

From: Andy Came
Sent: 22 September 2016 18:35
To: Confidencecode
Cc: John Szymik
Subject: Affect Energy response to proposed Confidence Code changes

Hi Caroline,

Please find below our response to the proposals to the changes in the Confidence Code:

Whole of Market Proposals:

Question 1

We passionately disagree with the whole of market view being removed. We believe that it will lead to higher barriers to entry for small suppliers and a distortion of market information, with the cheapest deals proving more difficult to find (if, ultimately, being available at all). As a small supplier, we are currently able to challenge the big 6 on a fair and open playing field with the WoM regulations in place. We are concerned that the removal of the WoM will have significant negative impacts to competition in the UK energy industry.

When we started up and were looking at options for paying / not paying commission to the switching sites, there was at least one of the major switching sites that didn't even want to talk to us about us paying them commission. They viewed us as too small to concern themselves with. Their start position was that they weren't interested unless we could pay for 25,000 switches per year (a very healthy sum based on typical commission levels). Clearly this volume commitment is unworkable for a small supplier trying to enter the market. This isn't good news for competition and would be disappointing to see OFGEM support such a proposal and companies who favour working with fewer, higher paying partners.

The switching sites are investing significant amounts of money (£millions) into online advertising. I assume that the CMA and OFGEM have looked at the online market (now accounting for a significant proportion of UK energy switching) with a digital expert? If so, you will know that the way online advertising works is that suppliers and switching sites bid on key words. As the market is primarily price led, the search terms that people use are narrow – cheap gas and electricity / cheap energy etc. The marketing cost of these terms goes up, the more that companies bid on them. So in a price led market, a company wanting to compete on price won't be seen in search advertising unless it has a huge marketing budget – a massive barrier to entry for small suppliers who, to date, have primarily competed on price. If you are not seen in search, then this is the equivalent of building a coffee shop in the middle of Bodmin Moor – you may have the nicest coffee shop in the world, with the best customer service and great prices, but no one is ever going to find you. The alternative is a direct sales model, but to be successful here, arguably you need even deeper pockets for search to work as you're not only bidding against the switching sites for these same narrow terms, but also the 50+ energy companies in the market, so the costs involved of being seen are significant. The current WoM view gives small start-ups a chance in this area, and we're able to be seen. It was a great move from OFGEM to introduce this and something that has lifted switching volumes to record levels. It should be something the industry is proud of, not something we're looking to scrap. If small suppliers can't be seen, there is less choice. Please don't relocate us all to the middle of Bodmin Moor.

You could argue that we could pay some of the switching sites a commission to appear on their site and still benefit, but we suspect that many of the small suppliers are working on margins that could

mean that this is the difference between profit and loss on that customer. We're also concerned about the sites being willing to talk to us and being outpriced by the bigger suppliers – the example cited above of us being too small for one of these 'consumer friendly' giants is concerning, especially when the market for switching is dominated by two or three major players.

Larger suppliers are also able to pay larger commissions to the switching sites out of the profits from customers on standard tariffs. Small suppliers' commissions have to come out of a tight profit margin on the customer they are gaining. This is another barrier to entry for small suppliers, who typically don't have customer bases with large volumes of customers paying higher prices, so it will be harder for us to find the commission payments, which we'd rather pass on to the customer anyway. That seems much fairer, right? If this is about doing the right thing, we really believe that this needs more **thought**.

We also value the fact that we can be on a switching site and not necessarily linked through from the site itself (unless we decide to pay for this through paying a commission) – this seems to be the happy compromise of not paying. This may mean that we lose some customers through inconvenience and that's ok – we understand that this is a competitive market, and it means we have to make our individual sites stand out and communicate trust, but this can only benefit the industry and help turn around negative perceptions. What it does mean is that if a customer then goes to our site, they receive **our** switching experience and understand the way **we** operate much better, which we believe is better for the customer than going through a generic switching sheep dip. Switching is a time when the customer potentially has the most contact with us and this is a huge chance for us to differentiate – something that is needed for a competitive market to work. The customer gets our brand experience and the market stands a chance of becoming less commoditised. The more we channel activity down switching sites directly (which will happen if they are all commission based under WoM removal), the less customers will know about their energy company from the outset and the more you will drive a generic commoditised market. The emphasis here should be on keeping the WoM view but encouraging switching sites to innovate in how they are going to get more of their customers to choose a commission paying supplier.

In summary we disagree with this proposal as it appears to disregard most of the things we believe OFGEM was set up to promote:

The proposal is anti-competitive and creates higher barriers to entry for small suppliers through additional costs in commission and / or additional search advertising

The proposal will also ultimately force prices upwards as all suppliers will need to pay an additional £x to the switching company for the sale, as there will be no choice to pay or not to pay a switching site

The proposal will make it harder for customers to find cheaper prices as not all sites will carry the same information

The proposal will drive a more commoditised market with more transactions completed through switching sites at a higher cost to the customer

For OFGEM, whose primary duty is to protect the interests of consumers by promoting competition, to support anything other than a whole market view seems incomprehensible (and even more so when it already exists)

Question 2 & 3 – Partial Default View / Filter Choice

We're struggling to see why OFGEM (an organisation that was set up to be the customer champion) endorse a view where the customer only sees a limited view of the market? Competition between switching sites is likely to be led largely by online marketing budgets and less by what they offer to

the customer. OFGEM's own standards of conduct states that we have to treat customers' fairly and be honest and transparent. We'd argue that this proposal doesn't fit with this. This model already happens in insurance and financial experts advise customers on which sites to use to get the best view or which two to use to get a whole market view (more customer confusion)– we already have a customer friendly model in energy and we should be proud of promoting it rather than trying to destroy it. Customers will just be left confused.

Question 4 – Wording

Wording is likely to make little difference. If you have a high marketing spend and an OFGEM confidence code label, then customers will assume they are seeing a full view, especially as this is what they've seen previously. Again, digital experts will be able to tell you that customers generally navigate sites by using big obvious buttons (making a lot of assumptions as they go), not by reading the detail of a page. Presumably if the whole of market isn't shown, then the switching sites should be obliged to tell you how to get that view (and if they have to do that, at the customers' inconvenience, then why not just get them to show it in the first place?)

Question 5 – Wording

See question 4

Question 6

No comment – see previous answers

Personal Projection

Question 7/8/9

We are happy with these proposals.

ECOES / DES

Question 11

Yes

Question 12

Nothing further to add.

Please feel free to contact me if any of our points require further clarification. I hope you can see from the response above that we view this as quite a biggie. Most of us here have worked in the energy industry for a number of years and with big suppliers. This isn't the style of response we're used to seeing from the Big 6, but to us this isn't about being seen to be politically correct in our response or pleasing a multitude of stakeholders; we need to communicate that this really matters. We set Affect Energy up to do exactly that, affect energy – tired of the way customers are treated as numbers and not people; bored of all the long and complicated industry terms that the public don't, and don't want to, understand. We all passionately believe that we can create a great company and

change energy for the better, but it's such a big money playing field that it's going to be hard without an understanding regulator. We're not looking for special treatment – just an understanding of the position we're in. I know the lobbying power of the Big 6 and I imagine the lobbying power of the switching sites is just as, if not even more formidable. We're only a little voice, but hopefully a passionate, sensible voice and one that is able to be heard at a much louder volume than its size would normally allow.

Kind regards
Andy



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For Simply Brilliant Energy, visit us at www.affectenergy.com