

## Future Supply Market Arrangements

**comparethemarket.com** ("CtM") response to consultation

### Introduction

As a leading UK price comparison website ("PCW"), **comparethemarket.com** ("CtM") has a strong interest in ensuring that the energy supply market encourages innovation and competition in order to improve consumer engagement.

We support Ofgem's overall intention to promote competition in the energy supply market to constrain consumer prices and, as a PCW for such products, we see the benefit that greater product information can bring for consumers.

We are aware of the need to reform the energy market and recognise that current market supply arrangements often fail to adequately provide consumers with the best range of energy deals and suppliers. We think that our business model as a PCW, and our proposals in this submission, can positively contribute to the reform process as the future supply market evolves away from the supplier hub model.

In this submission, we intend to provide CtM's overarching views on the topics outlined in Ofgem's call for evidence, alongside a more focussed look at the questions highlighted as relevant to our business model (Questions 1 -4).

### Summary of our views on the future supply market

Given the nature of our service and business model, CtM provides consumers with relevant and timely information that helps them make the best choice when comparing products and switching supply. While we support the broad attempts set out in this consultation, we question Ofgem's overall criterion to judge a successful market place as '*insufficient*'. CtM believes that Ofgem should consider that a successful market is not just one where disengaged consumers receive safeguards, but is also one where more customers are encouraged to become further engaged.

Moreover, CtM believes that there is further scope for Ofgem to address existing practices, by dominant energy suppliers, which often discourages competition and consumer engagement in the market. This further scope includes encouraging energy bills to be made more comprehensive, supporting collective switching and improving the rollout of the new generation of Smart Meters, to allow ease of switching between suppliers whilst retaining the inherent benefits. We strongly encourage Ofgem to consider implementing an Energy open API initiative similar to Open Banking. We strongly believe that the increased consumer empowerment of Open Banking should be replicated in the energy market.

CtM is of the view that problems in the energy supply market principally arise as a result of lack of consumer engagement and business complacency. We support Ofgem's objective to have greater diversity in market provision, by creating a business environment in which new entrants can effectively enter into the energy market and challenge existing suppliers. We believe that PCWs have an important role in assisting Ofgem to meet this objective, by allowing customers to engage with the range of energy suppliers available to them and change suppliers more easily.

## Answers to relevant questions

### **Question 1: What are your views on the above criteria? Are there any other criteria that should guide our assessment of current and possible future market arrangements?**

While CtM broadly supports the criteria laid out in the proposals, we believe there are further areas that should be included in order to effectively assess the functionality of the energy market. CtM is of the view that whilst it is important to increase support for unengaged customers, a successful market place is not just one where inert customers are protected, but one where there is increasing customer engagement. CtM is of the view that providing additional customer support should not come at the expense of encouraging greater consumer engagement. CtM believes Ofgem should consider including, as an additional criterion, that a successful market place is one with an increasingly active consumer base.

### **Question 2: What are the most significant barriers to disruptive new business models operating in the retail market?**

In CtM's opinion, key barriers to disruptive new business models in the supplier market are the existing problems in the rollout and implementation of Smart Meters. CtM believes that Smart Meters are a useful innovation that have the potential to transform consumer engagement with their energy suppliers and their energy consumption. However, significant practical problems have led to Smart Meters often worsening customer experiences and preventing competition, between suppliers, to effectively take place. This includes the first generation of meters known as "SMETS1" (Smart Meter Equipment Technical Specification) malfunctioning when customers have attempted to switch provider. This has resulted from suppliers separately developing their own proprietary meters, effectively tying the communication between the meter to the one, single supplier. This has reinforced existing dominant suppliers in the energy market, at the expense of innovative market entrants. Ofgem should encourage suppliers to either invest in improved, non-proprietary, Smart Meters or in reducing tariffs, instead of developing their own proprietary meters.

