparing different offers, and tend to find this information easy to access when they do. And although we cannot confirm based on the evidence to date, we hope that these positive developments are reflected in the quality of consumers' switching decisions. With more data in future we should be able to better understand whether the positive signs are part of a larger trend, and how the RMR measures have contributed to this. We are encouraged to see that consumers' recall, and use, of the new comparison tools is reasonably high, particularly in the case of the cheapest tariff messaging, considering that they were only rolled out quite recently.

3.26. Stakeholders broadly support the information remedies, though a number suggested potential improvements.⁴⁰ Some are concerned about the volume of information in supplier communications, particularly bills. And some consider that suppliers should have more flexibility to make decisions on where to put regulated content.

3.27. Stakeholders generally supported the cheapest tariff messaging and Personal Projection, though some suggested improvements. For example, some suggested the Personal Projection be standardised across the entire industry, not just suppliers. They also suggested that the TCR may confuse consumers and lead them to distrust suppliers. We note that consumer awareness and use of the TCR is low compared with the cheapest tariff messaging and Personal Projection. We want to explore why this is, and will conduct further research later this year.

3.28. Although our survey shows some positive developments in the perceived clarity of the information on communications, we note that separate research carried out by Citizens Advice Service suggests that the overall length of bills may be an area of concern. We are currently considering what further action might be necessary to address this issue, recognising the ongoing CMA investigation which is also looking at this issue.

³⁹ [Retail market review: a structural equation modelling analysis](#), Sep 2015.

⁴⁰ A summary of stakeholder views to our recent call for evidence on the impact of the RMR is included at Appendix 1.

Consumers' ability to compare tariffs

3.29. Our RMR research⁴¹ found that complex tariffs and a lack of consistency in price projections could act as barriers to consumer engagement. Some consumers felt that comparing tariffs would be difficult and time-consuming, and this undermined how confident they were in their ability to assess the choices available.

3.30. As part of the RMR reforms, we introduced measures to make the market simpler for consumers and help them make comparisons. These included our "simpler" reforms, which included restricting the number and types of tariffs and discounts suppliers can offer, which came into effect in January 2014.

Findings of our RMR evaluation survey

3.31. Table 3.3 shows some of the trends over the previous year in consumers' ability to compare tariffs. Overall, consumer perceptions of how easy it is to compare and switch have remained consistent with those seen last year, though we have seen small improvements in certain indicators. Those who switch both fuels at the same time, and those with regular internet access, tend to find it easier to compare and decide which tariff to switch to.

TABLE 3.3: Trends in indicators of domestic consumers' ability to compare⁴²

Indicator	Finding
<i>Ease of comparison</i>	Consumers' perceptions of the ease with which they can compare tariffs remain polarised, with similar proportions saying it is very or fairly easy (38%) as saying it is very or fairly difficult (36%, down slightly from 39% in 2014).
<i>Ease of decision-making</i>	A majority of switchers found it easy to decide which tariff to switch to, with dual fuel switches likely to be most positive in this respect (76%, compared with 65% and 66% respectively for those consumers that switch gas and electricity separately). Those that have switched within the last 12 months are more likely to be positive than those who switched more than a year ago (for dual fuel 84% compared with 72%).
<i>Whether it is easier to compare than a year ago</i>	Of those respondents that compared (around a third of all respondents), the proportion who believe it has become easier to compare tariffs has increased from 23% in 2014 to 27% in 2015, while the majority believe it is about the same (63% in 2014 versus 56% in 2015). A similar proportion in both years believed it had got harder to compare tariffs (6% in 2015 compared to 7% in 2014).
<i>Perceptions of the level of choice</i>	44% of consumers say there is about the right amount of choice in the range of tariffs available, while 30% think that they have too much choice, and 11% think they have too little. This represents a small decrease from 2014 in the proportions who think there is either too little or too much choice, while there has been an increase in the proportion of "don't knows".

⁴¹ 'The Retail Market Review – Final Impact Assessment for domestic proposals', March 2013

⁴² 'Retail Market Review 2015 Survey', TNS BMRB/Ofgem, Sep 2015, and 'Retail Market Review Baseline Survey', TNS BMRB/Ofgem, Jul 2014

3.32. Our further analysis of the survey responses suggested that, on the whole, comparability is determined to a significant extent by the ease with which consumers can find and understand the information they need to make a comparison.⁴³

Impact of the RMR reforms

3.33. We are encouraged to see a small increase in the proportion of consumers reporting they find it easier to compare tariffs than a year ago. However, we have not seen a significant change in many of the other indicators of consumers' ability to compare, and consumer perceptions of the ease of comparison continue to be polarised, with similar proportions believing it to be easy or difficult to compare. This is not entirely unexpected, given the relatively short time that the rules have been in place.

3.34. The "simpler" tariff rules continue to be the most contentious element of the measures introduced under the RMR. Many stakeholders were, in general, not supportive of the rules, suggesting they were a barrier to innovation, and had led to niche products being withdrawn, such as tariffs aimed specifically at consumers with low energy use or certain types of discounts. We acknowledge supplier concerns that some of the RMR tariff rules are too restrictive and prevent them from innovating.

3.35. The CMA has highlighted its own concerns about the impact that the simpler tariff rules may have on competition, including via the impact they have on the Price Comparison Website market. We will continue to work to support the CMA in its investigation as they consider possible remedies to address any elements of the "simpler" tariff rules which are considered to result in an adverse effect on competition. In the short term, we are committed to ensuring our derogation process is as quick and streamlined as possible.⁴⁴

Consumer participation

3.36. In this section, we describe recent changes we have seen in indicators of the extent to which domestic consumers are participating in the retail markets by switching supplier or changing their tariff with their existing supplier.

⁴³ '[Analysis of the drivers of tariff comparability and clarity of the annual summary](#)', Sep 2015

⁴⁴ Since the beginning of 2014, we have granted 15 derogations relating to tariffs or cash discounts that fall outside the RMR tariff restrictions. These have included derogations allowing suppliers to introduce tariffs targeted at particular vulnerable groups of communities, and discounts/rebates used to promote environmental objectives or designed to assist vulnerable consumers. A full list of the derogations granted is on the [Ofgem website](#).

Attitudes towards switching

3.37. As with last year, the most common reason for switching in 2015 was to “save money” (90%).⁴⁵ The next most common reason was to “get better customer service” (11%, which is an increase of two percentage points on 2014).

3.38. Taking into account the factors that mattered to them (eg price, customer service), in 2015, 48% of consumers reported that they feel they are on the best deal, a fall of seven percentage points from 2014 (55%). However, among those who switched in order to save money, 83% feel they are paying less now, or will pay less in the long term, which is an increase from 77% in 2014. Consumers with dual fuel supply are still more likely to be positive about their current deal.

Switching rates

3.39. Data from the DNOs shows that, for electricity, around 30% of all domestic electricity meter points did not change supplier in the period between 2002, when all price controls were removed from the domestic market, and 2014. The equivalent figure for gas (although covering the period up to March 2015) was around 18%. Additional information provided by British Gas show that as of March 2015, around one-fifth of its gas customer accounts and two-fifths of the gas meter points it supplied had stayed with the supplier throughout the period since liberalisation. The majority of these customers either opened electricity accounts or changed tariff or payment method in the period.^{46,47}

3.40. In 2014, approximately three million domestic consumers switched their electricity supplier and two million their gas supplier. This represents an annual switching rate of 11.1% for electricity (0.7 percentage points lower than in 2013), and 10.8% for gas (almost unchanged on 2013). Figure 3.3 shows that the number of gas and electricity consumers switching supplier has declined significantly since 2008, although this trend has flattened out since 2012. Switching rates have a strong seasonal pattern, tending to be lowest around Christmas. We saw a significant increase in switching in February and March 2015 compared to the same period in recent years: around 421,000 more consumers switched in February and March 2015 than did so in the same months in 2013. This is likely to be related to DECC’s ‘Power to Switch’ advertising campaign, which went live in February 2015.

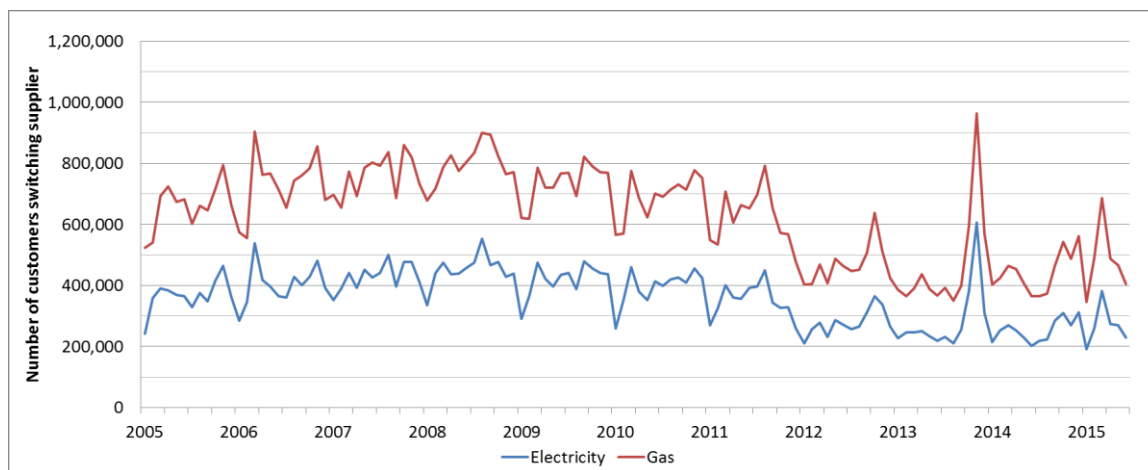
⁴⁵ The trends in this section are from ‘[Retail Market Review 2015 Survey](#)’, TNS BMRB/Ofgem, Sep 2015, and ‘[Retail Market Review Baseline Survey](#)’, TNS BMRB/Ofgem, Jul 2014

⁴⁶ Based on information provided by British Gas on the number of meter points which stayed with it in the period 2002 to March 2015, and information from Cornwall Energy on the total number of gas meter points in January 2015.

⁴⁷ To note, survey data typically points to a higher proportion of domestic consumers (43% in 2015 according to our RMR survey) never having switched supplier compared to data based on meter points. This suggests that some may struggle to recall switches, and may also, in part, be accounted for by factors such as house moves.

3.41. The most common method of switching supplier reported by consumers was using an online price comparison service, accounting for 44% of consumers in the 2015 survey who had switched in the last 12 months, in line with the previous year.⁴⁸ The second most common method was switching by contacting the new supplier by phone: the proportion citing this method fell in 2015, down to 17% (21% in 2014). Direct contact from a supplier by phone or through a salesperson at their home or elsewhere remain relatively uncommon (with each being cited by 6%).

FIGURE 3.3: **Number of domestic consumers switching each month**



Source: Ofgem analysis of data provided by DNOs, Xoserve and suppliers.

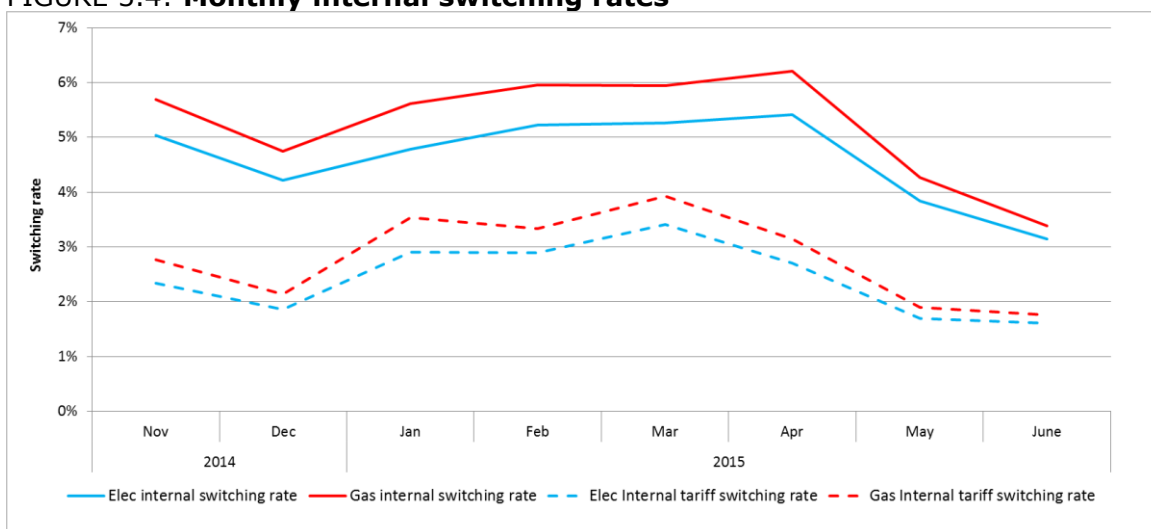
Interactions with existing supplier

3.42. Figure 3.4 shows the trend in the '*internal switching rate*' for the six large suppliers' domestic gas and electricity customers from September 2014 to June 2015.⁴⁹ This measures the proportion of domestic consumers switching to an alternative tariff, payment method or online/offline account management while staying with the same supplier. It also shows an '*internal tariff switching rate*' (see the dotted lines), which represents tariff changes where a consumer made an active choice (as distinct from a potentially passive move from a fixed or dead tariff onto the relevant cheapest evergreen).

3.43. The proportion of consumers making *any* change to their tariff with their existing supplier in a given month varied between 3% and 6% over the period, while 1.5% to 4% made an 'active' switch between tariffs. These proportions are significantly higher than the share of consumers switching supplier in a given month (around 1% throughout the period).

⁴⁸ '[Retail Market Review 2015 Survey](#)', TNS BMRB/Ofgem, Jul 2015, and '[Retail Market Review Baseline Survey](#)', TNS BMRB/Ofgem, Jul 2014

⁴⁹ This is based on information provided to Ofgem by the six large suppliers.

FIGURE 3.4: **Monthly internal switching rates**

Source: Ofgem analysis of data provided by the six large suppliers.

Non-domestic consumer engagement

3.44. Smaller businesses may face many of the same difficulties that restrict engagement among domestic customers. They can also face additional barriers, for example in the form of higher search costs because of the lack of published prices for fixed-term contracts. This is less of a problem for larger businesses, which tend to be better able to negotiate contracts directly with suppliers or use third party intermediaries (TPIs).

3.45. Table 3.4 shows recent measures introduced by Ofgem to improve engagement among micro-business customers. In this section we consider recent trends in engagement in three areas: businesses' understanding of contracts, use of TPIs and switching.

