

Written Evidence – Ofgem Default Tariff Cap Working Paper

Introduction

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

We are aware of the need to reform the energy market and recognise that current arrangements often fail to adequately provide consumers with the best range of 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.

We recognise that, under provisions in the Domestic Gas and Electricity (Tariff Cap) Bill, Ofgem’s role as a statutory regulator is to implement the Government’s policy on an Energy Price Cap, as opposed to drafting the legislation upon which a Price Cap will be implemented.

However, we also acknowledge that Ofgem will be granted significant discretionary power to determine the value of the Cap as well as to recommend if the Cap should be extended to 2023. As such, the purpose of this submission is to argue that Ofgem should not regard the Energy Price Cap as a long-term statutory tool and recognise the market detriment if the Price Cap was ever used as such.

Furthermore, we also recognise that Ofgem’s determination if the Energy Price Cap should be extended or not will be based on if there is a reduction in the identified consumer detriment in the energy market. In this submission, we will argue that the way to sustainably reduce consumer detriment is to pursue fundamental energy market reform, separate to the implementation of a Price Cap.

We intend to provide CtM’s overarching views on an Energy Price Cap, as well as our wider suggestions on long-term changes to reform the energy market. We hope that this briefing can assist Ofgem as it undertakes its work to implement the upcoming legislation.

Role of PCWs in improving the energy market

PCWs have a valuable role in clearly presenting a range of energy tariff options, allowing consumers to easily switch energy providers and secure the best deal for them. PCWs help challenge the dominant market position of the Big Six energy companies, providing a platform for new market entrants to directly compete with larger energy providers.

CtM operates in a variety of consumer markets, allowing customers to engage with products in sectors such as insurance, broadband, money and energy. We present details from over 236 providers, across all of our products, and in over 80% of cases, we offer our customers cheaper deals than going direct to the provider.

PCWs are also a lead driver of innovation, using data and technology to help consumers engage with financial products. For example, using our data insights, CtM has predicted for our customers what the most relevant product is for them (based on their likelihood to quote on a product). This allows customers to receive relevant communications and encourages them to be more actively engaged with the marketplace, by being presented with products that suit their needs.

PCWs have an important role in assisting policymakers meet their objective of having a greater diversity in energy provision, by allowing customers to engage with the range of energy suppliers available to them and change suppliers more easily.

Energy Price Cap

CtM believes that the introduction of an energy price cap, be it either a relative or an absolute cap, should be regarded as a temporary measure. This is because the key to any healthy market, energy or otherwise, is having an active and engaged consumer base. As such, CtM believes that a successful energy market is not just one where disengaged consumers receive safeguards but is also one where more customers are encouraged to become further engaged.

CtM conducts ongoing research about the benefits of consumers being engaged in the energy market. For example, in December 2017, our customers aged 80 years old and over saved the most money by switching suppliers, with an average saving of £213.17. Moreover, over 26 % of our consumers switched from one of the Big Six providers to find greater savings elsewhere.

Whilst CtM recognises that there are structural problems in the energy market which need to be reformed; we do not believe that such reforms should come at the expense of promoting greater engagement and innovation. An absolute cap, if implemented as a long-term policy, risks acting as a deterrent for customers to switch suppliers, in order to obtain a better energy deal. This could lead to a situation where, even if a cap is in place, consumers are still paying a relatively higher price for their energy than they could otherwise pay if they switched supplier. Given that over 20 million consumers currently have never switched, we are of the view that the unintended consequences of a cap could be to make it less likely for these consumers to consider switching from their current supplier.

Reforming the Energy Market

CtM believes that the committee should take into account wider measures to reform practices in the energy market. CtM is of the view that there are a range of policies that can incentivise switching, improve company's consumer policies and lower energy Bills – beyond the introduction of a default tariff.

Wider retail market remedies:

- Recognition that Standard Variable Tariffs (SVTs) are failing to provide customers with the best deals for energy. Leading energy suppliers, such as Centrica, have announced that they are phasing out the option for new customers. CtM is also of the view that the current 'default' market arrangements of SVTs are insufficient to provide customers with adequate support. Whilst we acknowledge that these actions have been insufficient in reforming the market, CtM believes that the phasing out of SVTs are nevertheless an important step, by large energy suppliers, in recognising that the status quo is failing to serve the interests of many consumers.
- The simplification of consumer energy bills. CtM strongly believes that suppliers should 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 campaigned on this issue, including releasing a report on simpler energy bills in partnership with the IPPR think tank.
- Regular customer notification systems. 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 easily access the benefits of competition by considering a range of supplier options on a regular basis.

- The benefits of collective switching. As part of its reform proposals, the Government 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.
- The roll-out of Smart Meters. Whilst CtM acknowledges significant practical problems in the implementation of existing Smart Meters, we are of the view that Smart Meters are a useful innovation that have the potential to transform consumer engagement with their energy suppliers and their energy consumption.
- The Government 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. 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.
- Just as financial services is undergoing a revolution in fintech and Open Banking, we feel that the same benefits can be extended to the energy sector. The Government should further encourage the extracting of actionable insights from the burgeoning number of open data sources as it will help organisations to answer both their own business problems, as well as solving problems for consumers. Robust amounts of data are essential for providing sufficient input and making this data readily accessible to organisations through open data initiatives, will make this insight newly available in areas that have lacked data in the past, thus opening the door to developing new and beneficial services to consumers.

Concluding remarks

CtM welcomes focus on the future of the energy market. We look forward to working constructively with both the committee, and wider policymakers, to ensure that energy market reforms can be effectively implemented. We think that there should be a greater consideration of initiatives to improve consumer engagement, as part of a strategy to encourage innovation in the energy market. As a sector, PCWs can effectively enable reforms of the energy market, by providing a platform for industry entrants and enabling greater customer choice.

In considering this response, we would be happy to discuss our reflections further with all interested parties.