### **Question 3: What other supply market arrangements would provide a better default for disengaged consumers, whereby they are protected adequately and are able to access the benefits of competition?**

CtM is of the view that the current 'default' market arrangements, for the majority of unengaged energy customers, are insufficient to provide customers with adequate support. We support Ofgem's definition that 'default' arrangements usually includes the scenario *'where consumers that do not engage are typically supplied on poor standard variable tariffs via their existing suppliers.'* Across the energy industry, there is a recognition that Standard Variable Tariffs (SVTs) are failing to provide customers the best deals for energy. Leading energy suppliers, such as Centrica, have announced that they are phasing out the SVT option for new customers.

CtM further supports Ofgem's analysis that *'Current default arrangements have entrenched the role of the consumer's current supplier in providing safeguards for the disengaged, but this has been at the expense of innovation and competition.'* Key to future supply-side reform of the market is to ensure a greater diversity in energy provision. This should include both an increasing number of new suppliers entering into the energy market, to challenge the dominance of existing suppliers, as well as energy suppliers reforming their existing consumer practices.

To achieve these outcomes, CtM proposes three specific reforms to protect and empower all customers, be they engaged or disengaged. Firstly, CtM strongly believes that suppliers must make

their current energy bills simpler to understand, as this will allow consumers to comprehend different energy options in the market, should they wish to change their current tariff or supplier. CtM has actively supported and campaigned on this issue, including releasing a report on simpler energy bills in partnership with the think tank IPPR.

Secondly, in CtM's opinion, consumers should be regularly notified when alternative energy options become available, so that they are given an impetus to consider switching their arrangements. PCWs have a key role in this regard, to enable customers to access the benefits of competition by considering a range of supplier options and therefore have the opportunity to save money.

Thirdly, CtM supports Ofgem's proposal that effective market solutions '*could include some form of opt-out collective switching*'. As part of its reform proposals, Ofgem should encourage an increasing number of consumers to engage in collective switching models, as this is an invaluable means to allow unengaged consumers to benefit from an active market. As a PCW, CtM has secured several successful collective energy tariffs. These collective tariffs demonstrate how CtM is embracing this solution and consumers benefit by way of saving money on their energy tariffs.

**Question 4: How big an issue is it that we do not currently regulate intermediaries in the energy market? Is there a case for doing so? If so, how would we best do it? We are especially interested in frameworks that enable a wider variety and increased number of market participants to provide supply.**

CtM would like to seek clarification from Ofgem regarding proposals for a new General Authorisation Regime. In particular, CtM is interested in the scope of a new regime and sectors within its remit. Would such a regime apply to PCWs, along with other energy market intermediaries and suppliers?

Moreover, as a PCW, CtM has a key role in ensuring an increased number of participants within the energy market. A key restriction to new entrants into the energy market is the fact that dominant suppliers retain the business of pre-existing consumers, many of whom are unaware of alternative supplier arrangements. Ofgem should further encourage the participation of online platforms, to allow new entrants to have their products and services be directly compared with those of established suppliers.

Ofgem will be aware of certain new market participants exiting the market shortly after entering due to financial difficulties. CtM wishes to highlight that, whilst increasing market participants can increase competition and drive down the price consumers pay for Energy, these new entrants need to be well funded. Clearly there is a risk that consumer trust in switching can be reduced due to poorly funded market entrants quickly leaving the market and therefore increasing consumer inertia. CtM encourages Ofgem to address this issue.

### **Concluding remarks**

CtM welcomes Ofgem's focus on the subject of future energy markets. We look forward to working constructively with both Ofgem and wider industry participants, to ensure that energy market reforms can be effectively implemented increasing transparency, engagement and thus reducing consumer inertia. We think that there should be a greater consideration of means to improve consumer engagement, as part of a strategy to encourage innovation in the energy market. As a sector, PCWs can effectively enable Ofgem's reforms of the energy market, by providing a platform for industry entrants and enabling greater customer choice. CtM is well positioned in this space to enable greater choice and, as a result save consumers money, as a well-funded, consumer-empowering PCW.

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In considering this response, we would be happy to discuss our reflections further with a member of the team.