

House of Commons Energy and Climate Change Committee: Energy price comparison websites inquiry

Consultation response from the Centre for Competition Policy

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The response to this consultation response was edited by Dr David Deller following discussions held in the Centre and it has the broad agreement of the group of contributors.

The Centre for Competition Policy (CCP)

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Consultation Response

There are a wide range of comments which could be made regarding the general decision making process consumers go through when considering whether to change energy supplier¹. In this response

¹ CCP work in this area includes 'Do Consumers Switch to the Best Supplier?' (Chris M. Wilson and Catherine Waddams Price), *Oxford Economic Papers*, 62: 647-668, 2010; 'Consumer behaviour in the British retail electricity market' (Miguel Flores and Catherine Waddams Price), CCP research paper 13-10; 'Searching and Switching: Empirical estimates of consumer behaviour in regulated markets' (Catherine Waddams Price,

we focus on the narrower question of the regulation and oversight appropriate for price comparison websites as the market currently exists and the decision process is generally structured.²

Market research by Ofgem³ provides clear evidence that price comparison websites form an important part of consumers' engagement with the energy market and its competitive process. Of those individuals who had switched in the previous 12 months 44% had switched via an online price comparison service. Regarding the method used to find out about energy deals in the past 12 months 39% of respondents had used a price comparison website, three times the percentage using the next most common method to obtain information (phoning their supplier).

While there may be concerns about the transparency of website commissions, the most direct way to allay concerns about price comparison websites would be for a regulator/oversight body to be resourced to undertake effective 'mystery shopping' exercises. Although making price comparison websites' commissions transparent may be of interest to consumers, it seems that a consumer's and a regulator's primary concern should be that the comparison websites deliver on their promised service: to identify the cheapest (or approximately cheapest) deal on the market. The easiest way to verify this service is for a regulator at random time intervals and using a random set of consumption bundles to check that price comparison websites do successfully identify the cheapest deal(s) on the market. If a website consistently identifies the cheapest deal to consumers, the need to know the commission received by the website from energy suppliers or the proprietary algorithm used by a particular website is lessened/removed.

The mystery shopping exercise must occur at random intervals in time and use random consumption bundles⁴ which are not made public prior to the mystery shopping 'event' to ensure the exercise cannot be gamed. If the deal(s) identified as cheapest by a website do not correspond to the cheapest on the market (allowing some margin/frequency of error might be appropriate⁵), there should be a harsh penalty. This penalty may be as severe as to bar the website from operating in the energy market for a specified time period.

To facilitate the mystery shopping exercise the regulator/oversight body would need access to the same information as a price comparison website regarding all the tariffs available in the market and a methodology to establish the cheapest available deal in the market at a specific point in time. Ofgem may be able to perform this role using the information which it currently collects on tariffs.

Catherine Webster and Minyan Zhu) December 2013; 'Who Switched at 'The Big Switch' and Why?' (David Deller, Monica Giuliatti, Joo Young Jeon, Graham Loomes Ana Moniche and Catherine Waddams Price) available for download at: <http://competitionpolicy.ac.uk/research/project-1-consumers/big-switch-project>

² An example of a wider issue that we do not discuss that making switching decisions based on a previous year's actual consumption rather than making predictions regarding future consumption is potentially undesirable. Another question not addressed in this response is the extent to which price comparison websites' viability relies on the energy deals marketed by energy companies being opaque and difficult to understand. Furthermore because price comparison websites are two sided markets, competition may need to be checked both for energy suppliers and for consumers. Competition may focus on offering the most attractive platform for energy suppliers to sell through, rather than offering the best possible service to end consumers. A final potential issue of interest is why price comparison websites only provide information for residential energy consumers rather than also for micro and small businesses with low energy requirements.

³ TNS BMRB, 'Retail Market Review Baseline: Report prepared for Ofgem', July 2014

⁴ A random consumption bundle would not just involve a quantity of energy to be purchased, but also random selections regarding payment method, meter type and dual fuel tariffs etc.

⁵ While there may be technical issues that may explain errors, claims of technical explanations should be treated with a suitable degree of scepticism. The burden of proof should lie with the price comparison website in proving why errors cannot be reasonably avoided.

While transparency of commission information may not be strictly necessary for consumers, it is still important that the regulator/oversight body has accurate information regarding the commissions received by websites for two reasons. Firstly, if a certain percentage/magnitude of 'errors' are permitted in the mystery shopping regime, the regulator needs to check that there is no correlation between the errors and the level of commission being received. A positive correlation between commission levels and a failure to report the cheapest deal would suggest an abusive bias, rather than errors, and such a bias would justify further investigation/penalty. Secondly, even if a price comparison website consistently reports the cheapest deal at the top of a list, it may use other methods to steer consumers towards more expensive deals if such deals offer a higher commission to the website. For example, the size of text, its boldness, the use of colour, the use of boxes, the use of particular descriptions/endorsements or other inducements may cause a consumer to give undue emphasis to particular deals. If such techniques are consistently used to draw people to the deals offering a website the highest commission, regulatory action may be warranted.