TABLE 3.4: **Recent Ofgem measures to improve micro-business engagement**

Date	Measures introduced
Aug 2013	<ul style="list-style-type: none"> • Fairer treatment for micro-businesses. We introduced enforceable Standards of Conduct that require suppliers to treat micro-business consumers fairly. These standards apply to billing, transfers and contract information.
Apr 2014	<ul style="list-style-type: none"> • Protecting more businesses (up to further 160,000) by expanding the definition of a micro-business. This includes access to the services of the Ombudsman. • Clearer and simpler processes, requiring suppliers to publish the contract end date and termination date on every bill or statement of account, and banning narrow termination windows.
May 2015	<ul style="list-style-type: none"> • New protections for micro-businesses on automatic rollovers and contract renewals: the maximum notice period for terminating a micro business contract has been reduced from 90 to 30 days, renewal letters for fixed-term contracts must include current prices, new prices and annual consumption and suppliers must take all reasonable steps to acknowledge termination notice within five working days of receipt.

Smaller businesses' understanding of contract terms

3.46. Our RMR research found that many smaller businesses did not know when their contract was due to end or when they could switch supplier.⁵⁰ This lack of understanding meant they could be rolled onto expensive contracts and miss out on opportunities to transfer to a better deal. To reduce these barriers to engagement, we introduced new rules in 2014 and 2015 to help smaller businesses avoid being caught out when their fixed term contracts come to an end (see Table 3.4).

3.47. Our recent surveys provide insight into trends in small business consumers' understanding of their contract terms, although significant differences in sample and methodology between the two studies and a redesign of the 2013 questionnaire⁵¹ for the 2014 survey limit comparability:⁵²

- In 2014, 48% of micro- and small businesses responding had read or at least glanced through their contract document in the previous 12 months (23% in 2013). Eighty-four percent of respondents with a fixed-term contract knew their contract end date (65% in 2013), and 73% knew when they are able to start renegotiating or give termination notice (63% in 2013). This provides indicative evidence that these consumers' engagement with energy contracts and awareness of contract details may have increased, taking into account the change in methodology for the 2014 survey. There has been a fall in the proportion of micro-businesses on rollover contracts (see Figure 4.6), which suggests more are making an active choice at the end of a fixed-term contract.
- In 2014, of those micro- and small businesses that had both looked into another supplier or tariff in the past year and noticed contract and termination dates on their bills, 64% said that they were prompted to shop around by the dates on the bill. Although the group of respondents that had both shopped around and noticed the dates on the bill is small (16% of all businesses), this finding indicates the dates on bills could be a significant trigger for switching.
- In 2014, at least three-fifths of micro- and small businesses who have recently read or glanced at their contract document are satisfied with various aspects of it. However, there was some evidence that satisfaction with some elements of the contract document may have fallen. For example, in the 2014 survey, 60% of respondents that had read/glanced at the contract reported being satisfied with the length/size of it (74% in 2013). Satisfaction with the transparency of costs

⁵⁰ 'Retail Market Review – Impact Assessment for the final non-domestic proposals' (p20-21), Mar 2013

⁵¹ The 2013 survey was a telephone survey of 1,300 non-domestic customers carried out in summer 2013. It included larger business customers and is published on our [website](#).

⁵² The 2014 survey included micro and small businesses only. To help compare the two studies, BMG Research re-weighted the 2013 sample to reflect the 2014 survey sample as much as possible and all 2013 figures presented in this report are re-weighted. However, differences in methodology mean direct comparisons between the two surveys should be treated with caution. The report is published on our [website](#). Page 8 of the report gives further detail on the differences from the 2013 survey.

and charges was 65% (77% in 2013) and 77% were satisfied with the clarity of the duration of the contract (86% in 2013).

Stakeholder views on the RMR measures

3.48. We issued a call for evidence on the impact of the RMR reforms for micro-businesses. In general, suppliers said they felt the reforms had little effect on customers, but no unintended consequences (although some said that the implementation costs for the bill changes were significant and unnecessary for suppliers that had stopped automatic rollovers). One supplier told us that only a minority of consumers in its survey had noticed any changes to bills, whereas another supplier noted a small decrease in the percentage of consumers that did not know what contract they had. Two suppliers highlighted that complaints about contract renewals had fallen. However, the larger non-domestic suppliers also made other significant changes in 2014, such as ending automatic rollover contracts, so it is difficult to link RMR reforms to any falls in complaints.

3.49. We also asked suppliers how many micro-businesses terminated their contract before they received a renewal letter. Most suppliers already allowed this and had seen no changes. But one supplier said that 27% of its customers giving termination notice had done so before they received the renewal letter, and would not have been able to without the RMR reforms.

Non-domestic consumers and Third Party Intermediaries

3.50. Many businesses use TPIs to choose their supplier. TPIs include brokers, switching sites, and other companies offering support with energy procurement.

3.51. One report suggests that more than four-fifths of large industrial and commercial customers used a broker to source their electricity in 2014, up from three-quarters in 2013.⁵³ Around two-thirds of large businesses used a broker for gas (unchanged on 2013). The proportion of smaller businesses using TPIs is lower: our 2014 survey showed that 26% of micro and small businesses used a broker as their main source when they chose their current contract or tariff. Comparison websites or telephone services were cited as the main source by 12%.⁵⁴

3.52. Our 2014 survey suggests smaller businesses (in particular those that didn't use a broker) were more likely to view brokers negatively. Our survey suggests this critical view may relate to high levels of cold-calling reported by many businesses. More than half of respondents (55%) approached by a broker did not believe they had been upfront about the cost of their services. Satisfaction with the sales approach of brokers across all small business remains very low at 18% (it was 34% in a similar question in the 2013 survey). Despite these negative perceptions, the majority of smaller businesses (81%) that actually used a broker were satisfied with

⁵³ [‘TPIs in the Business and Industrial Energy Supply Markets’](#), Cornwall Energy, 2014.

⁵⁴ Few TPIs in the non-domestic segment offer online comparisons. Most comparison services involved a negotiation with a broker on the phone before a contract is agreed.

the service. This suggests brokers provide a valued service, but there are problems with how some of them sell to small businesses.

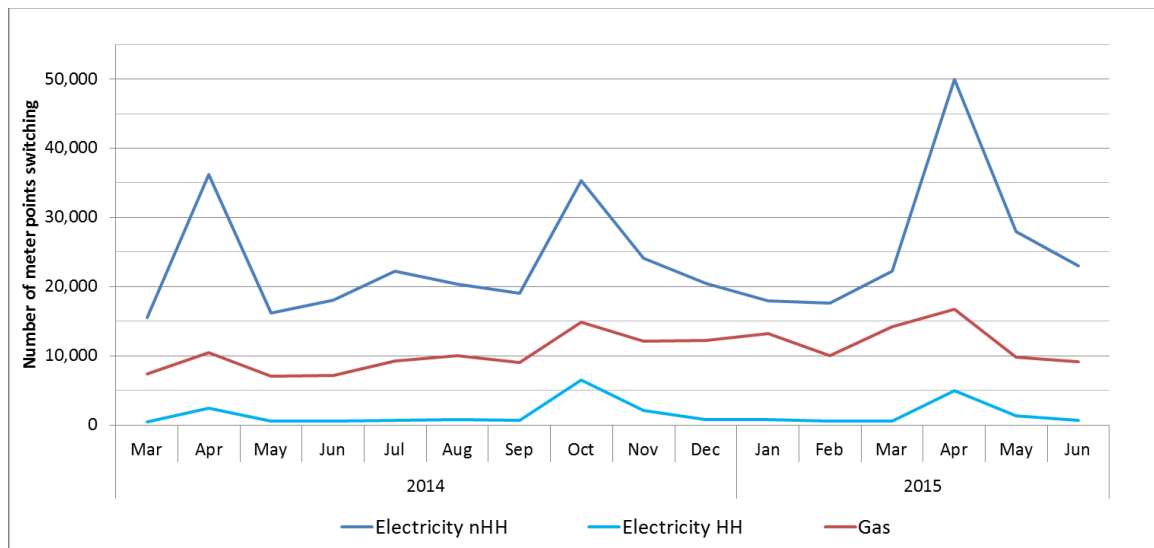
3.53. The CMA has also raised concerns about the impact of TPI malpractice on levels of engagement of micro-businesses. We will continue to support the CMA in their investigation as they consider possible remedies relating to TPI standards.

Trends in switching

3.54. The proportion of non-domestic non-half hourly (nHH) electricity meter points that did not switch supplier between the removal of price controls in 2002 and 2014 was 29%, similar to domestic consumers.⁵⁵ For the largest non-domestic users with half-hourly (HH) metering, the proportion that had not switched in the period was below 25%, while 29% of HH meter points switched over four times in the period.

3.55. Approximately 300,000 nHH and 21,000 HH meter points switched electricity supplier between July 2014 and June 2015, and 141,000 switched gas supplier. This represents an annual switching rate of 13% for nHH electricity, 15% for HH electricity and 19% for gas. Figure 3.5 shows an upward trend in switching since March 2014 for both gas and electricity (we do not have data for before March 2014). There are big spikes in the number of electricity switches in April and October, which coincide with the typical renewal periods for business contracts.

FIGURE 3.5: **Non-domestic meter points switching by month**



Source: Ofgem analysis of data provided by Xoserve/DNOs.

⁵⁵ Ofgem analysis of meter point data provided by DNOs.

4. Bills

Chapter Summary

Energy bills depend on the price of gas and electricity and the amount of energy that a consumer uses. Although average prices increased, falls in domestic consumption in 2014 (primarily as a result of mild weather) resulted in a reduction in average household bills compared to 2013.

The amount that a domestic consumer pays for their energy will depend on the type of tariff they are on. Over two-thirds of consumers remain on Standard Variable Tariffs (SVTs) despite the fact that these tariffs have tended to be consistently more expensive than fixed tariffs. The gap has grown as a number of suppliers (particularly the independents) introduced cheaper fixed rates in 2014 and early 2015.

Overall non-domestic consumption per customer also fell in 2014. The trend in non-domestic prices, which are often bespoke and tend to be less transparent, varied depending on the size of the customer: on average, prices per kWh increased for electricity customers and smaller gas customers between 2013 and 2014, and fell for larger gas customers. Very small business customers, most of which are on fixed-term contracts, continue to pay much more for their energy. Positively, there are signs that the proportion of micro-business customers being rolled-over fell in 2014, although it is likely that many remain on default contracts.

Looking forward, the increased use of smart and advanced meters has the potential to place downwards pressure on bills: helping consumers to use less energy by enabling the provision of near real-time information about prices and consumption; improving the information about consumption that other market participants receive and thereby making the system as a whole more efficient; and helping to drive competition. But, as discussed in Chapter 7, for now the roll-out remains at an early stage and the vast majority of customers continue to use traditional meters.

4.1. Energy bills are a key area of concern for consumers. The size of a bill will depend on how much gas and electricity a consumer uses, and the price they pay for that energy.

4.2. As discussed in Chapter 7, the retail markets play a significant role in determining levels of consumption. They will also significantly influence prices. For example, effective competition in the retail markets should drive suppliers to keep their margins low and to reduce their costs where they can – fearing that if they don't, they will lose business to their rivals. Conversely, barriers to effective competition may give suppliers the ability to charge higher prices: the CMA provisionally found that the average prices paid by domestic and SME customers are above what it would expect to see in a well-functioning competitive market.

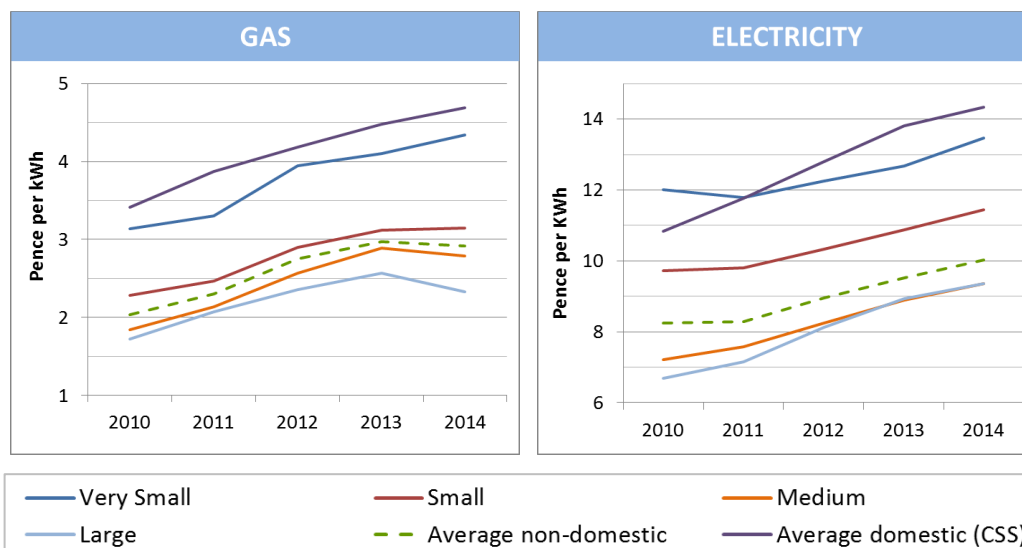
4.3. In this chapter, we begin by describing overall trends in bills. We then look in more detail at recent developments in the types of energy tariffs and contracts on offer to domestic and non-domestic customers respectively. Recent trends in the different costs making up consumers' bills are described in Chapter 2.

Trends in energy bills over the past year

4.4. The average dual fuel bill for a domestic customer of the six large suppliers declined by seven per cent between 2013 and 2014, from £1,286 to £1,190 (see Figure 2.6).⁵⁶ This left bills at their lowest level since 2011. This fall in household bills was primarily a result of domestic customers using less energy between 2013 and 2014: the average volume of gas supplied by the six large suppliers per customer fell by 18%, while for electricity there was a decline of 3%. This decline was likely to largely be because of mild weather in 2014. As discussed in Chapter 7, there is also a longer-term trend of increasing energy efficiency.

4.5. As consumption fell, Figure 4.1 shows that average prices for domestic customers – using the average of the six large suppliers’ revenues per kWh of energy supplied as a proxy measure – continued to increase for both gas and electricity between 2013 and 2014.⁵⁷ There is evidence that average domestic prices are likely to have fallen in the first half of 2015, as suppliers cut their gas SVTs and the prices of fixed tariffs continued to fall.

FIGURE 4.1: **Average gas and electricity prices for different customer types**



Source: Ofgem analysis of data from DECC (non-domestic) and CSS (domestic). Note prices exclude VAT and the Climate Change Levy. In electricity very small, small, medium and large customers are defined here as having consumption of 0-20MWh, 20-400 MWh, 2,000-19,999 MWh and 20,000-69,999 MWh respectively. For gas the relevant thresholds are <278MWh, 278-2,777 MWh, 2,778 - 27,777 MWh and 27,778-277,777MWh.

