



Review of the Regulation of the Non-Domestic Energy Retail Market. January 2024 – Call for Input.

Hospitality Ulster

Hospitality Ulster is the trade body representing the hospitality industry in Northern Ireland.

A response to the Review of the Regulation of the Non-Domestic Energy Retail Market - Call for Input

Hospitality Ulster's response to the *Review of the Regulation of the Non-Domestic Energy Retail Market - Call for Input (Cfi)* relies extensively on work undertaken or commissioned by the Utility Regulator (UR).

This report has a narrower focus than that of the Cfi. Its conclusions are mainly, but not exclusively, directed to the needs of small businesses. The report reviews a key advance that has been made to render the energy market more transparent as well as other developments, asks whether progress has been sufficient to allow small businesses to achieve the best outcome available in that market and suggests further possible reform.

Context

For markets to operate efficiently buyers need access to all the information relevant to their decision making expressed in terms they can easily understand. If there is a failure on either count, there is a real risk they will not achieve optimal returns in the gas and electricity markets. This is a concern that goes back a number of years.

In its *Energy Market Investigation* report on the GB energy market, published in 2016, the Competition and Markets Authority (CMA) found a general lack of price transparency in relation to tariffs for microbusinesses.

A report by UR in 2017 *Measures to Enhance the Operation of the Small Business Energy Market - a UR Consultation Paper* pointed to evidence of a similar concern about tariff transparency in Northern Ireland

"Issues such as the transparency of prices are cited by small business representative groups in NI as problematic and this lack of transparency means small businesses do not have the correct information with which to make appropriate decisions."

The 2017 UR Report identified, from stakeholder interviews, issues of concern in the small business market here including: *“Limited knowledge of the market; Difficulties in understanding and assessing offers; Low bargaining power (and being) Less able to devote time to energy procurement (compared to larger businesses)”*

In that same paper UR set out its vision of what an optimally functioning retail energy market should look like. The requirements included the following:

“Appropriate market signals mean that there should be clarity and transparency in relation to prices available to small business customers. This would result in well informed customers who have access to clear and easily understood information on products and tariff / service choices resulting in uncomplicated, high-quality decision-making by consumers.”

It is hard to see how that ambition has been fully realised though significant progress has been made as a result of efforts by UR, the Consumer Council NI (CCNI) and suppliers. UR’s report *Measures to Enhance the Operation of the Small Business Energy Market - Decision Paper 2018*, outlined an important advance.

In its 2018 report UR noted that the Consumer Council had progressed a project which would expand their current domestic price comparison website to encompass small business customers. On the basis that suppliers voluntarily committed to provide their pricing information to the Consumer Council or another third party provider with their small business tariffs for publication UR decided at point they would not implement licence conditions which mandated price transparency.

The Consumer Council’s energy price comparison service for small businesses continues to function. However as far as one can gather it has not been formally reviewed by UR. Such an exercise would help check whether CCNI is currently getting all the tariff information it requires from suppliers in a timely fashion and how far its reach currently extends into the business community.

The Non-Domestic Consumer Insight Tracker Survey March 2023 (NDCITS) has noted an improvement in knowledge about the energy market. The most recent publication revealed that organisations are becoming more aware of the services and offers provided by their electricity and gas suppliers and the option that they can switch supplier compared with three years previously. A greater percentage than before thought they had some or good knowledge of their supplier.

Overall while non domestic consumers display an increased understanding of the energy, market there are no grounds for complacency.

The evidence presented by UR and documented below suggests that a significant proportion of non domestic consumers continue to have a limited understanding about tariffs, contracts and billing despite efforts to make the energy market more transparent.

The following findings are drawn from the *Review of the Regulation of the Non-Domestic Energy Retail Market - Call for Input* which itself draws from, among other sources, the *Non-Domestic Consumer Insight Tracker Survey March 2023*

Unsurprisingly at a time when energy costs have been soaring, the Tracker Survey revealed what is probably an unavoidable worry on prices

1 *“over half (53%) of businesses expressed concern about their energy bills, including one fifth (22%) who were very concerned.” NDCITS*

With hospitality businesses likely to report their energy spend had contributed to a higher proportion of their total outgoings, it follows that this sector is more vulnerable than others to the sort of price shocks we have seen in recent years. It deserves special consideration in any programme designed to protect non-domestic consumers.

