

BGL Group Limited (BGL)

Response to Ofgem's consultation on the removal of certain RMR Simpler Tariff Choices Rules

1 Introduction

- 1.1 This document summarises BGL's preliminary views on Ofgem's proposed removal of certain RMR Simpler Tariff Choices rules in response to recommendations by the Competition and Markets Authority (**CMA**) set out in the CMA's final decision and remedies as part of its Energy Market Investigation.
- 1.2 Ofgem's proposed changes will affect energy tariffs significantly and the channels, including price comparison websites (**PCWs**), through which customers access them.
- 1.3 BGL is interested in Ofgem's consultation because BGL operates one of the UK's most popular PCWs – Comparethemarket.com - which allows customers to compare energy tariffs, alongside other important consumer products and services.
- 1.4 This response to Ofgem's proposed changes reflects BGL views that have, by and large, already been submitted to the CMA as part of the Energy Market Investigation and should, if further context is required, be read in conjunction with BGL's submissions to the CMA.
- 1.5 Ofgem should read this document in conjunction with BGL's responses to the *Confidence Code review 2016* and *Helping customers make informed choices - proposed changes to rules around tariff comparability and marketing* consultations, which will be submitted on 28 September 2016. BGL strongly encourages Ofgem to give full effect to all of the CMA's remedies as part of its Energy Market Investigation.

2 Response

- 2.1 On balance, BGL considers that Ofgem's proposed removal of certain RMR Simpler Tariff Choices rules is likely to enhance competition in retail energy markets.
- 2.2 BGL appreciates that these rules were introduced to offer energy customers a more straightforward menu of tariffs and to address over-complexity; however, customer inertia is still prevalent and it is quite feasible that the rules have limited suppliers' (and third party intermediaries') ability and incentives to innovate and compete on the range of tariffs and discounts offered to customers.

Removal of the four tariff rule

- 2.3 With these issues in mind, BGL is generally supportive of the proposed removal of the four tariff rule, which prohibits suppliers from offering more than four core tariffs per fuel per metering arrangement in any region.
- 2.4 Although still a relatively recent development and arguably a worthwhile experiment, the four tariff rule has not, according to the CMA's research, been effective in addressing the CMA's central concern in respect of competition at the retail level in UK energy markets, namely, the lack of customer engagement.
- 2.5 While it is conceivable that presenting customers with many different energy tariffs causes confusion (which would support retaining a solution based on a limited number of tariffs), the challenges associated with comparing tariffs effectively (and empowering customers to switch to better deals) do not necessarily or exclusively correspond to the number of tariffs available.
- 2.6 In other words, reducing tariff numbers does not of itself address tariff complexity or ease of comparison; hence the four tariff rule arguably misses its mark. Further, this simpler choices component of the RMR rules can give rise to adverse effects as it restricts suppliers' ability to compete and innovate.

- 2.7 As acknowledged by Ofgem, the four tariff rule restricts suppliers from offering new core tariffs or products to attract customers and respond effectively to new deals introduced by their competitors. In turn, this limits the scope for competition between PCWs for customers switching energy suppliers.
- 2.8 BGL's only concern associated with the removal of the four tariff rule is the risk that the UK energy market could, as a result, be flooded with complicated tariffs that look attractive but do not in reality provide good value for money (for example, because of the complex 'small print' attached to them), which could also - in the longer term - lead to further customer disengagement.
- 2.9 Therefore, while BGL would support a proposal which would prompt suppliers to introduce more tariffs, it has also commented previously (in submissions to the CMA) on the benefits of a limit (albeit more generous than that which prevails currently) on the number of permitted tariffs. That said, BGL acknowledges that this solution – as a simple expansion/iteration of the four tariff rule – seems arbitrary and might not properly remedy the concerns identified by the CMA and supported by Ofgem.

Bans on bundled products and other restrictions

- 2.10 In addition to the removal of the four tariff rule, BGL agrees, in principle, that the removal of certain other RMR rules may enhance competition, for example:
- 2.10.1 The removal of the ban on bundled products, which may allow for greater flexibility and product innovation, although potentially rendering accurate comparison between tariffs more difficult as other values will be introduced into product pricing.
- In other words, it is possible that Ofgem's changes would lead to energy products becoming bundled with unrelated products (such as home insurance, home emergency cover, or even broadband and landline services), rather than simply with gas and electricity. Furthermore, the potential customer confusion resulting from the bundling of unrelated products could lead to an increase in customer inertia. While, in principle, this could result in more options for customers, it could also render accurate price comparison difficult because there are more variables to evaluate.
- 2.10.2 The removal of restrictions on offering discounts falling outside certain permitted types (dual fuel etc.), cashback and reward points (and the removal of the requirement that all tariffs are offered to new and existing customers) may also lead to increased product innovation.
- These restrictions can constitute a barrier to PCWs negotiating individual (and, in some instances, exclusive) deals with suppliers and potentially offering customers more competitive tariffs. A consequence of the proposed changes may be that PCWs will be able to offer lower commission rates for exclusive rights to cheaper tariffs or packages.
- It is important, as far as BGL is concerned, that customers are not enticed to switch on the basis of superficially attractive deals that subsequently turn out to be more expensive; however, given that the CMA's main focus is on improving customer engagement, the benefits associated with these incentives in terms of encouraging customers to shop-around (combined with improved access to comparison data) may, to some extent, off-set the risks involved.

As regards the removal of the single standing charge, which may, in principle, allow more product innovation through the re-introduction of two tier tariffs, BGL's position is more neutral, simply because it is not clear whether this will prompt real change (as zero rate standing charges are already permissible) and it is not clear, based on research previously conducted by

Ofgem,¹ whether one charging model is, in reality, any more beneficial/cheaper from a customer perspective than the other.

3 Conclusions

- 3.1 Although, in the round, the proposed removal of the certain RMR rules should enable PCWs and suppliers to offer more choice to different customers, BGL acknowledges that the removal of certain rules (in particular the four tariff rule) could also have unintended adverse consequences leading to further customer disengagement. As indicated above, in BGL's view, there are two main risks:
 - 3.1.1 first, that the market will be flooded with complex tariffs that are difficult to compare; and
 - 3.1.2 second, that although some of these deals look attractive at first, they will not in reality provide good value for money.
- 3.2 However, on balance, these risks are off-set by potential consumer benefits and only serve to emphasise the importance of aspects of Ofgem's other proposed remedies, which focus on:
 - 3.2.1 improving the quality of information given to customers on bills and through other channels, such as QR codes which must be adequately monitored, whatever the tariff structure, to empower customers to make better informed decisions about different tariffs, packages and suppliers; and
 - 3.2.2 enabling – through changes to Ofgem's Confidence Code – PCWs to invest in energy comparison services and elicit more competitive deals from suppliers and drive greater customer engagement.

ENDS

¹ Ofgem: Can energy charges encourage energy efficiency? A discussion paper to prompt debate, July 2009