



## SRI Briefing Note Series No.14

# Switching websites: switch them off! On the market of energy deal comparison websites

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The screenshot shows the uSwitch website interface for comparing gas and electricity deals. The browser address bar displays <https://www.uswitch.com/gas-electricity/results>. The page features a sidebar on the left with filters for 'Show me' (Dual fuel plans), 'Paid by' (Monthly direct debit), 'Rate type' (Fixed or variable), and 'Choose suppliers' (listing various energy providers like E.ON, First Utility, and SSE). Below the filters are 'Your plans' options, with the first option selected: 'Only show plans uSwitch can help me switch to'. The main content area displays four energy deal cards:

Supplier	Plan Name	Term	Annual Savings	Key Features
Lumo	App Only Fixed v5	Fixed for 12 months	You save £117.86 per year	You'll pay £30 per fuel to leave this plan early. Innovation: Smartphone app-only energy supplier. Exclusive: Not available via other price comparison sites.
bulb	Vari-Fair	Variable	You save £103.11 per year	There is no fee to leave this plan early. Green plan: 100% renewable electricity. Extras: Switch now and Bulb pays your current supplier's exit fees.
coop energy	My Co-op Lite Online	Fixed for 16 months	You save £100.15 per year	You'll pay £30 per fuel to leave this plan early. July 19 - DD.
First Utility	Smart First April 2019 Online	Fixed for 13 months	You save £99.89 per year	You'll pay £30 per fuel to leave this plan early.

Each card includes a 'Choose plan' button and a 'Plan info' button. A 'Chat with us' button is located at the bottom right of the results area.

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# Switching websites: switch them off!

## On the market of energy deal comparison websites

### SUMMARY

This paper argues that operating a competitive market of energy deal comparison websites contradicts the intentions of the energy regulator. In practice, none of the theoretical advantages of competitive markets can be harnessed. The actual result is expensive, low-quality, inefficient, and risky by comparison to a one-site solution. Using a single non-commercial website overseen by the regulator, such as the website operated by Citizens Advice, is not only desirable but also feasible. Providing a comparison service on a commercial basis should be prohibited.

### Key Messages

- 1. The use of commercial energy deal comparison websites adds around £100 million to annual energy bills.**
- 2. Having several competing websites makes comparison more difficult and does not efficiently increase consumer engagement.**
- 3. The energy retail market is less efficient because commercial websites distort consumer choice.**
- 4. Innovations introduced by commercial websites are socially regressive and risky.**
- 5. A single non-commercial website could provide higher quality service at a substantially lower cost, so commercial websites should be shut down by the regulator.**

To create efficient retail markets for electricity and gas, the European Union and the British energy regulator Ofgem try to increase competition between energy suppliers. This requires engaged consumers who change suppliers considering the price and quality of the service. As there are many suppliers (66 in Q3 2017) and tariffs (5-10 per supplier) and the product is intangible, consumers need help to compare the offers on the market. Help comes mainly in the form of comparison websites where people can put in their data and see which tariffs by which companies would best suit them. The websites give information on costs for different contract types (fixed or variable), payment and billing methods, sources of electricity (renewable or not), and potentially a few other features of the energy plan.

#### How many websites needed?

But how many comparison websites are needed to help

people find the energy deals they want? Currently, there are 12 websites accredited by Ofgem and a number of others that are not (Ofgem 2017a). The question addressed here is whether a competitive market of comparison websites is better than having only one website run on a non-commercial basis. To answer this question, the main theoretical arguments in favour of market competition are studied in the context of the market for switching websites.

#### Costs

A first main argument for market competition is that it reduces costs for consumers by increasing the efficiency with which a service is provided. The service in this case is helping consumer decisions by collecting and updating information on suppliers and their deals, calculating costs for given deals on the basis of consumer data and the filters applied, presenting the results together

with information on suppliers, and initiating switching through the website. For these tasks, competition increases costs rather than decreasing them.

Since all websites need the same information from suppliers, collecting and updating information is the same process done for each website. As Ofgem monitors the accuracy of these websites, they also have to do the same. Doing something many times costs more than doing it only once, as in the alternative one-site solution.

Calculating costs for given deals on the basis of consumer data can be done with relatively simple algorithms. Presenting the results of calculations together with information on suppliers and initiating switching through the website are also relatively easy. As there are no technological challenges, efficiency cannot be significantly improved. On the other hand, maintaining several websites is more expensive than maintaining only one. Ofgem also has to monitor calculation methods to prevent fraud, which increases costs.

In addition, competition forces websites to spend large amounts of money on advertising. This money is not spent efficiently to increase consumer engagement: only 8% of those who engage in the energy market are prompted to do so by a comparison website (GFK, 2017). While more than half of all consumers are still disengaged (Ofgem 2017b), websites spend a significant share of advertising money to outcompete each other by attracting already engaged consumers (e.g. a Google search for “switch energy supplier” shows several paid advertisements by different comparison websites). Competitive advertising has high costs, which could be avoided with a one-site solution.