4.6. Non-domestic customers are a heterogeneous group, with considerable differences in consumption from one customer to the next. This would make an 'average' non-domestic bill based on the six large suppliers' financial statements – as

⁵⁶ Calculated using revenues and customer numbers reported in the six large suppliers' CSS.

⁵⁷ Although note that average revenue may differ to prices, for example as it excludes VAT, and where suppliers have not fully recovered revenue such as customer debt and energy theft.

discussed for domestic customers in paragraph 4.4 – difficult to interpret. We note, however, that there is evidence that overall non-domestic consumption fell in 2014, which will have put downwards pressure on bills. In particular, from 2013 to 2014 average electricity consumption per nHH meter fell 1.7%, and for HH meters it fell 3.5%.⁵⁸ For gas, estimated annual consumption per supply point fell 0.1% for supply points with consumption between 73.2MWh and 732MWh and for larger supply points (>732MWh) it fell 1.9%.⁵⁹ As in the domestic sector, there has also been a long-term trend of falling consumption among business customers (see Chapter 7).

4.7. Figure 4.1 shows that prices per kWh rose on average for non-domestic electricity customers of all sizes between 2013 and 2014. Prices also rose for smaller non-domestic gas customers between 2013 and 2014. In contrast, prices for larger non-domestic gas customers fell over the period. For both gas and electricity very small customers pay on average a much higher price than larger customers (although lower per unit than the prices paid by domestic customers). As in the domestic segment, there are signs that average non-domestic prices have fallen in the first half of 2015.

Domestic tariffs

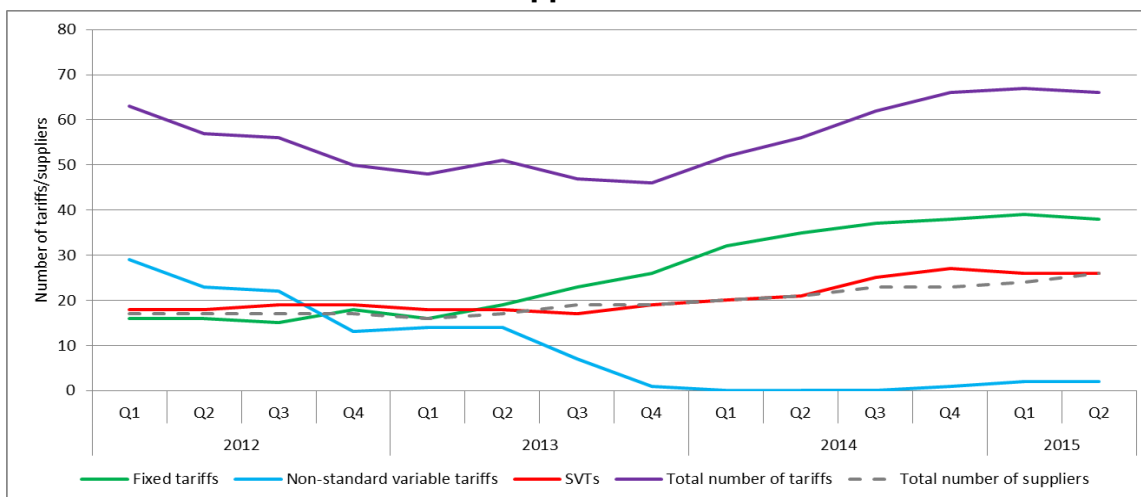
4.8. Domestic prices vary significantly for different customers groups, depending on which tariff they are on. We have seen the number of different tariffs offered by the six large suppliers fall since the RMR measures were introduced (see Chapter 3 for further details of these measures). Each offered between two and four dual fuel tariffs for a single payment and meter type since the beginning of 2014, compared to up to ten at the beginning of 2012.⁶⁰ Independent suppliers, in contrast, typically already offered fewer than four tariffs before the restrictions. The rules have also affected the types of discounts that suppliers are permitted to offer, and how they structure their tariffs.

4.9. Figure 4.2 shows that since the start of 2012, the total number of SVTs on offer in the market has moved in line with the number of suppliers. In contrast, the total number of fixed tariffs available has risen considerably, more than doubling since the start of 2013. This is due to a combination of new suppliers entering the market and launching fixed tariffs, and existing suppliers (in particular independents and white labels) offering more fixed deals. As of June 2015, nearly all suppliers offered at least one fixed tariff, and many offered tariffs for different contract terms (eg one and two years). Non-standard variable tariffs – which in many cases were not compatible in their existing form with the RMR restrictions – have virtually disappeared from the market.

⁵⁸ Ofgem analysis of data provided by Elexon.

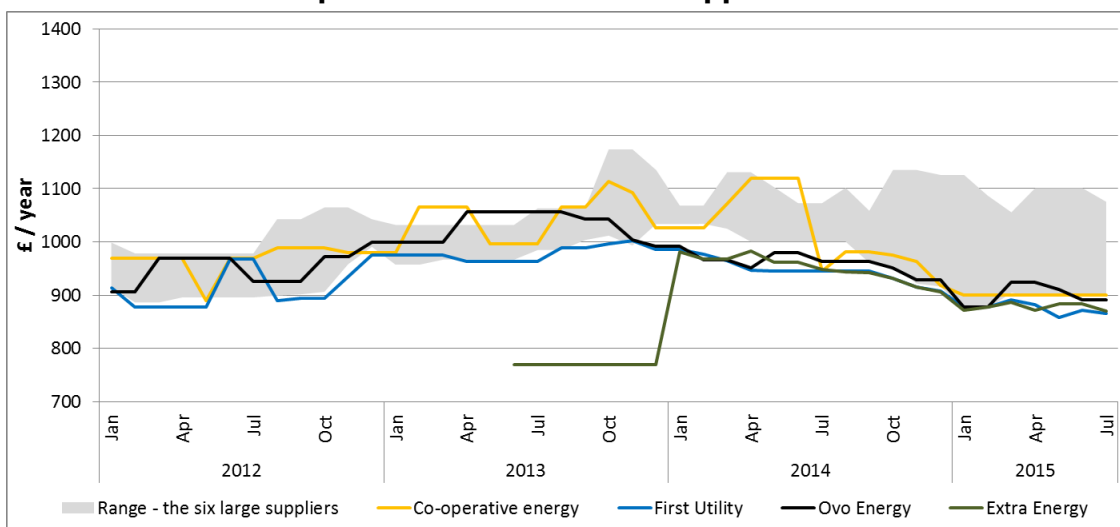
⁵⁹ Ofgem analysis of data provided by Xoserve

⁶⁰ This is based on the number of monthly direct debit tariffs for a standard meter. Note that in this definition we do not include any variations of the same tariff eg online, no standing charge or any call out protection add-ons.

FIGURE 4.2: Number of domestic suppliers and dual fuel tariffs on offer

Source: Ofgem analysis of Energylinx data. Note: footnote 60 provides a description of how a tariff is defined. The dashed line reflects those suppliers offering dual fuel tariffs listed on the Energylinx website.

4.10. The prices of the cheapest fixed tariffs on offer have fallen significantly since the beginning of 2014. In particular, Figure 4.3 shows that following increases in 2012 and 2013, from the end of 2013 a number of the independent suppliers began to cut the prices of their cheapest fixed deals, as wholesale prices began to fall.⁶¹ From summer 2014 onwards, some – but not all – of the six large suppliers followed suit (as shown by the widening grey shaded area on the chart).

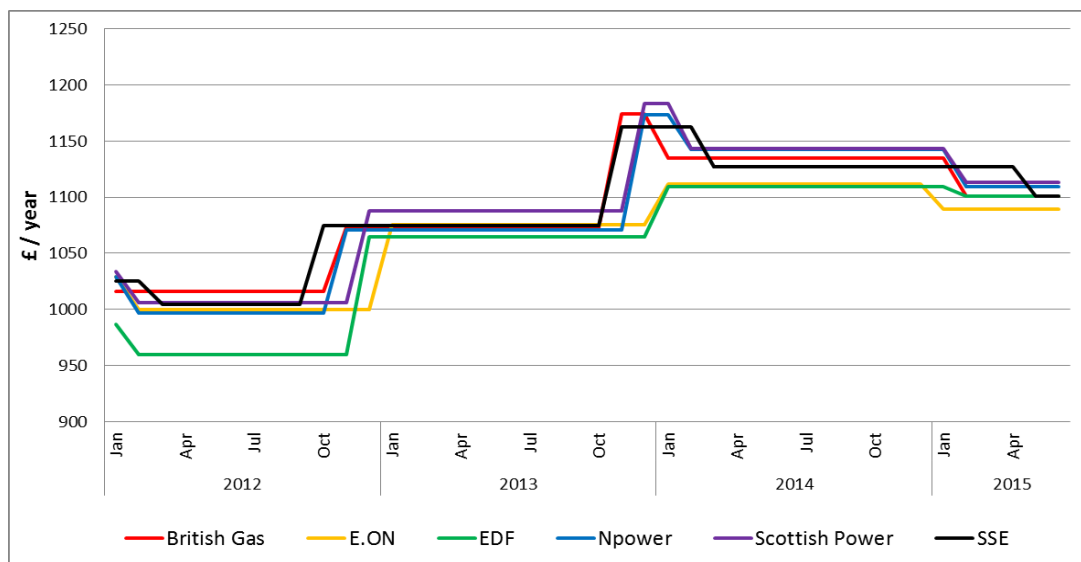
FIGURE 4.3: The cheapest tariffs of different suppliers

Source: Ofgem analysis of Energylinx data. Prices shown are for a dual fuel, direct debit customer at the end of each month, and based on TDCVs of 12,500kWh for gas and 3,100kWh for electricity.

⁶¹ The suppliers shown in the chart were chosen as examples of independent suppliers offering among the most competitively-priced fixed tariffs in the period. Note that not all independents offered fixed tariffs that were cheaper than those of the six large suppliers, or made large cuts to their fixed rates, reflecting the variation in these suppliers' business models.

4.11. In contrast, SVTs have been much more static, and saw only limited reductions. Specifically, Figure 4.4 shows that following a longer trend of increasing SVTs, the average SVT of the six large suppliers fell slightly in early 2014, following the government's announcement of a package of measures to reduce the cost to consumers of environmental and social schemes.⁶² SVTs then remained unchanged until the six large suppliers announced reductions in their gas SVTs in early 2015, citing the sustained fall in gas wholesale prices (no change was made to electricity SVTs). The SVTs of the independent suppliers followed a similar pattern.

FIGURE 4.4: Dual fuel SVTs of the six large suppliers



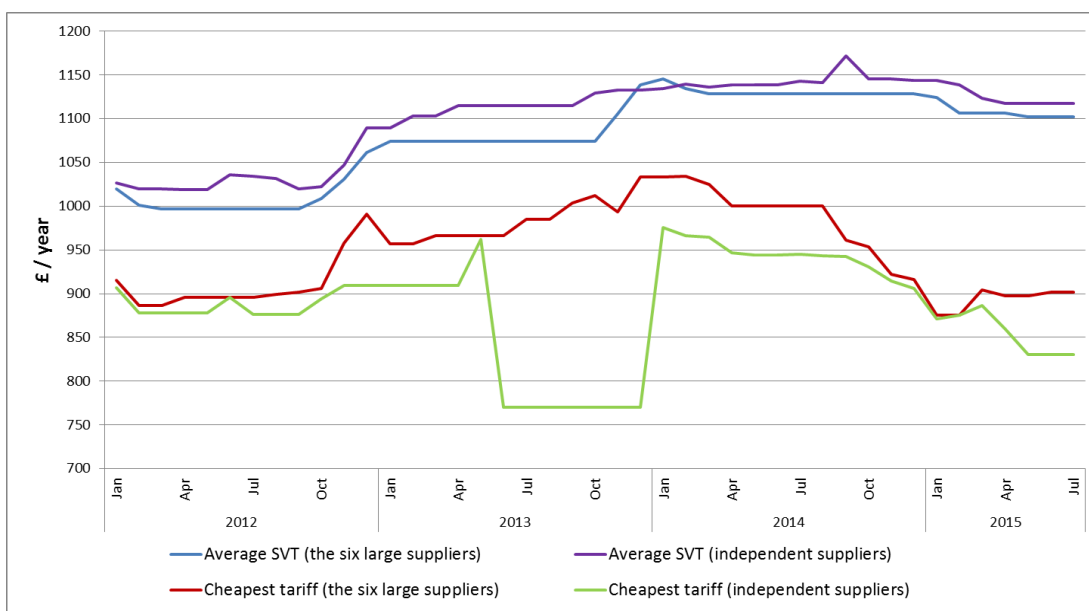
Source: Ofgem analysis of Energylinx data. Prices shown are for a dual fuel, direct debit customer at the end of each month, and based on TDCVs of 12,500kWh for gas and 3,100kWh for electricity

4.12. A result of these trends is that the differential between the cheapest non-standard deals and prevailing SVTs has grown since the start of 2014. Figure 4.5 shows that the difference between the annual price of the cheapest dual fuel tariff and the average SVT for the six large suppliers increased from £112 in January 2014 to £200 in June 2015, and from £159 to £287 for the independent suppliers over the same period.⁶³ Despite this, over two-thirds of domestic customers remained on SVTs as of March 2015 (and this proportion has not changed significantly from December 2013, looking across suppliers as a whole).

4.13. Historically, customers with single fuel contracts and those who manage their accounts offline have been likely to pay more for their energy than other groups. However the prevalence of online and dual fuel discounts has decreased: since the end of 2013, two of the six large suppliers have stopped offering dual fuel discounts.

⁶² Rather than a direct cut to prices, some suppliers claim to have factored in the saving to their price increases in late 2013.

⁶³ Most recently, we have seen the launch of a cheap non-standard (online only) variable tariff in the market. As of June 2015, at £831, this tariff is over £270 cheaper than the average of the six large suppliers' SVTs, and the cheapest on the market.

FIGURE 4.5: **Cheapest tariffs versus average SVTs**

Source: Ofgem analysis of Energylinx data. Prices shown are for a dual fuel, direct debit customer at the end of each month, and based on TDCVs of 12,500kWh for gas and 3,100kWh for electricity

Non-domestic contracts

4.14. Energy contracts for business customers are mostly bespoke and prices are rarely published. Smaller businesses generally have fixed-term, fixed-price contracts with standard terms and conditions. Larger industrial consumers will have more complex requirements such as multiple sites or half-hourly electricity metering and more flexible, bespoke contracts aligned to movements in the wholesale market.

4.15. At the end of a fixed-term contract, a customer can renegotiate their contract with their supplier (moving onto a “retention” contract) or switch to a new supplier (“acquisition”). If they do not contact the supplier, a supplier can extend the fixed-term period without the customer’s assent (a “rollover” contract). If a customer does not have a fixed-term contract, they are usually supplied on a “deemed” contract; classified as out-of-contract⁶⁴; or supplied on a default evergreen contract. Collectively, we consider rollover, deemed, out-of-contract and default evergreen as “default contracts”. As set out in Table 3.4, we have introduced a number of rules to help micro-businesses avoid being caught out and moved onto a default contract when their fixed-term contracts end.

