

Review of Competition in the Electricity and Gas Retail Markets

Submission of the Competition and Consumer Protection Commission to the Commission for Energy Regulation

- 1.1 The Competition and Consumer Protection Commission (CCPC) welcomes the opportunity to comment on the Commission for Energy Regulation (CER) *Review of Competition in the Electricity and Gas Retail Markets* (the Review) and to respond to the consultation questions posed in the Review.
- 1.2 The Review provides a welcome overview of the progress that has been made since the opening of the electricity and gas retail markets in fostering competition and choice to the benefit of consumers. The predecessor agencies of the CCPC, the Competition Authority and National Consumer Agency, advocated for the opening up of the markets to competition and a heightened focus on consumer welfare over a number of years. The state of the market as described in the Review is a significant improvement on the situation at the beginning of those processes. We note however that the former incumbents, Electric Ireland and Bord Gáis Éireann, retain very significant market shares despite the increase in competitors and the high level of switching by consumers. We therefore welcome the measures proposed in the Review to address the high level of market share of both organisations.
- 1.3 Barriers to entry are a particularly damaging restriction on competition as they hamper consumer choice and enhance the ability of incumbents to exercise market power and raise prices to the detriment of consumers. We therefore welcome the commitment of the CER to conduct regular reviews of the market entry process. A further positive aspect of the Review is the centrality of the consumer to the assessment approach undertaken. The ultimate aim of competition in the retail markets must be to benefit

the end consumer, both domestic and non-domestic, with an affordable, reliable energy supply. Furthermore, Ireland's overall competitiveness will be aided by competitively priced energy and it is noteworthy that there have been improvements in Ireland's position as against other EU states in terms of retail costs.

1.4 It is clear from the Review that while Ireland is in a leading position relative to other EU countries in terms of switching activity, only a minority of consumers have benefited from competition in the market. In addition, it is clear that only a small minority of active switchers are availing of the keenest offers in the market. We therefore welcome the measures being adopted in the revised Supplier's Handbook to aid and encourage switching, alongside improving the provision of consumer information and strengthening the rights of consumers when dealing with suppliers. We recognise that not all measures necessary to ensure high standards of consumer protection can be captured in the Supplier's Handbook, and it will be welcome if additional steps can be identified and implemented following this review. To that end we make suggestions below with the aim of enhancing the environment for switching and improving consumer information.

1.5 The finding in the Review of high levels of satisfaction in suppliers among consumers is welcome. However the CER's own analysis, that this may partly reflect a lack of awareness of alternatives, is noteworthy. The CCPC's 'Consumer Switching Behaviour Research Report'¹, released in March 2017, found that while 41% of consumers have switched a service in the past twelve months, there has been an overall decline in those who said they had switched and saved money. The report found that the biggest perceived barriers to switching across products continue to be (i) not believing that there is a difference between suppliers and (ii) the hassle of switching. In regard to energy suppliers, 42% of respondents perceive no difference between electricity suppliers (up from 33% in 2015), while 41% perceive no difference with gas suppliers (up from 23% in 2015).

¹ <http://www.ccpc.ie/sites/default/files/CCPC-Switching-Consumer-Behaviour-Research-FINAL.pdf>

- 1.6 It is apparent from these results that, despite a continued decline in the notion of customer loyalty, more work is required to realise the potential of consumer switching, particularly in light of the perception of little difference between suppliers. The findings of the Review in relation to once-off switching by consumers, the concentration of switching among the customer base of the smaller, independent suppliers, a lack of comprehension of bills by consumers, and lack of understanding of tariffs available in the market support that finding. We note the request for input in the Review on what additional indicators the CER might monitor in their consumer protection function. Given the analysis in the Review that some consumers may not be aware of their right to complain, or how to do so, the CER might wish to consider introducing into their Consumer Surveys an assessment of understanding among consumers of their rights. The use of such indicators might provide for a data set that would shed light on the issue. If such indicators were adopted and deficiencies in understanding consumer rights were thereafter confirmed, the CER should consider providing tailored advice for consumers of energy products highlighting their rights and how to complain. In addition, the CER might consider how suppliers and price comparison websites could inform consumers of their rights.
- 1.7 The price paid by consumers for electricity and gas is made up of a number of components, including internationally traded commodity prices, and is influenced by factors such as supplier hedging against potential price movements in global markets. The Review notes that further work by the CER will be required to understand the relationship between wholesale and retail electricity and gas prices. This will be an important initiative to better inform the understanding of how competition between suppliers is evolving. Competition on price is a key indicator of competitiveness in the market. Ensuring a greater level of transparency should assist in delivering prices that are as competitive as possible.
- 1.8 We have addressed a number of consultation questions in this Submission but due to commonalities across the issues raised in them we have arranged our responses thematically rather than following the order of the Review. The two key themes that

the CCPC identify in the Review and wish to comment on are “Switching” and “Consumer Information”.