2 *“Notably one third (33%) of respondents were not sure how much their organisation had spent on electricity in the previous 12 months....Two in five (41%) were unable to estimate a figure for spending on (natural) gas.” NDCITS*

It is disturbing to discover that a significant proportion of non domestic consumers do not know the scale of their energy costs. At the same time it is encouraging to note that only 14% of hospitality businesses are unsure of their electricity costs.

3 *“....35% did not know what proportion of their total outgoings were dedicated to electricity spending. 51% were unsure ofhow much of their total outgoings were dedicated to (natural) gas spending” (over the previous 12 months) NDCITS*

It is hardly surprising that if many non domestic customers do not know how much they spend, that they then don't know what that spend is as a proportion of their overall outgoings.

4 *“The suggested limited knowledge, as detailed above, was not seen to the same extent in the hospitality sector, with only 26% of such businesses unable to recall how much of their total outgoings contributed to their spend on electricity.” NDCITS*

This finding is not so surprising since the Tracker Survey points out that hospitality business were more likely than others to report that energy spend contributed to a higher proportion of their total outgoings

5 *“A high proportion of respondents were unaware of their spend on electricity and gas, how much it represents of their total costs, and how it compares to other areas.....These findings may indicate that energy spending is difficult to track for many within the non-domestic sector, due, in part, to the recent unpredictability of the energy markets”. NDCITS*

The conclusion that volatile energy markets may have been partly responsible for many non domestic consumers finding it difficult to track their energy spending implies it is not the whole explanation. It is important that UR understands what else might account for this lack of awareness and takes steps to help remedy it.

6 *“We were told that small businesses have limited time available and little knowledge regarding the energy market, with an interviewee suggesting that the current energy market can be an “information black hole” and they felt that “a lot of information that doesn't actually mean much to small businesses”. Cfl*

7 *“Views were expressed in several interviews over bills not being user friendly. They were described by some as having too much information, overly complex, and confusing. Several interviewees suggested that among non- domestic customers there is generally a limited understanding regarding energy bills and contracts.” Cfl*

This is another worrying issue. It is important that all consumers understand completely what their bills are telling them. Also concerning is the suggestion that some non domestic consumers have a less than complete grasp of contract terms. This finding chimes with what was reported in the *Non Domestic Consumer Insight Tracker Survey*.

8 *“Along with being unsure of their spend on energy, non-domestic consumers also appear to be unsure of how their business operates in terms of contracts and tariffs for energy. For electricity customers, 28% were unsure of the type of contract they had with their supplier, while 29% did not know which type of contract they had with their (natural) gas supplier.” NDCITS*

It appears that a significant proportion of businesses is unaware of the type of their contract. However the proportion of hospitality businesses who do not know the type of electricity contract they have is lower at 21%.

9 *“It is also notable that both electricity and gas customers were more likely to report being on a standard variable tariff, while also being more likely to believe they had a fixed rate contract with their supplier.” NDCITS*

10 *“Over four in five (83%) non-domestic consumers reported being on their electricity supplier’s standard variable tariff, with 6% saying they are on a promotional tariff. This result is inconsistent with the 34% of respondents saying they are on a fixed rate electricity contract “ NDCITS*

11 *“The majority (84%) of businesses with natural gas were also more likely to be on their suppliers standard variable tariff, with 7% on a promotional tariff. This inconsistency with the proportion of businesses who reported they are on a fixed rate contract further demonstrates the possible lack of understanding of the energy market amongst businesses.” NDCITS*

It almost goes without saying that consumers who believe that their tariff is both fixed and variable will struggle to engage efficiently with the energy market.

12 *“In terms of comparing electricity deals, two in five (41%) businesses rated it as easy or very easy.... Similar results were also observed for (natural) gas customers, with 38% reporting that they found it easy or very easy to compare gas deals NDCITS*

Strikingly the percentages of hospitality businesses who found comparing electricity and natural gas deals easy or very easy was much lower at 18% and 20% respectively. The proportions of hospitality businesses who found it difficult or very difficult to compare deals were 40% and 49%. (NDCITS)

A finding in the Tracker Survey shows a high proportion of businesses have not used the Consumer Council’s price comparison tool to secure the most competitive deals apparently because they do not know it exists.