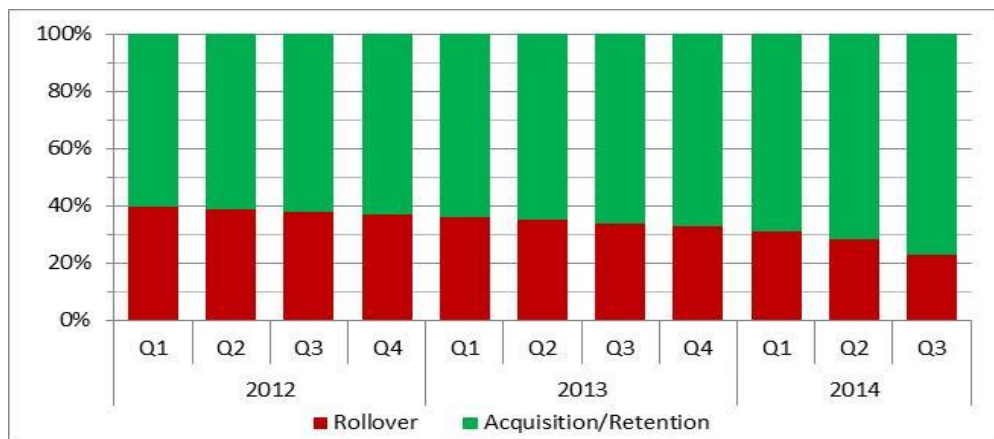
4.16. The number of micro-business customers on fixed-term contracts was stable between 2012 and 2014, accounting for around 75% of electricity contracts and 80% of gas contracts.⁶⁵ A big proportion of these consumers are on default contracts:

⁶⁴ Prices offered after the end of a fixed-term contract, if the customer does not agree a new fixed-term contract but the expired contract made provision for the prices after expiry.

⁶⁵ Analysis based on suppliers’ responses to CMA information request. Note that, in contrast to

about half of all micro-business customers in 2013.⁶⁶ There is, however, some evidence of a recent reduction in the proportion of micro-businesses being rolled over.⁶⁷ In particular, Figure 4.6 shows that of those micro-business customers with fixed-term contracts from one of a sample of five suppliers, around 25% were on rollover contracts for their electricity in the third quarter of 2014, compared to 40% in quarter one 2012. We saw similar trends for gas.

FIGURE 4.6: Micro-business fixed-term electricity contracts by type



Source: Ofgem analysis of meter point data provided by five suppliers with significant market share. Note: the chart only shows fixed term contracts - comparable data was not available on the proportions of customers on deemed contracts, evergreen contracts or classified as out of contract.

4.17. The former electricity incumbents supply a greater proportion (between 21% and 38% in quarter 4 2014) of micro-business meters through evergreen tariffs in their home regions compared with other regions (between 9% and 18%).

4.18. The type of contract that a consumer is on influences the amount that they pay. The lowest prices for micro-businesses are for those on negotiated contracts (ie acquisition and retention contracts: around 12 p/kWh of electricity on average in q3 2014).⁶⁸ The most expensive prices are for consumers on deemed or out-of-contract rates, with these micro-businesses paying on average twice as much for each unit of energy they consume (over 20 p/kWh of electricity on average). Suppliers have told us that the cost to serve customers on these contracts is higher, and consumption can be lower. Customers on rollover and evergreen contracts on average pay more per unit of energy than customers on negotiated contracts but less than deemed and out-of-contract customers (around 15p/kWh of electricity on average). Trends in prices have been similar for those on the different types of contract since 2013.

the definition set out in footnote 16, micro-businesses are defined here as (i) customers consuming less than 500 MWh of electricity and less than 1,500 MWh of gas and (ii) who are managed in the supplier's SME system.

⁶⁶ 'Proposals for non-domestic automatic rollovers and contract renewals', Feb 2014

⁶⁷ This trend is likely to be partly explained by the fact that since 2013, some suppliers have stopped selling automatic rollover contracts to small businesses.

⁶⁸ Prices based on a sample of five suppliers responding to the CMA's information request.

5. Quality of service

Chapter Summary

Energy is an essential service. Virtually every household and business in the country depends on energy companies to provide a reliable supply to power and heat their homes and premises. Because of this, it is crucial that suppliers treat consumers fairly and meet certain minimum standards of service.

Our indicators suggest continued cause for concern around suppliers' performance in the service they deliver to their customers. For example:

- Overall satisfaction with the service received among domestic customers remains well below historic levels. There is no clear relationship between prices and service quality.
- The number of domestic consumers making a complaint continued to increase in 2014, and suppliers have often failed to handle these complaints well (although there are signs of a reduction in complaints numbers in the first half of 2015).
- There is some indicative evidence that satisfaction among smaller businesses may have fallen over the last year.

There have, however, been some positive developments. In particular, following intervention by government and Ofgem, the average time taken to switch supplier has fallen significantly. Nevertheless, the switching process continues to be unreliable and many customers still perceive switching to be a hassle.

Looking forward, smart meters have significant potential to help suppliers offer a better service (eg by putting an end to estimated billing) and to differentiate their offers to consumers. Later this year, we will launch a programme to design and implement a fast and reliable switching process that is fit for purpose for the future. We also expect to rely more on regulation through general principles and outcomes, which should provide more effective protection for consumers, foster more competition and innovation, and support new entrants. The Standards of Conduct – as discussed in Chapter 3 – are a critical first step towards this.

5.1. In a well-functioning retail market we would expect competitive pressures to act as an incentive for suppliers to improve the service they provide, for fear that if they do not, they will lose customers to their rivals. Our experience has shown that for suppliers' behaviour to meet the standards required of an essential service, regulation is also necessary. For this reason, we set minimum standards of service and fair treatment to which companies must stick.

5.2. In this chapter, we present a number of indicators that help us to understand recent trends in the quality of customer service provided by suppliers.

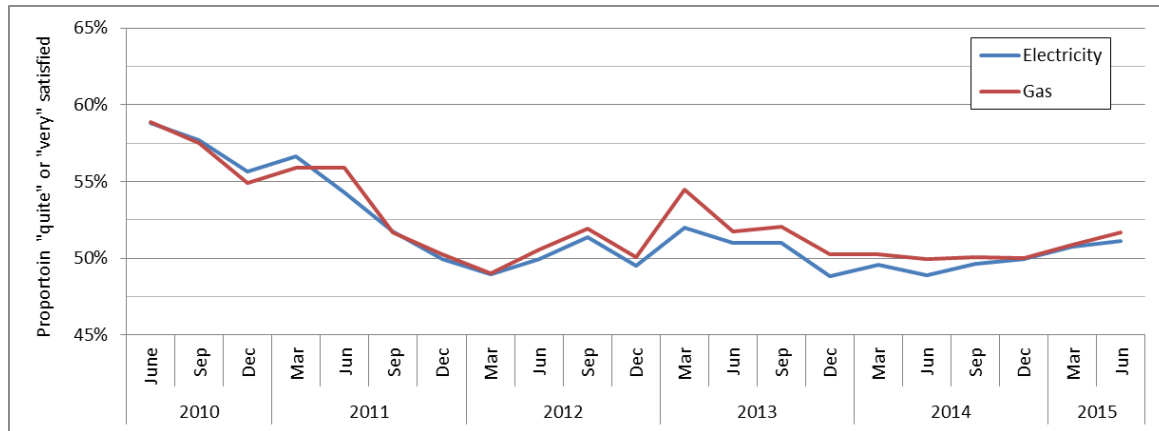
Customer satisfaction

Domestic consumers

5.3. Figure 5.1 shows the trend in overall levels of satisfaction with the service received from their supplier among domestic customers. It shows that satisfaction

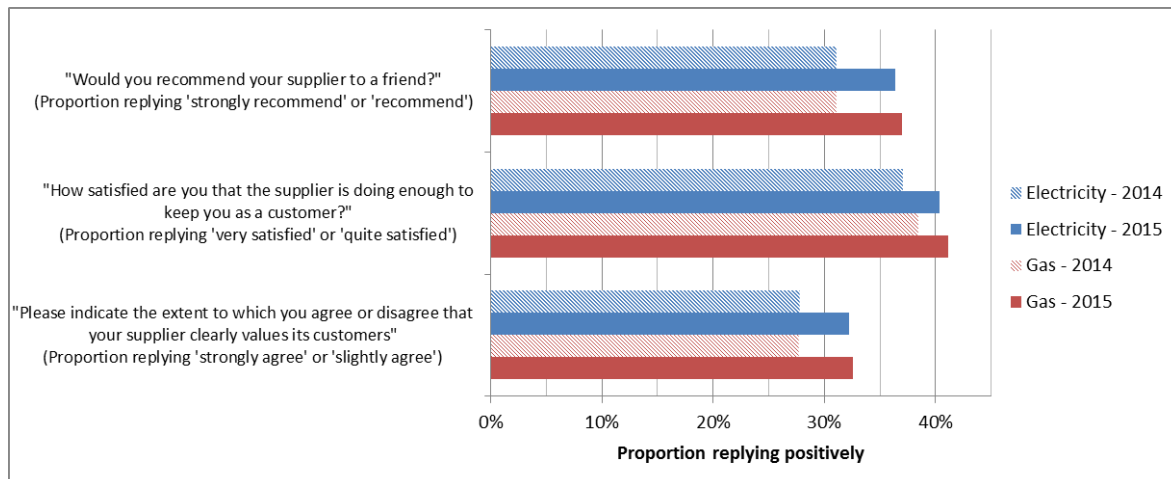
was largely flat in 2014 (dissatisfaction was also stable), and as of June 2015 remains considerably lower than earlier levels.⁶⁹ There has, however, been a slight increase in 2015. Figure 5.2 shows the trend in indicators of different aspects of satisfaction, which also suggest some limited improvements from last year. There is some evidence that customers' satisfaction with their energy providers is still below their satisfaction with other utilities, such as banks and communications providers.⁷⁰

FIGURE 5.1: Overall satisfaction with current supplier, 2010 to 2015



Source: Ofgem analysis of data from GfK Energy Research Panel. Shown are the proportion of customers reporting being 'very satisfied' or 'quite satisfied' when asked "How satisfied are you with the service that you get from your current gas / electricity supplier?"

FIGURE 5.2: Different measures of satisfaction, 2015 vs 2014



Source: Ofgem analysis of data from GfK Energy Research Panel. Note: data shown is for quarter 2 2015 and quarter 2 2014.

⁶⁹ The evidence on customer satisfaction among domestic customers is from the GfK Energy Research Panel, a semi-continuous, nationally representative panel of 10,000 GB homes.

⁷⁰ 'Customers in Britain 2015', Firebrand Insight, Apr 2015. Based on an online survey of 1,000 adults, who provided a customer service rating from 1 to 10 for their 'main service provider' in a number of categories. In 2015, the average rating for energy providers was 6.71, compared to 7.04 for banks, 6.95 for mobile providers and 6.90 for broadband providers.

5.4. We have launched a new set of [website indicators](#) tracking individual suppliers' customer service performance, which show material differences in customer satisfaction across suppliers. Taken together, the independent suppliers tend to have relatively high reported satisfaction.⁷¹

Non-domestic

5.5. Two-thirds of small and micro- businesses in our 2014 survey reported they were satisfied with their current supplier's overall service and 69% were satisfied with the degree to which their supplier met their needs.⁷² But there is indicative evidence that satisfaction with their suppliers' service may have declined year-on-year (when taking into account the change in methodology for the 2014 survey compared to the 2013 survey).⁷³

5.6. Despite generally high levels of satisfaction, only 18% of smaller businesses in the 2014 survey would recommend their energy supplier to others. The Net Promoter Score⁷⁴ for suppliers was lower than in our 2013 survey.⁷⁵ This suggests that customer satisfaction does not necessarily translate into advocacy.

Complaints

5.7. We publish regular information on supplier complaints.⁷⁶ The number of complaints received by energy suppliers per customer has increased significantly in recent years, and this trend continued in 2014: with the number of complaints received per 100,000 customer accounts across the six large suppliers increasing from around 2,400 in 2009, to just under 3,000 in 2013, and nearly 3,600 in 2014. Positively, however, we note that the overall number of complaints received by these suppliers per customer has declined significantly in quarter 2 2015, accompanied by a fall in the number of complaints accepted by the Ombudsman.⁷⁷

⁷¹ 'GfK Energy Research Panel', quarter 1 2015.

⁷² '[Micro and small business engagement in energy markets](#)', BMG Research, Mar 2015.

⁷³ Specifically, the survey found lower reported satisfaction with the degree to which their supplier met their business needs (2014: 69%, 2013: 79%), information on available tariffs/options (2014: 49%, 2013: 69%) and overall service (2014: 66%, 2013: 80%): each difference is statistically significant. However, it should be noted that the 2014 survey included micro and small businesses only. To allow comparison between the two studies, BMG Research re-weighted the 2013 sample to reflect the 2014 survey sample as far as possible and all 2013 figures presented in this report are re-weighted figures. However, differences in methodology mean direct comparisons between the two surveys should be treated with caution. Page 8 of the 2014 survey report (link above) gives further detail on the differences in methodology.

⁷⁴ NPS is calculated by subtracting the proportion that are detractors (those actively discouraging usage) from the proportion that are promoters (actively encouraging usage). The possible range of the NPS is -100% (completely negative) to +100% (completely positive).

⁷⁵ Significant negative Net Promoter Score (NPS) of -39% in 2014 versus -32% in 2013.

⁷⁶ '[Supplier performance on consumer complaints](#)'

⁷⁷ '[At a glance complaints data Q2 2015- energy sector](#)'

5.8. The number of complaints suppliers receive varies significantly between them. In recent years we have seen sharp increases in complaints for some suppliers linked to major IT upgrades which resulted in significant delays with issuing bills.

5.9. There is no obvious relationship between the level of complaints received by different suppliers, and where they rank in terms of prices. For instance, as shown in Figure 4.3, First Utility, Ovo Energy and Co-operative Energy each offered among the most competitively-priced fixed tariffs in 2014; domestic complaints data show that these suppliers also received relatively few complaints in the period.

5.10. Data from the Ombudsman suggests that of those complaints accepted in quarter 2 2015, most related to billing, with switching the second most common complaint type.⁷⁸ The top three billing complaints were around late billing, inaccurate invoices, and disputed charges. Although the roll-out is still at an early stage (see Chapter 7), smart meters have the potential to enable suppliers to offer a better service in these areas, in particular by putting an end to estimated billing.

