

Ofgem Discussion Paper – Conditions for effective competition

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 effectively and 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 Ofgem’s role as a statutory regulator is to ensure a competitive and open market, based on a reduction in consumer detriment. In this submission, we will propose that the way to sustainably reduce consumer detriment is to pursue fundamental energy market reform, based on competition and innovation.

We intend to provide CtM’s overarching views on the energy market, as well as our wider suggestions on long-term changes to deliver reform. We hope that this submission can assist Ofgem as it undertakes its work to implement an effective competition regime for the future.

Question 1: Are there any features of effective competition that are not covered in our definition?

As a PCW, CtM believes that whilst suppliers winning customers is essential to a competitive market (through the offering of lower prices and better Terms and Conditions), their habits for retaining customers are not always conducive with the consumers’ best interests. This has been demonstrated most clearly in the energy sector, whereby a significant proportion of households retained by suppliers are on uncompetitive standard and default tariffs and left overpaying for their energy as a result.

CtM is supportive of Ofgem’s overall definition, believing that it provides the foundation for an effective competition framework for the future. In particular, we are of the view that the definition encapsulates many of the features necessary to define effective competition going forward.

To build upon the definition, CtM is of the view that, for any competition regime to be effective, it should ensure diversity in suppliers in the market - providing consumers with real choice - but that there should also be the necessary means to allow consumers to best take advantage of the energy options available.

As such, we think that Ofgem’s aim of delivering ‘*Good customer outcomes for most consumers*’ lacks the required level of ambition needed to fundamentally reform a currently dysfunctional market – we would want to see effective competition offering the opportunity to deliver ‘*Good customer outcomes for every consumer*’. Additionally, CtM is of the view that the Financial Conduct Authority’s (FCA) inclusion in its description for promoting effective competition of consumers being ‘*empowered as well as informed*’ could help further strengthen Ofgem’s approach.

To achieve this, whilst rivalry between firms must translate into lower prices for consumers, actively encouraging an increase in the numbers of disengaged or inert households switching - and more regular switching for those that have switched previously – will be key for benefits to be widespread.

For example, providing innovative propositions and services that meet the needs of all consumers, including the vulnerable, across a wide range of products will prove to be an important feature in reforming all consumer markets going forward. Moreover, measures such as making the Switch Guarantee mandatory for all suppliers would go a long way to deliver more consumer trust in the switch process and help eliminate some of the current barriers to consumer engagement and switching.

Question 2: What are your views on the conditions for effective competition we have proposed? Are they clear and is there anything else you think we should take into account?

On Condition 1, we agree that structural changes, when delivered with executional excellence, are necessary to facilitate innovation and enhancements to the competitive process. However, the current smart meter programme, by way of example, has experienced significant issues and delays – meaning that the lack of interoperability of the SMETS1 meters has hindered the competitive process, rather than facilitated it. Furthermore, we are also of the view that in a competitive market, new ways for consumers to engage with their energy will emerge. For example, we believe that further innovations in automated checking and switching services will become more mainstream and widespread, enhancing the competitive landscape.

Regarding Condition 2, the competitive process must work well in the absence of the default cap on Standard Variable Tariffs (SVTs). This will be imperative in demonstrating to policymakers that market-wide reform can deliver better outcomes for customers, without the need for undue and ongoing external intervention. Elements of this competitive process should include ensuring that ease of entry of new providers does not have the unintended consequence of offering consumers poorer levels of service or engendering lower levels of trust overall.

As for Condition 3, as we have outlined above, CtM is of the view that Ofgem’s ‘*Good customer outcomes for most consumers*’ lacks the required level of ambition we would like to see in the sector as we should be working to ensure that retail markets competitively deliver for every consumer. Nonetheless, we do strongly agree that consumers who are less active in the market, as well as those in the most vulnerable situations, should not be paying a ‘loyalty penalty’ in the form of excessive prices.

Question 3: What are your views on the structural changes that we propose to include in our framework? Are there any specific changes you think we should consider?

There are a number of changes that CtM thinks Ofgem should consider. Firstly, as previously mentioned, the rollout of smart meters is a useful innovation that could potentially transform how consumers engage with their energy ecosystem. Once the current barriers in implementation have been overcome, this could lead to effective competition. However, we concede that, until such a process is complete, smart meters cannot be considered to generate better outcomes for all consumers, on default or any other tariffs.

We agree with the changes proposed by the Competition and Markets Authority (CMA) aimed at addressing the adverse effect on competition and believe these should be included - along with Ofgem-led programmes aimed at delivering good outcomes for consumers in the retail energy market - in the final competition framework.

With regards to the Future Energy Retail Market Review, CtM is supportive of Ofgem’s overall proposed changes.

Question 4: Are there any indicators of the competitive process not listed here that you think we should consider in our analysis?

We agree with the plan to monitor and assess a number of indicators to determine how well the competitive process is working over a period of time. Moreover, we also agree with the inclusion of the three broad categories identified in the document: market structure, consumer behaviour and supplier performance. However, CtM is of the view that, in the category of supplier performance, an indicator to determine the price differences between each supplier’s standard/default tariffs and that of their fixed price tariff(s) should also be monitored.