13 “Three quarters (74%) of businesses were not aware of this service, and only 11% reported having used the price comparison tool.” NDCITS

Though a similar proportion of hospitality businesses do not know about the price comparison service, a greater percentage of them (18%) have made use of it.

Conclusions

Although progress has been made, in the view of Hospitality Ulster it appears further action is needed to ensure all non domestic customers are able to secure best value in the energy market.

Recommendations

Check up

1 The Consumer Council’s energy price comparison tool for small businesses continues to function. It has been subject to a risk analysis by an independent consultant. However Hospitality Ulster considers this would be an appropriate time for UR to formally review how it is performing. The review might ask whether CCNI is currently getting all the tariff information it needs from suppliers in a timely fashion and how far its reach currently extends into the business community.

2 While the CCNI’s energy price calculator is a useful tool, Hospitality Ulster believes it should be complemented with a requirement that all suppliers publish on their websites their gas and electricity tariffs for small businesses. The reasons are as follows. Securing enduring and widespread awareness of the calculator requires sustained advertising. CCNI is limited however by its own budget constraints in how much it can promote its calculator. On the other hand if suppliers have to display their tariffs on their websites, competitive pressures will mean they have an incentive to promote that information.. Publishing tariffs on supplier websites might also encourage price comparison sites other than CCNI’s to compare tariffs which would further promote searching for the best deals.

Aligning layout and language

3 Evidence gleaned by UR itself plus research from the *Non-Domestic Consumer Insight Tracker Survey* indicate that a number of non domestic consumers have a limited understanding about tariffs, the nature of contracts they have entered into and bills. Comprehension might be helped by making tariffs, contracts and invoices with shared key characteristics look similar in appearance and wording whatever the supplier. Such a move would render efforts to educate consumers on tariffs, contracts and bills more efficient

Hospitality Ulster urges UR to explore how feasible it would be for suppliers to present tariffs and contracts as far as possible in a standardised form using the same basic layout and the same or very similar wording to outline and explain details of prices and terms on offer. Consideration should be given to adopt the same strategy for the presentation of bills in regard to usage, costs and charges. There should be minimal employment of technical terms, the employment of which should also be standardised across suppliers. A working group comprising UR, CCNI and suppliers might be a suitable vehicle for progressing this idea if it was considered worthwhile

Suppliers would of course be free to use the look and logos they've devised for their websites to maintain a consistency of style from one webpage to another.

It is also recommended that bills, whether levied on a monthly or quarterly basis, whether fixed or variable should always, in addition to the current charge, display historic usage and cost on an annualised basis. That is each time a customer gets a bill, they will see how much gas or electricity they have used in the previous twelve months and what it cost them. Obviously this would only apply to customers who have been with a supplier for at least a year.

For common tariffs, it is proposed that, where possible, suppliers display typical annual cost figures so that customers can see at a glance what they might have to pay in total over a year.

Brokers

4 Hospitality Ulster does not wish to comment extensively on the matter of brokers. However it notes the requirement in GB for increased transparency on brokerage costs and suggests UR should explore this reform to see if some similar stipulation might be usefully applied here along with any other reforms it considers appropriate.

“Information on brokerage costs must be provided to microbusinesses via the Principal Terms, for all contracts, and this information must be presented as a total cost in pounds/pence covering the duration of the contract”. Decision: Microbusiness Strategic Review, Ofgem 2022

Also worth investigating in this area is the requirement by Ofgem that, when supplying energy to microbusinesses, suppliers are required to only work with brokers which have signed up to a qualifying Broker Alternative Dispute Resolution (ADR) scheme.

While Hospitality Ulster at this stage does not wish to offer additional comment on the issue of brokers, it wishes to point that the more the energy market is transparent and the easier it is for consumers to access the information they require, the less the need for anyone holding their hand so to speak in the process of securing the best and most appropriate deals.