Complaints handling

5.11. Our evidence also shows that suppliers have often failed to handle complaints well and their performance has deteriorated in recent years. We have opened nine complaints handling investigations since 2010. Consumer dissatisfaction is evident across the whole of the industry, including independent suppliers:

- Over half of customers (57% of domestic and 52% of micro-business customers) reported being dissatisfied with the way their complaint had been handled in response to an Ofgem survey in summer 2014.⁷⁹ For domestic customers, this was a 10 percentage point increase since our 2012 survey.
- Our 2015 RMR evaluation survey also showed that satisfaction among those domestic customers that had complained about the way their complaints are handled had fallen slightly compared to the previous year's survey.
- 2014 also saw a significant increase in the number of Ombudsman cases being launched (to over 50,000 from around 18,000 in 2013). Recently, we have had to step in when we found two suppliers were not implementing binding decisions made by the Ombudsman in a timely way.

Switching process

5.12. An efficient switching process is an important condition for a well-functioning retail market where competition benefits consumers. However, the current process is complex, susceptible to delays and errors, and – as discussed above – a significant

⁷⁸ [At a glance complaints data Q2 2015- energy sector](#), Ombudsman Services.

⁷⁹ [Complaints to energy companies – Report for Ofgem exploring how energy companies handle customer complaints](#), Aug 2014.

source of customer complaints.⁸⁰ These shortcomings may create a barrier to engagement that reduces the competitive pressures that suppliers face. We note that in this regard, the CMA has provisionally found that certain customers face actual/perceived barriers to switching – we will work to support the next stage of the CMA’s investigation as it considers potential remedies to address these barriers.

Consumers’ views on switching

5.13. Many consumers still have negative perceptions of the switching process, although perceptions among those who have never switched appear to have stabilised following a previous worsening trend.⁸¹ The proportion of all domestic customers (ie. including both those who have and haven’t switched) who agree that switching is a hassle was 48% in 2015, while 38% of customers agreed that they worry that if they switch, something will go wrong.⁸² Both proportions were largely unchanged on a year earlier.

5.14. Looking at non-domestic consumers, we found that 42% of respondents in our 2014 survey reported being satisfied with the ease of switching supplier, with 23% reporting not being satisfied.⁸³ Satisfaction is considerably higher among businesses that have switched in the last five years.

Switching times

5.15. Since September 2014, suppliers have been required to take all reasonable steps to complete a transfer 21 days after the end of the 14-day cooling-off period, or an earlier date agreed with the customer. Suppliers have also been working with government and Ofgem to reduce the time it takes to switch. At the start of 2015, the government and Energy UK announced that a number of suppliers were now offering switching within three days, not including the 14-day cooling-off period.

5.16. Figure 5.3 shows that following these efforts, we have seen average switching times for domestic gas and electricity consumers improve over the last year. This is especially the case in gas. We have also seen a convergence in switching times for the six large suppliers and independent suppliers.⁸⁴ However, average switching times remain far short of the three-day voluntary commitment.

5.17. On average, around 12% of domestic electricity switches and 11% of gas switches in the second quarter of 2015 involving the six large suppliers took more than 21 days *in addition* to the cooling-off period. This is a significant improvement on 2014. In some cases these delays were for reasons permitted in the licence conditions, although in some instances there is evidence that this was not the case,

⁸⁰ [‘Moving to reliable next-day switching - consultation’](#), Jun 2014.

⁸¹ [‘Customer Engagement with the Energy Market: Tracking Survey 2015’](#), Ipsos Mori/Ofgem, Sep 2015

⁸² [‘Retail Market Review 2015 Survey’](#), TNS BMRB/Ofgem, Jul 2015

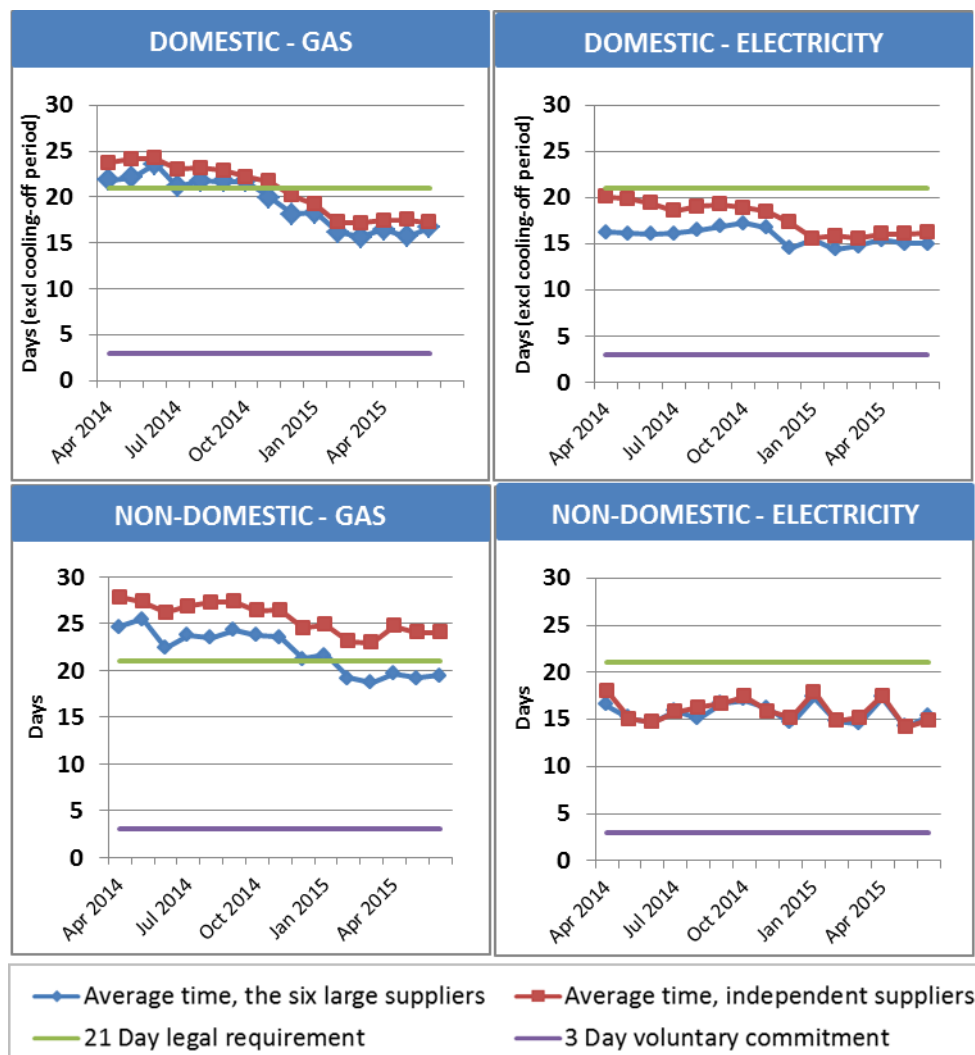
⁸³ [‘Micro and small business engagement in energy markets’](#), BMG Research, Mar 2015

⁸⁴ This data is sourced from network operators. Hence, it does not incorporate any time in advance that a supplier may take to process the contract or as part of the cooling-off period.

suggesting that there is still more to be done to bring switching times in line with the new rules.

5.18. Non-domestic switches were more likely to take longer than 21 days in addition to the cooling-off period than domestic switches. However, in most cases suppliers reported that the timing was because the customer had requested that the transfer be completed at a later date, reflecting the number of customers on fixed-term contracts arranging to change supplier at the point their contract ends. Figure 5.3 shows that average switching times in the non-domestic segment have remained quite stable in electricity over the last year. As with domestic customers, average switching times are higher in gas, although have fallen over the period.

FIGURE 5.3: **Average switching times**



Source: Ofgem analysis of data provided by DNOs and Xoserve. Note: switching times reflect the time between a supplier switching request and the transfer taking place, and include all switches, including those with a legitimate cause for delay. There is no cooling-off period requirement for business contracts.

Reliability

5.19. Reliability of switching, ie the extent to which a transfer is carried out correctly, will also affect a consumer's switching experience.⁸⁵ Generally speaking, our evidence suggests that switching reliability has not improved over the last two years, and remains of concern. For example, in 1 in 100 switches, the incorrect customer is switched by the new supplier: this is mainly driven by the supplier picking the wrong metering point.

5.20. As a result, in September 2014 we introduced new requirements for suppliers to take all reasonable steps to prevent erroneous transfers and we are monitoring their performance closely. Later this year we will launch a programme to design and implement a fast, reliable switching process that is fit for purpose for the future.⁸⁶

⁸⁵ For example, in the [Consumer First panel research](#) (published Aug 2013) conducted to inform our review of the change of supplier process, many participants cited ensuring reliability and accuracy during the change of supplier transfer as the most important issue.

⁸⁶ [Moving to reliable next-day switching](#), Feb 2015

6. Benefits for society

Chapter Summary

Different consumers have different experiences of the retail markets. Three groups of domestic consumers which may be particularly likely to have a negative experience are those that are disengaged, those in debt to their supplier and those with prepayment meters. These groups are all more likely to be in vulnerable situations.

These groups continue to experience worse outcomes than other consumers in 2015. Recent trends in prices have, if anything, exacerbated the difference in the prices paid by more and less engaged consumers. Prepayment customers continue to have access to fewer tariffs than those using other payment types, and are unlikely to have benefitted from recent reductions in fixed tariffs as a result.

There are some positive developments, however. For example, the proportion of accounts in debt declined in 2014, as well as the number of disconnections for non-payment of debt. In addition, we have seen continued roll out of the Energy Best Deal programme, designed to improve engagement among low income consumers, and so help them to move to cheaper tariffs. Suppliers are also offering a small but growing number of innovative prepayment tariffs, and smart meters have the potential to vastly improve the experience of prepayment customers.

6.1. Different domestic consumers have different experiences of the retail energy markets. We think that the retail markets should work to the benefit of society as a whole, not just certain groups. This does not mean that all consumers should pay the same amount for their energy and receive identical service. Rather, the benefits of competition should be felt by all customers, and no one group should face disproportionate barriers to interacting with the market if they choose to do so. Consumers in vulnerable situations should also receive the necessary protections, given the essential nature of energy.

6.2. In this chapter, we consider some recent developments relating to the outcomes of three groups of domestic consumers which are especially likely to experience adverse outcomes in the retail energy markets: those that do not engage with the market to seek out a better deal; those in debt to their supplier; and those with prepayment meters (PPMs). Note that this list of groups which may have worse experiences of the retail markets is neither mutually exclusive nor exhaustive, and outcomes may vary depending on a number of other factors (for example, whether a customer has access to the gas network⁸⁷).

Disengaged consumers

6.3. Those domestic consumers that have been more active in the retail markets and sought out better details tend to pay much less than consumers that have not engaged. In many cases, inactive customers will have used the same supplier,

⁸⁷ Heating using fuels other than mains gas can be (although is not always) more expensive. We are planning to publish an insights paper on customers relying on electric heating in 2015.

payment method and tariff for years, and pay more for their energy as a result. A significant minority may have remained with their legacy supplier since market opening.

6.4. There is evidence that disengaged consumers are more likely to be in vulnerable situations. In particular, in 2015, the least engaged group of 'unplugged' consumers⁸⁸ (making up around a fifth of all consumers) were more likely to be in social grade DE, be over 65, to live in rented accommodation and to be disabled. Less than two-thirds were regular internet users. This group is particularly likely to be on SVTs, and so to pay more for their energy. In contrast, the more engaged groups are more likely to be from higher social grades, educated to degree level or above, to be home owners and to be regular internet users.

6.5. The CMA has similarly found evidence that consumers more likely to be in vulnerable situations are less likely to be engaged, and more likely to pay more for their energy.

Recent trends

6.6. As discussed in Chapter 3, overall levels of engagement among domestic consumers were broadly similar in 2015 to 2014. The demographic make-up of the engagement segments introduced in paragraph 3.7 remained similar between 2014 and 2015.

6.7. In 2015, inactive customers are likely to pay much more as a result of being on an SVT. These tariffs are the default for customers that have never switched, or who have reached the end of their fixed contract. As discussed in Chapter 4, the price differential between the cheapest fixed deals and SVTs has increased significantly since the start of 2014, suggesting that the difference in outcomes between more and less engaged consumers has widened over the period.

6.8. Although there are alternative ways to engage with the market, over the past few years we have seen an increasing proportion of comparisons and switches performed using online price comparison sites. This suggests that customers who are less likely to regularly access the internet – who may also be more vulnerable – may find it more difficult to compare and switch.

6.9. One measure that we have introduced to help improve engagement is our 'Be An Energy Shopper' campaign. The aims of the campaign are to inform and empower domestic energy customers, and to encourage switching to the best possible tariff. Our www.goenergyshopping.co.uk website has received over 600,000 visits since we launched the campaign in April 2014.

6.10. Programs also exist which aim to improve engagement specifically among vulnerable customers by reducing some of the specific barriers that they face. An example is the Energy Best Deal (EBD) and Energy Best Deal Extra (EBDx). These

⁸⁸ See paragraph 3.7 for a description of these segments.

give low-income consumers, and frontline workers who support them, face-to-face coaching and, where needed, help with switching (as well as other services such as debt advice, and advice on energy efficiency). Over 350,000 consumers have benefited as a result of EBD since we commissioned the first pilot in 2008⁸⁹, and in winter 2013/14, a total of 1,484 EBD group sessions were delivered, reaching 10,349 consumers and 5,408 frontline workers.⁹⁰ The Citizens Advice Service delivered one-to-one EBDx advice appointments to 4,318 clients in 2013/14.

6.11. Another positive recent development affecting engagement among more vulnerable consumer groups is the continued growth of collective switching schemes. Many of these schemes, typically run in partnership with a third party such as charities or local authorities, are successful in targeting and engaging vulnerable consumers who would otherwise be unlikely to attempt switching. Note, however, that our consumer surveys suggest that the overall proportion of customers switching via a collective scheme in 2015 remains low (around 1% of all switches).⁹¹

Consumers in debt to their energy supplier

6.12. At the end of 2014, approximately 1.4 million domestic electricity accounts (5%) and 1.2 million domestic gas accounts (5%) in Great Britain were in debt to their energy supplier.⁹² This is less than at the end of 2013, when approximately 6% of both domestic electricity and gas accounts were in debt.⁹³

6.13. At the end of 2014, consumers in debt owed an average of £355 for electricity accounts and £382 for gas accounts: 16% more than they owed for electricity at the end of 2013, and 18% more for gas.⁹⁴ Debt repayment rates were slightly lower than in 2013, while repayment periods had generally increased.