Taken together, these costs make switching very expensive: energy suppliers pay approximately £25 per fuel to websites generating a switch (CMA 2016a, p.2 point 6). In 2017, there were 5.1 million electricity and 4.1 million gas switches (Ofgem 2018a). Survey data suggest that at least 44% of these, more than 4 million switches in total, were initiated on comparison websites (CMA 2016a, p.11 point 34b-c; CMA 2016b, p.391 point 8.163). As

energy suppliers pass down the costs of switching to consumers, the use of commercial websites adds at least £100 million to annual energy bills.

## Quality

A second argument for market competition is the higher quality of the service than in the case of a non-commercial solution. This would mean easier and better consumer decisions. However, the existence of commercial websites serves the opposite.

To begin with, choosing a comparison website is an additional layer of complexity and an additional source of risk. There is cause for concern as not all websites comply with the quality and ethical principles of the regulator summarized in its ‘Confidence Code’ (Ofgem 2017c), and most people know little about this (GKF 2017). But even accredited websites reduce the quality of the service as compared to the one-site solution. People who use several websites often get different results due to different calculation methods, occasional errors, and other deviations (CMA 2016a, p.18 point 62-63), which can be confusing.

Furthermore, many websites do not list all suppliers among their results by default (Ofgem 2017d), only the ones to which consumers can directly switch from the website. These switches constitute the main source of income for commercial websites, so they optimize for high switching rates through their site, not high quality of the service in general. As a consequence, consumers might not find the best deals (CMA 2016 b, p.876 point 13.274). But any deviation from optimal consumer choice represents an adverse effect on competition in the energy retail market. To make things worse, this retail market distortion systematically hurts new entrants which tend to have the lowest prices but pay no commissions to switching websites. Since commissions drive up prices, it is likely that the best deals will remain hidden in the current solution.

The low quality of service in the market of comparison websites has direct and indirect consequences. The direct effect is that one

third of the consumers with internet access are not confident that they could find the right deal for themselves (CMA 2016a, p.13 point 44). The lack of trust and perceptions of risk discourage switching (GFK 2017), which is the opposite of the goal of having comparison websites in the first place. The indirect effect is that the energy retail market is less efficient, so people pay more than they ideally would, which is again contradictory to the will of the regulator. None of these quality issues would arise with a single, official, commercially independent website.

### **Innovation**

A third possible reason in favour of competition is innovation. As the task to be fulfilled by comparison websites is very well defined and not too complicated, there is limited space for innovation. What innovation might exist looks socially regressive and potentially problematic.

Certain switching websites innovate by adding extra services, such as negotiating better deals with suppliers for their users. This pushes down prices for some engaged consumers, but if energy suppliers' margins do not change – and, on average, margins have been constant since comparison websites became important (Ofgem 2018b) – then other consumers lose out. Since users of comparison websites are usually wealthier than those who do not use these sites (CMA 2016a, p.13 point 41), this is regressive. Also note that from a theoretical perspective it is questionable whether market efficiency is unlocked by exclusive offers to some consumers instead of uniform, competitive offers for all. In a truly competitive market, which is the stated goal of the regulator, such segmentation cannot exist.

A future opportunity for innovation is to improve estimation methods when calculating costs. As it is impossible to perfectly predict future consumption, there is no single best calculation method, part of the uncertainty is irreducible. Nevertheless, data from smart meters will be very useful to improve estimations. If such data is used for personalized comparisons, then the question is

whether a single non-commercial organization or multiple commercial groups should get access to personal data. Since the same data can also be used for other commercial purposes, risks of the latter are substantially higher.

### **Conclusion**

In conclusion, having a competitive market of comparison websites contradicts the intentions of the regulator. None of the theoretical advantages of markets can be harnessed here. The market solution is risky, inefficient, low-quality, and expensive compared to the one-site solution. Using a single non-commercial website overseen by the regulator, such as the website operated by Citizens Advice (CMA 2016a, p.2 point 9), is not only desirable but also feasible. The costs of this website and more effective campaigns to increase consumer engagement could be financed from a small fee on the sales of energy, which would replace current commissions paid to commercial websites. This would decrease costs for consumers and create a level playing field in the retail market. Running this website would be easier if suppliers were obliged to send all relevant data and updates to Ofgem (like in other countries, such as Sweden).

Providing a comparison service on a commercial basis would be prohibited by the regulator. Policing the system would be easy because comparison websites can only be successful if they are visible. Existing pages would be shut down and display a message about the change. Whether they would have to be compensated or bought out is a legal question, which could be resolved by Ofgem. The theoretical justification for such intervention is that consumers cannot avoid participation in energy markets, and that a single website can more or less objectively compare all relevant deals from all relevant aspects, which is not the case in other sectors. Switches in the current market neither ensure that consumers stop overpaying (Ofgem 2017b), nor help prices go down as they could with a one-site solution and more targeted

spending to increase engagement. Finally, whether quality improvements over the service level of a single website are possible, consider the opinion of the Competition and Markets Authority: “Our view is that an Ofgem price comparison service would not add

significant further value to that already provided by the Citizens Advice service” (CMA 2016b, p.885 point 13.312). In what sense are existing commercial websites different? If they are not, it is time to switch them off.

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