2.1 *Switching*

2.2 While Ireland is a comparatively active market for switching between suppliers by electricity and gas consumers, and notwithstanding the growing phenomenon of “internal switching”, more can be done to encourage and facilitate consumers seeking better prices. It has been noted that the Supplier’s Handbook will introduce a number of very welcome additional measures intended to prompt and encourage consumers to seek out the best available deal. It is also understood that consumers are a diverse group and a range of measures will be required to influence the greatest number of them. Furthermore, as stated in the Review many offers from suppliers are reliant on consumers signing up to direct debits or e-billing; actions which a significant number of consumers are either unwilling or unable to do. While recognising that there are commercial factors driving a preference for direct debits among suppliers, the CER might engage suppliers in relation to the scope for discount offers to consumers using alternative means of bill payment which offer a saving over the use of cash, such as through consumer payment service providers.

2.3 It appears from the CER’s Consumer Survey results that a significant proportion of consumers do not realise that the choice of supplier should not affect the level of service they should expect, and/or that they trust their current supplier on price in contrast to competitors. Further research to gain a better understanding of what lies behind these issues of trust among domestic consumers is an area that the CER might explore to inform future policy to encourage switching.

2.4 On the basis that some consumers will not engage with door-to-door sales representatives - the most frequent means of facilitating switching – and may not be digitally literate or have reliable access to the internet, the CER should further examine ways to, in particular, assist elderly and less well-off consumers in engaging with the market.

3.1 Consumer Information

3.2 Useful and easily comprehensible information is crucial to facilitating switching by consumers. We note that the CER have committed to reviewing their website to improve customer awareness and knowledge. The CER might consider facilitating the inclusion on their website of specific information regarding (a) switching as a tenant and (b) switching as a vulnerable consumer. Such information guides should also be promoted widely to ensure that those groups are made aware of the resources. The Office of Gas and Electricity Markets (OFGEM) in the UK provide easy to follow guides for these cohorts which may be a helpful comparison². Furthermore, OFGEM provide a guide for consumers for dealing with sales representatives. The CER may wish to consider whether an equivalent guide might be of value in the Irish market.

3.3 As noted above, the Review identifies the continuing high market share of Electric Ireland as a cause of concern. We welcome the CER's commitment to examine this issue. A number of improvements to the information provided to consumers might be of assistance in this regard. The leading position of Electric Ireland may be unintentionally supported by information provided on public websites about the electricity system which can reinforce awareness of the ESB to the exclusion of other participants in the market. Better information about the nature of the market might help to address the low levels of awareness of certain suppliers among consumers as documented in the Review. Furthermore, we support any efforts to change how the Free Electricity Allowance (FEA) is made available to consumers. Making the FEA transferable as a credit will empower consumers to switch and will provide an opportunity to better inform consumers about the range of options in the electricity market.

3.4 We note the commitment in the Review to explore what improvements might be made to price comparison tools. This will provide a worthwhile opportunity to further enhance the information available to consumers and the functionality of the sites

² <https://www.ofgem.gov.uk/consumers/household-gas-and-electricity-guide/how-switch-energy-supplier-and-shop-better-deal>

themselves. We understand that the CER will engage on a communications campaign in 2017 and believe that it will provide an excellent opportunity to improve consumer understanding of the retail markets and the range of options available to them. We urge the CER to design an 'on' and 'off' line campaign that will reach as many different consumer cohorts as possible across the country.

- 3.5 We welcome the increased levels of competition between suppliers and the broader product availability in both the electricity and gas retail markets. We further welcome the introduction by the CER of the Estimated Annual Bill initiative as a means to improve consumer understanding of offers in the market. Notwithstanding that, the CER might consider measuring whether consumer understanding of supplier offers and the range of offers available could be improved. This might be achieved through both the Consumer Survey and behaviourally focussed research.