6.14. There are strict rules about who can or cannot be disconnected from their gas or electricity supply for non-payment of debt. Disconnection should be used as a last resort.⁹⁵ The number of electricity and gas disconnections for debt declined significantly in 2014: there were 192 electricity customers disconnected for debt in

⁸⁹ [‘Energy Best Deal: 2013/14 Review’](#), Ofgem/Citizens Advice Service/Centre for Sustainable Energy, 2014

⁹⁰ [‘Energy Best Deal, evaluation report 2013/14’](#), Centre for Sustainable Energy, Jul 2014

⁹¹ [‘Retail Market Review 2015 Survey’](#), TNS BMRB/Ofgem, Jul 2015

⁹² Social Obligations Reporting data for 2014. Under their standard licence conditions, suppliers are obliged to provide us with data on payment methods, debt, disconnection, and Priority Services Registers (PSRs). We refer to this as the Social Obligations Reporting.

⁹³ [‘Domestic suppliers’ social obligations: 2013 report’](#), Dec 2014

⁹⁴ Based on snapshot debt, which is the average amount of debt that remains outstanding on formal repayment arrangements at the end of the reporting period. The increase in debt was likely due to a combination of changes in the way suppliers report debt metrics and reduction in the volume of back bills for one supplier, which resulted in some of aged debt being repaid.

⁹⁵ Suppliers are required not to disconnect customers in debt unless they have taken all reasonable steps to recover debt by offering the consumer a range of repayment options. They are also prohibited from knowingly disconnecting consumers of pensionable age (where they live alone, with other pensioners or with children) during winter months, and to take all reasonable steps during winter to avoid disconnecting premises where the occupants include a person who has a disability, a chronic sickness or is of pensionable age.

2014 (65% fewer than in 2013), and 41 gas customers disconnected for debt (51% fewer than in 2013). However the number of prepayment meters installed for debt has risen in recent years, with the resultant risks of self-disconnection.

6.15. Rules exist that govern whether prepayment customers in debt are able to switch suppliers. The old supplier is able to block a transfer on grounds of debt when the debt is above a threshold defined in the standard licence conditions or where the new supplier hasn't agreed to a transfer of debt below that threshold. In July 2015 we formally increased this threshold from £200 per fuel to £500 per fuel.⁹⁶ This should help prepayment customers with debt below this amount to switch to a cheaper deal.

Consumers with prepayment meters

6.16. The majority of newly-installed PPMs – around 60% of those installed in 2014 – are installed to manage debt. While not all prepayment customers are financially vulnerable, they are more likely to be on low incomes than those using other payment methods. In 2013 around 21% of gas and 22% of electricity prepayment customers were fuel poor. This is higher than for customers paying by direct debt (6% and 7% respectively).⁹⁷ More than a third of households using prepayment meters are estimated to be home to one or more individuals with a long-term physical or mental health condition or disability.⁹⁸

6.17. PPMs can help customers to budget and can be used to pay off arrears if the key or meter is programmed to pay off debt. However, as highlighted in our recent review⁹⁹ and as identified by the CMA in their [Provisional Findings](#), prepayment customers may face barriers that restrict them from engaging in the market and from benefiting from better deals.

6.18. In particular, prepayment customers have fewer tariff choices available, and often do not have access to the cheapest deals on the market, as many suppliers choose not to make their cheaper fixed-term tariffs available to PPM as a payment method. They may be restricted in their ability to switch to a credit tariff – and in this way access cheaper deals – by the requirement to pay a security deposit if they fail a credit check. Prepayment customers may also be charged for the installation or removal of a meter – again acting as a barrier to switching between payment types, and further disadvantaging customers already struggling to afford their bills. We have suggested a number of next steps as a result of our review, including consulting on good practice in charging practices and strengthening protections in this area, examining suppliers' compliance with existing rules, as well as continuing to work to ensure smart metering delivers benefits to those on prepayment.

⁹⁶ See [this](#) decision.

⁹⁷ 'Annual fuel poverty statistics report: 2015', DECC, May 2015

⁹⁸ 'Smart prepayment in Great Britain', Accenture and Customer Focus, May 2013

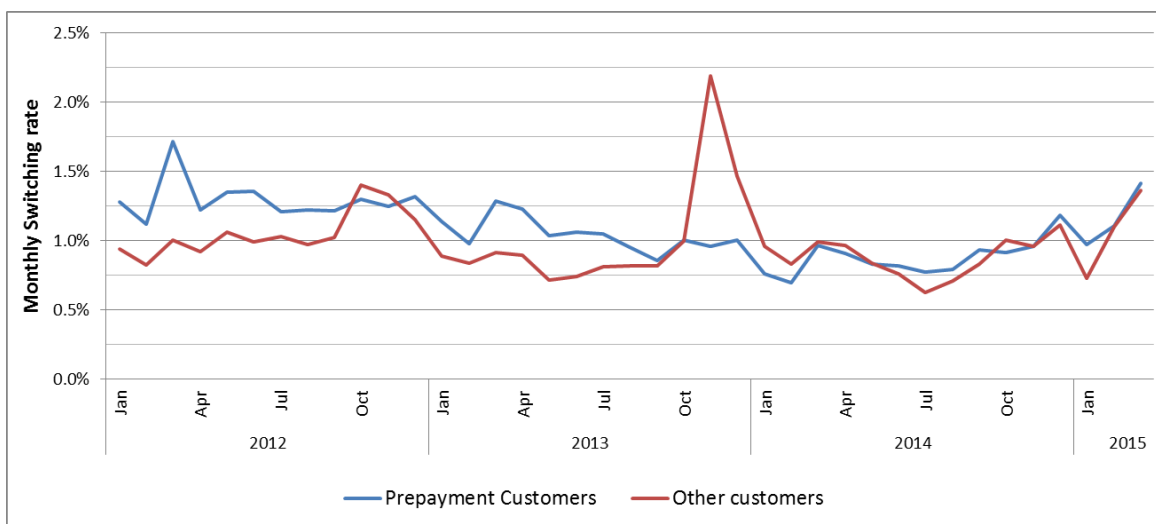
⁹⁹ 'Understanding supplier charging practices and barriers to switching', Jun 2015

Recent trends

6.19. As of March 2015, there were nearly four million PPM electricity accounts and 3.2 million PPM gas accounts.¹⁰⁰ These accounted for around 15.1% of all domestic electricity accounts and 14.5% of all domestic gas accounts. There has been an upward trend in the proportion of gas and electricity customers using PPM since 2012, although this flattened out in 2014. There are differences in the proportion of PPM accounts across GB: with a higher proportion of PPM customers in Scotland and Wales than in England.¹⁰¹

6.20. While prepayment customers are less likely than the overall population to report having ever switched supplier¹⁰², Figure 6.1 shows that the monthly switching rate for prepayment electricity customers has generally been close to or slightly above that for electricity customers on all payment methods since 2012.¹⁰³ A similar pattern is observed for prepayment gas accounts.

FIGURE 6.1: **PPM and non-PPM electricity account switching rates**



Source: Ofgem analysis of data provided by suppliers.

6.21. The average differential between the six large suppliers' SVTs for customers paying via standard credit and prepayment, and those paying via direct debit, has remained broadly stable over the past year, at around £75.¹⁰⁴ Positively, in our June

¹⁰⁰ Information provided by domestic suppliers.

¹⁰¹ '[Domestic suppliers' social obligations: 2013 annual report](#)', Dec 2014

¹⁰² '[Customer Engagement with the Energy Market: Tracking Survey 2015](#)', Ipsos Mori/Ofgem, Sep 2015

¹⁰³ One interesting difference between prepayment and other customers is the absence in the peak in switching in autumn 2013. A possible explanation for this is that a large portion of those changing supplier during this peak (80%) switched to fixed tariff deals, which are typically not available to prepayment customers. We note that in contrast the most recent increase in switching in early 2015 has been similar for both prepayment and other customers.

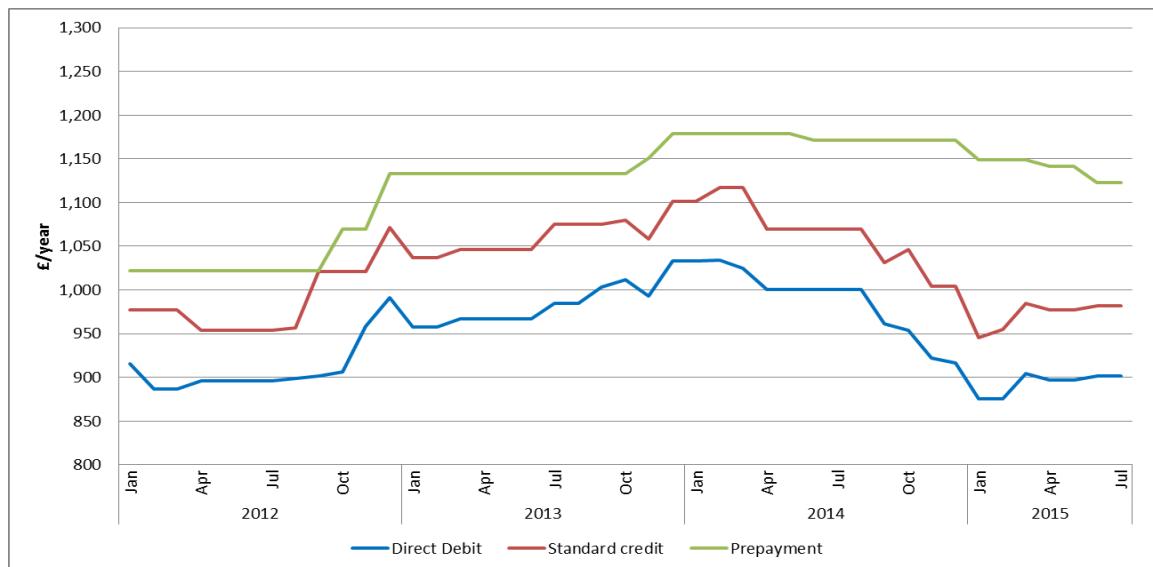
¹⁰⁴ Note that SLC27.2A states that any difference in terms and conditions as between payment methods for paying Charges for the Supply of [Gas/Electricity] shall reflect the costs to the supplier of the different payment methods.

2015 review, we found that more suppliers than ever before are offering tariffs for prepayment customers. There are also a small but growing number of innovative prepayment deals available, including social tariffs for customers in vulnerable situations and competitively-priced collective switching and smart offers. For example, E.ON has recently launched a smart pay-as-you-go pilot, under which customers are being offered the same prices as direct debit customers. Smart meters have the potential to vastly improve the experience of prepayment customers, for example by providing ready access to available spend data through an in-home display and more ways to top-up energy, including online.

6.22. Related, we have seen an increase in the proportion of independent suppliers' customers using prepayment meters over the previous year, largely as a result of significant growth by Utilita – an independent supplier with a focus on prepayment customers, served by installing smart meters – as well as the launch of a smart prepayment product by Ovo Energy in 2014. Both suppliers' smart PPM tariffs have been relatively cheap compared to PPM tariffs offered by the six large suppliers.

6.23. Despite these positive signs, there remain fewer tariff choices overall for prepayment customers. In particular, [our review](#) identified that there are very few fixed tariffs available to prepayment customers (just four across the market in early 2015). A consequence of this is that prepayment customers typically do not have access to the cheapest rates available, and so have not benefited from recent falls in fixed rates. Figure 6.2 illustrates the growing difference between the cheapest tariffs available to prepayment and direct debit customers of the six large suppliers since 2012 – a similar pattern is observed for the independent suppliers.

FIGURE 6.2: The cheapest tariff offered by the six large suppliers, by payment method



Source: Ofgem analysis of Energylinx data. Prices shown are for a dual fuel, direct debit customer and based on TDCVs of 12,500kWh for gas and 3,100kWh for electricity

7. Environmental impact

Chapter Summary

The retail markets impact on the overall environmental damage caused by the energy sector. One reason for this is their role in influencing energy consumption, which will in turn affect levels of emissions. Energy efficiency has improved over the last decade, and recent developments in the retail markets should help this continue.

The retail markets are also playing an increasingly important role in the transition to a low-carbon energy sector. This is partly as a result of rapid technological innovation which is creating new ways for consumers to participate in the market, and helping to encourage suppliers with novel business models to emerge. For example, consumers are generating more renewable electricity themselves: total installed small-scale capacity under the Feed-in Tariff scheme has increased over the last year, especially for the smallest solar installations. A number of domestic suppliers are offering green products, although this is limited to the independent suppliers following the withdrawal of green tariffs by a number of the six large suppliers in 2013 and 2014.

Greater use of smart and advanced meters has the potential to help reduce the environmental damage caused by the energy sector, and in 2012, we initiated a programme of work with the objective of developing the regulatory framework to maximise the benefits of these meters and transform the sector into a more efficient, dynamic and low-carbon market.¹⁰⁵ The next generation of meters should help consumers to better understand their energy use, and help enable demand-side flexibility to play a greater role in the energy system, assisting the integration of intermittent renewable generation. However, we note that overall supplier performance in the roll-out of advanced meters to larger non-domestic businesses has generally been poor, and given this we are scrutinising the progress of the domestic and small business smart meter roll-out.

7.1. Well-functioning retail markets will help to reduce the environmental damage of the energy sector. In particular, effective retail markets should provide consumers with ready access to easily-digestible information on their consumption, and price signals that reflect costs across the supply chain and encourage efficient and sustainable use of energy. They should also bring forward the technological and commercial innovation needed to allow consumers to play a direct role in decarbonisation if it is cost-effective for them to do so (eg by adopting low-carbon technologies), and for them to assist in reducing the cost of the transition to a low-carbon economy (eg through demand-side flexibility).

7.2. Given the innovation that is ongoing in the retail markets – including the roll-out of smart and advanced meters – the regulatory framework will need to evolve to support the cost-effective transformation of the energy market into a low-carbon

¹⁰⁵ [‘Promoting smarter energy markets: a work programme’](#), Jul 2012.

sector. Box 7.1 describes some of the elements of our programme to assist this transition.

BOX 7.1: The smarter markets work programme

Our vision is for a smart energy market that is more efficient, dynamic and competitive, taking advantage of the opportunities presented by smart meters to deliver better outcomes for consumers.¹⁰⁶ Our work covers four areas of the market:

- **Fast, reliable switching** – delivering a fast, reliable and cost-effective change of supplier process, which will facilitate competition and build consumer confidence
- **Electricity settlement** – our aspiration is that settlement arrangements use smart metering data to allocate energy in an accurate, timely and cost-effective way, which will facilitate product innovation and efficient use of energy
- **Demand-side flexibility** – a market that supports the efficient, system-wide use of demand-side flexibility, which has the potential to reduce bills, enhance security of supply and contribute to sustainable development
- **Consumer empowerment and protection** – ensuring regulations empower and protect consumers to participate effectively in smarter markets.