We believe that not setting specific targets or thresholds is the wrong approach, as it will be through continual measurement that data will be gathered to ensure that Ofgem's objectives are being met over a period of time.

Whilst we accept that any indicator could be characterised by higher or lower levels, this is not a sufficient reason to not set relevant targets or thresholds. Additionally, if it is accepted that some indicators will be interdependent, it should also be possible to establish a range of interdependent targets too. CtM recognises the complexities in the setting of targets and thresholds but are of the view that a simplified approach is feasible; leading to the effective monitoring of how the competitive process is or is not working.

Finally, we are also of the view that adding more indicators - that will not have specific targets or thresholds - would not add further benefits to the monitoring and assessment of progress.

Question 5: What are your views on the consumer outcomes that we propose to assess in determining whether the conditions are in place for effective competition?

CtM agrees with Ofgem that using consumer outcomes to assess whether the conditions are in place for effective competition will vary across individual consumers. We firmly believe that competition in the market is important and will deliver good consumer outcomes, but also understand that competition will not necessarily deliver outcomes that meet the needs of all customers, including vulnerable consumers, and that provisions to complement effective competition may be required for these consumers.

Looking at the consumer outcomes proposed in the consultation document, CtM believes that, first and foremost, the ease with which consumers can switch energy supplier is an essential condition for effective competition. Ease of switching demonstrates that both the market is working competitively, and the process of switching is working efficiently. CtM demonstrated this through our response to Ofgem's Default Tariff Cap Working Paper in March 2018, which stated 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.

Building on the switching process, delivering the lowest possible price per unit of energy to consumers is also a primary consumer outcome of a competitive market working effectively. However, price and price differentials should not be the only consumer outcome to assess whether the conditions are in place for effective competition. We also believe that tariff choice should be assessed, as consumers need a broad range of tariffs on offer due to the collective of their individual preferences. Consumer needs and preferences have shifted and CtM has witnessed this through tariff choices – for example a consumer may choose a green tariff that is more expensive as opposed to the cheapest tariff on offer, due to environmental consciousness. By offering a broad choice, good consumer outcomes can be more broadly achieved. However, it should be noted that too much choice can be confusing for consumers and it is essential that, where there is a wide choice offered, a transparent way to describe and allow filtering of choice is in place.

Regarding quality of service, CtM agrees that firms consistently delivering a great quality service is a good way to assess whether the conditions are in place for effective competition. We also believe there should be proportionate consequences for those failing to consistently deliver great service. It should be noted that, compared to other consumer outcomes such as the switching process and price differentials, CtM does not consider quality of service as a primary way to assess competition and instead should be considered a result of effective competition in the energy market. However, CtM agrees that engendering consumer trust and confidence in every aspect of their engagement in the energy market is critical in determining whether the right conditions are in place for effective

competition. CtM undertakes important work to ensure consumers using our platform trust the service we are providing will deliver the best and most suitable tariff choice for them and ensures they remain engaged in the energy market.

Overall, CtM believes that the consumer outcomes set out in the consultation document represents a good foundation to build on. We agree that all outcomes are effective means when assessing competition in the market, but some such as switching, price differentials and trust and confidence are primarily more important than perhaps quality of service. As set out above, *'Good customer outcomes for most consumers'* lacks the required level of ambition CtM would like to see in the energy market and, based on the consumer outcomes, we would want to see effective competition offering the opportunity to deliver *'Good customer outcomes for every consumer'*.

Question 6: Is there any other aspect of effective competition that the framework should consider?

As a PCW, CtM has a strong interest in ensuring that the energy market encourages innovation, using data and technology to help consumers engage with products and ensure effective competition. As such, we hope the below suggestions and examples of existing work which CtM is undertaking provide further assistance to Ofgem in its current work.

- **Data insights:** 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.
- **Smart Meters:** We believe that smart meters are a useful innovation that have the potential to transform consumer engagement with their energy suppliers and their energy consumption, increasing the likelihood of switching and an environment of effective competition.
- **AutoSergei:** CtM launched AutoSergei in December 2018 with a view to introduce an innovative trigger or service proposition for our customers. Competition in the market has encouraged CtM and other PCWs to build auto-checking and switching services to simplify the market, ensure consumers remain engaged and trust remains. AutoSergei differs from other switching propositions currently on the market, providing an 'auto-check' model as opposed to an 'auto-switch' model. This allows CtM to inform consumers, who have signed up for automatic checks on their tariff, of better offers in the market, whilst encouraging them to make the switch themselves. This ensures the customer remains engaged in the market and in control of making the final switching decision.
- **New entrants in the market:** CtM believes that new market entrants are a consumer outcome that Ofgem should consider as an indicator of effective competition. New market entrants directly compete with large energy providers, challenging the established presence of the 'Big Six' and increasing consumer choice.

Conclusion

CtM welcomes Ofgem's focus on conditions for effective competition. We look forward to working constructively with Ofgem to assess whether or not the cap on default and standard variable tariffs should remain in place and ways to ensure that the energy market delivers good customer outcomes for every consumer. 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.