7.3. In this chapter we consider the retail markets' influence on the environmental impact of the energy sector: first looking at different aspects of the markets which influence consumption, and second at the role that they are playing in the transition to a low-carbon energy sector. A full review of the issues involved is beyond the scope of this report: we have various ongoing projects which cover many of the relevant issues in greater detail.¹⁰⁷ Our [Sustainable Development Indicators](#) provide further information on trends in the environmental impact of the sector as a whole.

The retail markets' impact on levels of energy consumption

7.4. As fossil fuels still form a large part of our current energy sector, the impact of the retail energy market on consumption also affects environmental outcomes. While consumption changes from one year to the next depending on the weather and economic activity, there is a long-term downwards trend in total UK energy consumption (see our [Sustainable Development Indicators](#)). This trend appears to be driven by a significant decline in the intensity of energy use for both domestic and non-domestic customers, likely as a result of changes in the composition of economic activity and increases in energy efficiency.¹⁰⁸ To reflect this downwards trend, we have recently revised downwards our Typical Domestic Consumption Values.¹⁰⁹

¹⁰⁶ Our vision is set out at in [this](#) document.

¹⁰⁷ For example, the projects on demand-side flexibility; Non-traditional business models; Future Trading Arrangements; and Quicker and more efficient distribution connections.

¹⁰⁸ 'Energy consumption in the UK (2014) – Chapter 1', DECC, Jul 2014

¹⁰⁹ 'Decision on revised Typical Domestic Consumption Values', May 2015

7.5. The retail markets influence consumption patterns in a number of different ways. For example, gas and electricity prices will affect energy use, to the extent that consumers are sensitive to prices. Energy suppliers are also playing a role in deploying energy efficiency measures: in particular under the Energy Company Obligation (ECO), which requires suppliers to deliver energy efficiency measures to domestic premises, with a particular focus on low income and vulnerable households. Between January 2014 and March 2015 there were over 800,000 installations, bringing the total number of installations under the scheme to over 1.4 million.

7.6. One important mechanism relates to how well the retail markets enable consumers to understand – and therefore react to – their energy use. A potential feature of the retail markets which may make it difficult for them to do this are any shortcomings in the information provided by suppliers in their communications. One of the changes introduced as part of our RMR reforms was to require suppliers to provide annual consumption information (whether actual or estimated) in a consistent way on key routine communications, as well as to provide a visual representation of consumption in the annual summary. The introduction of a requirement by government for suppliers to print machine-readable images (also known as Quick Response (QR) labels) onto domestic consumers' bills should also help consumers to access accurate information about their consumption.

7.7. Consumers' reliance on traditional meters comprises a significant barrier to the accurate provision of consumption information: it is difficult for customers with these meters to monitor how much energy they have used, and because meter readings need to be taken locally, consumption information can only be provided to customers infrequently, and is often based on estimates. Smart and advanced meters should give consumers much easier access to information about their energy use on a near real-time basis.

7.8. The roll-out of smart meters is at a relatively early stage, with most installations due to take place between 2016 and 2020. Figure 7.1 shows that, as of the first quarter in 2015, smart meters made up around 2.2% of all domestic electricity meters and 1.7% of all domestic gas meters.¹¹⁰ A further 1.3% of gas meters and 1.9% of electricity meters were 'smart-type'.¹¹¹ There are substantial differences in the number of installations made by different suppliers, with some having installed a negligible number of smart meters to date.

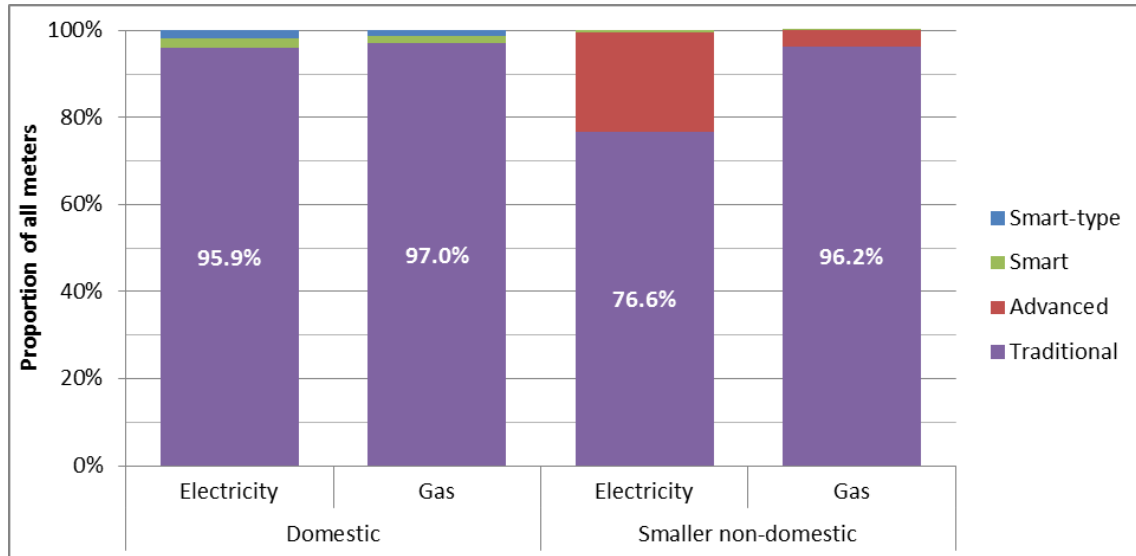
7.9. Smart or advanced meters made up a larger proportion of all smaller non-domestic gas and electricity meters in operation in quarter 1 2015 – just under a quarter (an increase of two percentage points on the previous year). The definition of smaller businesses here includes those business or public sector customers falling within profile classes 1 to 4 of electricity, or using less than 732MWh of gas per year.

¹¹⁰ This relates to the number of smart meters defined by DECC as operating in smart mode. A smart meter may have been installed but not be operating in smart mode due to various technical constraints. Around 12% of installed smart meters were not operating in smart mode in March 2015 ('[Smart Meters, Great Britain, Quarterly report](#)' (p11), DECC, Mar 2015).

¹¹¹ Smart-type meters offer some, but not all, of the same functionality as smart meters. They have allowed suppliers to learn from installing and operating these types of meters.

As shown in Figure 7.1, considerably fewer next-generation gas meters have been installed than electricity meters.

FIGURE 7.1: Domestic and smaller non-domestic meters, quarter 1 2015



Source: Ofgem analysis of DECC data taken from [Statistical release and data: Smart Meters, Great Britain, quarter 1 2015](#). Figures shown are for 'larger energy suppliers' as defined by DECC – those with a customer base of more than 250,000 domestic gas or 250,000 domestic electricity customers. For smart meters, the proportion shown is for the number of smart meters defined by DECC as operating in smart mode.

7.10. The roll-out of advanced meters to larger non-domestic customers is more advanced, with suppliers required to take all reasonable steps to roll out advanced meters to all non-domestic customers with annual gas consumption of greater than 732MWh or falling in profile classes 5 to 8 for electricity by April 2014. When that deadline arrived, however, the roll-out was only 75% complete in electricity, and 86% complete in gas.¹¹² We have launched investigations into British Gas, E.ON and Npower over their advanced electricity meter roll out performance, and are continuing to monitor the performance of other suppliers. We are also concerned about the overall level of innovation in products and services, and the effort to engage customers that we have seen on the back of the advanced meter roll-out.

The retail markets' role in the transition to a low-carbon energy sector

7.11. As well as influencing levels of energy use, the retail markets can have an important influence on the environmental impact of the energy sector by encouraging low-carbon electricity generation and supporting low-carbon technologies. This is partly a result of technological innovation, which is creating new ways for engaged consumers to participate in the market, and helping to drive

¹¹² ['Suppliers' advanced meter roll-out performance](#), Aug 2014

suppliers to develop non-traditional business models.¹¹³ In this section, we discuss three examples of ways the retail markets are playing a role in the transition to a low-carbon energy sector: green tariffs, feed-in tariffs, and demand-side flexibility.

Green tariffs

7.12. Some suppliers offer domestic customers green tariffs which emphasise the environmental benefits of their product, most commonly via the proportion of electricity sourced from renewable sources in the supplier's overall generation mix. In some cases, green products may also be available to non-domestic customers, who may have a further incentive (eg reputational) to source their electricity from renewables. We have published guidelines on green supply since 2002, and have recently made a change to licence conditions requiring that all domestic tariffs that make environmental claims based on the supply of renewable energy meet certain conditions.¹¹⁴

7.13. As of March 2015, the penetration of green tariffs was limited, with only independent suppliers, including those with an explicitly green business model, offering green tariffs to domestic customers (although EDF offers its 'Blue' tariffs backed by low-carbon nuclear power). This follows the withdrawal of green tariffs by a number of the six large suppliers in 2013 and 2014, coinciding with the consultation on and introduction of the RMR tariff rules (although green tariffs per se are not restricted by those rules). We have granted several derogations to the RMR tariff rules over the last year to enable independent suppliers to introduce green products, such as Ecotricity's selective discount to customers owning an electric vehicle.

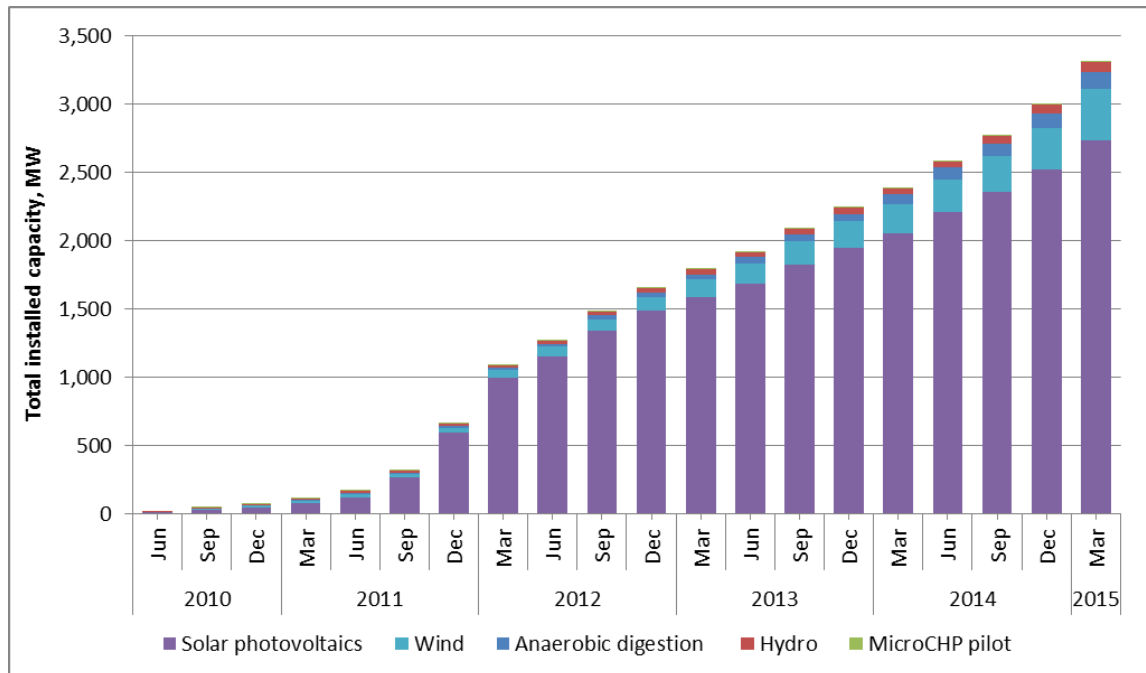
Feed-in Tariffs

7.14. As well as choosing green products, consumers are also playing a role in reducing the environmental impact of the energy sector by generating renewable electricity themselves. We have seen small-scale renewable generation capacity expand recently, particularly solar photovoltaics.

7.15. In particular, under the Feed-in Tariff scheme (administered by Ofgem), owners of small-scale renewable and low-carbon electricity generation technologies are eligible to receive payments for the energy they generate and the electricity that they export back to the grid. These customers may include individuals, businesses, communities or organisations. As shown in Figure 7.2, there has been a lot of expansion in installed capacity under the Feed-in Tariff scheme in 2014, with solar (and particularly the smallest installations) making up the largest part of installed capacity. More than half of capacity in March 2015 was domestic.

¹¹³ '[Non-traditional business models: Supporting transformative change in the energy market](#)', Feb 2015.

¹¹⁴ '[Protecting Domestic Consumers in the Green and Renewable Tariffs Market – Final Proposals](#)', Jun 2014

FIGURE 7.2: **Total capacity installed on the central Feed-in Tariff register**

Source: Ofgem analysis of data from DECC [‘Monthly feed-in tariff commissioned installations by Month’](#), May 2015

Demand-side flexibility

7.16. The retail markets will also affect environmental outcomes through the extent to which they facilitate demand-side flexibility. This refers to energy users’ actions to adjust their consumption at different times to help ensure that the amount of electricity produced matches the amount consumed. The value of flexibility of this type is becoming increasingly important as the share of intermittent renewable sources in the energy system grows and consumers change the way they use electricity (eg by using electric vehicles or electric heating).

7.17. At present, there is limited scope for suppliers to set prices for domestic and smaller business consumers that reflect fluctuations in wholesale prices – and thereby incentivise these customers to react to those changes. A key reason for this is the limitations of traditional meters. In addition, incentives on suppliers to develop and offer such tariffs are limited because of the use of half-hourly consumption estimates for the purpose of settlement, meaning that the commercial value of shifting usage away from peak demand period is not captured. The CMA has provisionally found that the absence of a plan for moving to half-hourly settlement gives rise to an adverse effect on competition.

7.18. In October 2014 we approved a modification to the Balancing and Settlement Code, which requires that larger non-domestic consumers (ie profile classes 5 to 8) should be settled using their half-hourly data. We are exploring how half-hourly settlement can be achieved for domestic and smaller non-domestic consumers.

Appendices

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Appendix 1 – Stakeholder views on the impact of the domestic RMR measures

Background

1.1. In March 2015, we issued a voluntary call for evidence, seeking stakeholder views on the impact to date of reforms introduced under the Retail Market Review (RMR). As well as their general feedback, we asked stakeholders to provide views on the impact of domestic RMR rules in the following areas:

- How the domestic requirements have affected the level of innovation and/or the ability of domestic suppliers to differentiate in terms of:
 - a) The type of tariffs that they are able to offer
 - b) The number, content and formatting of supplier communications
- If there have been any negative unintended consequences as a result of the RMR rules
- Whether the domestic RMR requirements have been effective in improving consumers' understanding and prompting engagement as well as which of the new comparison tools have been most and least effective
- What has been the impact of the requirement for consumers of expensive dead tariffs to be moved to the cheapest evergreen

1.2. We received 15 responses which included five of the largest suppliers, five independent suppliers, three Third Party Intermediaries (TPIs), one TPI representative and one consumer group.

Summary of stakeholder views

1.3. This summary is not intended to be an exhaustive list of all stakeholder views from the call for evidence. Instead, this is a high level summary of some of the key messages and views held by respondents. Non-confidential responses will be published on the Ofgem website shortly.

1.4. Stakeholders expressed their general support for the spirit and objectives of the RMR to make the retail energy market simpler, clearer and fairer. There are policy areas where respondents believe the RMR has been positive, as well as areas where they suggest there have been more negative impacts. In the case of the latter, the principal points of concern were the restrictions imposed by the tariff rules, as well as the level of prescription of some of the clearer information rules.

1.5. It is important to note that, in general, stakeholders agreed with our view that it is too early to draw conclusions on the effectiveness of the RMR reforms in boosting consumer engagement. In particular, they suggested that the clearer information rules need more time to embed.

Tariff rules

1.6. A number of stakeholders acknowledged in their response that pre-RMR, the retail market was too complex in terms of both the number and types of tariffs available. Therefore stakeholders were broadly supportive of the intent of the RMR to simplify the market.

1.7. Although some measures have worked well to improve consumer engagement, some respondents believe that rigidity of the new rules have led to some aspects being less effective and have led to further consumer detriment.

1.8. A majority of respondents, including suppliers and TPIs, believe that the tariff rules have stifled innovation and restrict suppliers' ability to differentiate their products. The rules on cashback, discounts and bundles have limited suppliers' ability to compete on non-price factors.

1.9. A number of stakeholders, including five suppliers and one TPI representative, believe that the rules on cashback and discounts have reduced the incentives for consumers' to engage, and thus reduced competitive pressure by suppliers. Furthermore, three suppliers raised concerns that the rules on bundles are too rigid, and limit suppliers' ability to tailor products to consumer needs.

1.10. Respondents suggested that the tariff cap has created an incentive for suppliers to offer four core tariffs that appeal to the mass market. This has subsequently led to the withdrawal of niche products, such as social and green tariffs – which has negatively impacted on certain groups of consumers. Three suppliers and one consumer group mentioned the negative impact this may have had on low and zero consumers, as a result of suppliers making the decision to remove zero standing charge tariffs.

1.11. Although some stakeholders acknowledged the option of applying for a derogation in order to be able to offer social tariffs, three suppliers and one TPI suggest that the timeframe for decision and uncertainty around the outcome may act as a disincentive to apply.

Supplier communications

1.12. In general, stakeholders support the aims of the RMR clearer information rules to make supplier communications simpler and clearer. However a number of respondents believe the new rules are too prescriptive and have limited their ability to respond to their customers' needs and preferences. Stakeholders suggested that a more flexible approach is adopted in terms of how suppliers can present such information.

1.13. Some respondents spoke about independent research that has been carried out on the impact of the clearer information reforms on consumers. A key point raised was that consumers prefer simpler bills with only key information provided, suggesting that too much information creates a disincentive to engage.

1.14. Two independent suppliers raised concerns about the frequency at which suppliers send out bills. Some send regular monthly bills/statements whereas other suppliers only send annual or bi-annual bills. This may mean that some consumers have less frequent access to the cheapest tariff messaging than others, and therefore receive fewer prompts to engage.

Effectiveness of comparison tools to increase engagement

1.15. Stakeholders were broadly supportive of the cheapest tariff messaging. Some respondents, including two suppliers and TPIs, raised concerns about the savings message on the cheapest tariff messaging being overinflated, since this calculation assumes that all customers on fixed term contracts will move onto the standard variable tariff. This may create customer confusion and lead to distrust within the industry.

1.16. There was a general view among respondents that the personal projection is a useful tool for consumers to estimate their energy spend and improve their understanding of their tariff. However two suppliers and all TPIs that responded noted the importance of ensuring a consistent calculation across the industry, rather than just among suppliers and a subset of TPIs.

1.17. Stakeholders, including five suppliers and TPIs view the Tariff Information Label (TIL) as a useful tool for consumers to make direct comparisons across suppliers due to its consistent structure. It is also seen as a useful tool for consumers to improve their understanding of their tariff. However, three suppliers have experienced technical difficulties with translating the strict format of the TIL onto digital devices and apps and called for greater flexibility in the way this is displayed.

1.18. The Tariff Comparison Rate (TCR) is seen as the least effective engagement tool of the information remedies among respondents. According to a number of stakeholders the tool lacks relevance since it is based on average consumption of a medium user. The tool creates customer confusion and may lead to distrust in the energy market.

Dead tariffs rules

1.19. Only six suppliers provided figures on the number of consumers on dead tariffs for 2012 – 2015. Of those who have provided figures, the number of consumers on these tariffs has fallen over this period. Some stakeholders believe that the amount of savings that consumers would have been small in most cases.

Appendix 2 – Summary of key data sources used in the report

Chapter	Dataset	Description	Period covered
2	<i>Electricity market shares</i>	Electricity market shares, both at a GB and regional level, are calculated using meter point data provided by DNOs (for domestic customers), and volume data provided by Elexon (for non-domestic customers).	Quarterly: June 2005 to June 2015
2	<i>Gas market shares</i>	Gas market shares are calculated using meter point data (for domestic customers) and volume data (for non-domestic customers) provided by Xoserve.	Quarterly: June 2005 to June 2015
3	<i>Independent suppliers' penetration by segment</i>	The independent suppliers' relative share among domestic customers by (a) type of tariff, (b) payment types and (c) online/offline are all based on data provided by suppliers on customer accounts by type. The independent suppliers' domestic market shares by meter type are based on data provided by DNOs.	Snapshot: March 2015
2 ; 4	Consolidated segmental statements (CSS)	Data on revenues, profits, costs and volumes are all based on the annual statements that the six large suppliers are required to publish covering each financial year (the CSS). For all of the six large suppliers except SSE, the statements correspond to the calendar year. For SSE, the statements cover the period April to March.	Annually: financial years 2009 - 2014
3 ; 5 ; 6	Retail Market Review 2015 Survey Retail Market Review 2014 Baseline survey	Our key evidence on trends in consumer engagement is from our RMR evaluation surveys. Specifically, Ofgem commissioned TNS BMRB to conduct a nationally representative face to face survey in spring 2014 of over 6,000 energy consumers in Great Britain. The aim of the survey was to contribute towards the establishment of a baseline of consumer attitudes and behaviour in the early stages of the RMR interventions. TNS BMRB repeated the survey on behalf of Ofgem in spring 2015 to examine any changes in these attitudes and behaviours.	Snapshot: February/March 2015 Snapshot: March/April 2014
3 ; 6	<i>Domestic switching rates</i>	Electricity switching rates are calculated using meter point gains based on data provided by DNOs. For the period up to December 2013, gas switching rates are calculated using data provided by the six large suppliers. For the period from January 2014 they are calculated using information provided by Xoserve.	Monthly: January 2005 to June 2015
3	<i>Domestic 'internal switching'</i>	Internal switching rates are calculated using monthly information provided by the six large suppliers on customer account changes by tariff type, payment method, and account management.	Monthly: November 2014 to June 2015

Chapter	Dataset	Description	Period covered
3 ; 5	Micro and Small Business Engagement in Energy Markets	Our evidence on engagement among non-domestic consumers is primarily based on a telephone survey of 1,502 micro- and small-business customers carried out for Ofgem by BMG Research in 2014, focusing on how these customers engage in energy markets. Questions included in the survey covered energy usage and expenditure, contracts, the switching experience, use of brokers, contact with suppliers and views on suppliers and the energy market.	Snapshot: September/ November 2014
3 ; 5	Quantitative research into Non-Domestic Consumer Engagement in, and Experience of, the Energy Market	For comparison, we also refer to a telephone survey of 1,300 non-domestic customers carried out for Ofgem in summer 2013, by The Research Perspective and elementenergy. The survey includes larger business customers. Questions covered current energy supply arrangements and satisfaction, contracts, engagement and switching and brokers. As discussed in Chapter 3, differences in methodology limit comparisons between the two non-domestic surveys.	Snapshot: June/August 2013
3	<i>Non-domestic switching rates</i>	Non-domestic switching rates are calculated using information on meter point gains provided by DNOs and Xoserve.	Monthly: March 2014 to June 2015
4	Non-domestic gas and electricity prices per kWh	Average non-domestic prices per kWh are from DECC. The prices for each size of consumer (which exclude VAT) are obtained by dividing the total quantity of purchases, for each fuel, by their total value. DECC collect this data from 8 gas and 7 electricity suppliers in the UK. Coverage is estimated at around 75% of industrial gas sales and around 60% of industrial electricity sales.	Annual: 2010 to 2014
4 ; 6	<i>Number of domestic tariffs, and their prices</i>	Domestic tariff data is based on information provided by Energylinx. Prices are shown for dual fuel, direct debit customers at the end of each month, and based on TDCVs of 12,500 kWh for gas and 3,100 kWh for electricity.	Monthly: 2012 to 2015
4	<i>Micro-businesses' fixed-term contracts</i>	Information on trends in micro-businesses' fixed-term contracts is taken from data provided by five suppliers with significant market share in response to the CMA's micro-business information request.	Quarterly: 2012 to 2014
5	<i>GfK Energy Research Panel</i>	Satisfaction data is based on a semi-continuous, nationally representative panel of 10,000 GB homes carried out by GfK, which includes questions on consumers' satisfaction with their energy supplier.	Quarterly: 2010 to 2015
5	<i>Average switching times</i>	Average switching times for gas based on Xoserve data - for electricity these are based on data provided by the DNOs.	Monthly: April 2014 to June 2015
6	<i>Debt and disconnections social obligations reporting</i>	Under their standard licence conditions, suppliers are obliged to provide us with data on payment methods, debt, disconnection, and Priority Services Registers (PSRs). This Social Obligations Reporting is our key source on trends in debt and disconnections.	Annually: 2013, 2014
7	Smart and advanced meters	Information on the number of smart and advanced meters is based on information published by DECC.	Snapshot: quarter 1 2015
7	Feed in Tariffs: total installed capacity	Total installed Feed-in Tariff capacity is based on data published annually by DECC on feed-in tariff commissioned installations.	Quarterly: 2010 to 2015

Appendix 3 - Glossary

Advanced meter	Defined in the electricity and gas supply licence as a meter that must be capable of recording half-hour consumption data and of providing suppliers with remote access to this data.
Cheapest tariff message (CTM)	Suppliers of domestic consumers must present this information in page 1 of the bill and in other regular customer communications. It contains two savings messages, expressed in pounds per year and based on the personal usage of the customer. The first, 'narrow' message, informs customers of any savings that they could achieve by switching to the cheapest similar tariff of their supplier. The second, 'wide' message, informs customers of any savings that they could achieve by switching to the cheapest overall tariff of their supplier.
Dead tariff	A variable price tariff with no end date that is not open to new customers.
Direct debit (DD)	A method of payment where a fixed or variable amount is taken from a bank account each month, quarter or year.
Distributor Network Operators (DNO)	DNOs own and operate the distribution network of towers and cables that bring electricity from our national transmission network to homes and businesses.
Dual fuel	A type of energy contract where a customer takes gas and electricity from the same supplier.
EBIT	Earnings before interest and tax are deducted.
Elxon	Elxon procures, manages and operates services and systems which enable the balancing and imbalance settlement of the wholesale electricity market.
Fixed tariffs	Domestic supply contracts with terms and conditions which apply for a fixed period (for example, a contract offered by a supplier that has a standing and unit price that is fixed for a year).
Half hourly (HH) meter	A type of meter which measures and records electricity use on a half-hourly basis. A customer is required to have a HH meter where the average of the maximum monthly electrical demands in the three months of highest demand either over a 12 month period or the period since the most significant change in demand (whichever is shorter) exceeds 100kW.

Half hourly meters are typically used by the largest business customers. Nevertheless, smaller businesses (including micro-business) may also qualify for a HH meter.

Micro-business

A non-domestic electricity consumer with annual consumption not more than 100,000 kWh or a non-domestic gas consumer with annual consumption not more than 293,000kWh, or a non-domestic consumer with fewer than 10 employees and an annual turnover or annual balance sheet total not exceeding €2 million.

Non-half hourly (nHH) meter

A type of meter which measures and records electrical energy flow over longer periods of time (than each half hour). Smaller businesses and domestic customers typically use non-half hourly meters. Nevertheless, larger businesses may also qualify for an nHH meter.

Personal projection (PP)

The Personal Projection is sets out the costs you are likely to pay over the next 12 months should you choose not to switch in the meantime. It is based on your actual consumption, or, where this is unavailable, a best estimate of your consumption. Your Personal Projection for your current tariff will be shown as an annual cost in pounds on your energy bill and other regular communications.

Prepayment meter (PPM)

A prepayment meter is a type of meter that allows consumers to pay as they go for their energy. Consumers pay for their energy using a token, key or card.

The six large suppliers

British Gas, EDF, E.ON, Npower, SSE and Scottish Power

Smart meter

A meter which, in addition to traditional metering functionality (measuring and registering the amount of energy that passes through it), is capable of providing additional functionality, for example two way communication allowing it to transmit meter reads and receive data remotely. It must comply with the technical specification set out by the government.

Standard credit (SC)

A payment method where customers pay on receipt of the bill. This typically covers a wide range of payment mechanisms, including cash, credit card and standing order.

Standard variable tariffs (SVTs)

The standard evergreen supply contract offered by a supplier (ie a contract which is for a period of an indefinite length and which does not contain a fixed term period that applies to any of the terms and conditions). SVT rates can be varied at any time, subject to giving customers advance notice where the change may significantly disadvantage the customer. SVTs do not require online account management.

Standards of Conduct	A set of principles-based rules introduced as part of the Retail Market Review to ensure suppliers treat their customers fairly and honestly and do not give them misleading information.
Tariff comparison rate (TCR)	A single, comparable figure that takes into account any standing charges and unit rates of a particular tariff. It operates in a similar way to the annual percentage rate (APR) of financial products such as credit cards.
Third party intermediaries (TPIs)	TPIs include switching websites, energy brokers and energy efficiency advice providers who interact with consumers. TPIs can offer advice and products to assist with a range of functions including energy procurement, efficiency and management.
Typical domestic consumption values (TDCVs)	The TDCVs are the industry standard consumption values, reflecting typical household consumption. They underpin Tariff Comparison Rates (TCRs) as well as being used in other publications and analyses. The TDCVs promote transparency by ensuring that consumers have a common point of comparison when engaging with suppliers and price comparison websites. We regularly review the TDCVs for gas and electricity to keep them up-to-date.
Xoserve	Xoserve is the Gas Distribution Networks' Agent and provides centralised information and data services for gas transporters and shippers in Great Britain.