

Collective Purchasing and Switching: What potential providers need to know

Collective purchasing and switching have the potential to increase engagement in the gas and electricity markets and help consumers get a fair deal on their bills.

We want to give you some guidance on what to think about before setting up a scheme.

This publication is focused on collective schemes in gas and electricity markets. It is not intended to provide legal advice or to replace the need for professional legal consultation on any aspect of your scheme. The information that follows should be treated as an introductory guide.

What is collective purchasing and switching?

Collective purchasing and switching occurs when a group of likeminded consumers band together to negotiate a better deal with their gas and electricity suppliers. There is no set model for how individual schemes will operate, but this will usually be facilitated by a third party.

In general where the third party actively negotiates a tariff on behalf of the consumers they represent we would term this 'collective switching'. If the third party is directly purchasing a commodity (perhaps energy efficiency solutions) from the gas or electricity supplier this would be a 'collective purchase'.

In some circumstances a third party or collective may want to 'cut out the middle man' and buy wholesale energy direct. In order to do this the party involved would need to become a licensed energy supplier or benefit from an exemption under the licensing regime. **Supplying without a licence may constitute a criminal offence** and providers should seek appropriate legal advice.

Setting up your own switching or purchasing scheme

Gas and electricity markets can be complex and encompass a range of factors and variables that any potential provider will need to consider. You may want to consider talking to a consultancy or advisors who can offer expertise in how these markets work. You should also seek legal advice on your proposed scheme.

Not all consumers will have access to the internet or be confident online, others may be in debt to their current supplier and not be able to switch. They may already be on a fixed term contract and / or subject to a termination fee.

Below are some issues to consider before setting up a scheme.

- Will you target a particular type of consumer – low users, high users, location?
- How will you ensure consumers are informed and understand your scheme?
- How will you communicate with vulnerable consumers?
- Does your collective have clear preferences in terms of payment method, green energy¹, or energy efficiency?

- How will you publicise your scheme?
- How will you ensure that consumers are provided with key pieces of information that are accurate and not misleading?
- What information will you need about your group in order to identify the most suitable deal for them.
- How will you collect and store information?

You may need to know:

- Name, address and contact details.
- Current tariff and energy supplier.
- Whether they are on a fixed term contract and if this is subject to an exit fee.
- Energy consumption.
- Payment method and account management preferences.
- Environmental preferences.
- How will you go about your negotiations with energy suppliers?
- Will you approach all energy suppliers? If you decide against this and target specific suppliers you should be clear that this is the case to the group.

1. **The Green Energy Supply Certification Scheme** is an independent scheme that verifies the claims made by energy suppliers against their Green Energy tariffs. Similar to a kite mark, the scheme awards a 'Green label' to renewable energy products that will deliver a real, measurable environmental difference. www.greenenergyscheme.org/index.php

- Costs – these could include:
 - **Legal** – you will need to seek legal advice on your specific business idea.
 - **Running costs** – you may have costs associated with administration, IT, marketing and staff.
- Fees - To cover these costs you may want to consider charging a fee for your services. This could be to the 'winning' supplier for each customer that switches to the deal, or a registration fee to the individual. Whether or not you charge a fee may impact on your duties to consumers entering the scheme. It must be clear and transparent to consumers if you are taking commission or fees before they agree to a scheme.

You may decide that you would like to work with a partner or outsource certain aspects for example IT, marketing, or negotiations. You should take legal advice on the implications of this for your organisation.

Legal issues

Any business dealing with consumers is bound by consumer protection laws, and organisers of collective purchasing and switching arrangements are no exception. **Individual businesses should seek their own legal advice, tailored to their individual circumstances.**

Much of the relevant consumer law is intended to ensure that services are provided with reasonable care and skill, that information provided is accurate and that businesses act fairly towards consumers. Organisers should take steps to ensure they stay within the law.

Aside from general consumer law you may also want to consider:

- If there will be a contract between you and the consumer?
- Ofgem licence conditions.

Ofgem have published guidance on some of the licence conditions that must be considered in relation to collective schemes.

It is Ofgem's general view that the licence requirements do not prevent suppliers engaging with such schemes. However, suppliers are responsible for ensuring their compliance with the terms of their licence, and should seek their own advice on model applications depending on the terms of their particular circumstances.

If you are collecting data you will need to think about your obligations under the Data Protection Act 1998. The **Information Commissioner's Office** can help you understand your obligations.

You will also need to consider expectations and requirements of the final selected supplier(s) concerning your communications and arrangements with the consumers.

Advice

BIS have recently published a guide for community buying which can be accessed through their **website**. This contains a lot of useful information for collective buying organisations.

Useful contacts and information:

Business in the Community (BITC) Business led charity focused on promoting responsible business practice. BITC runs ProHelp, a scheme offering free professional advice to communities in need of support, in Wales, England and Northern Ireland

Businesslink

This Website is the primary support service for businesses in England.

Energy UK is the new trade association for the gas and electricity sector. It includes small, medium and large companies working in electricity generation, energy networks and gas and

electricity supply, as well as a number of businesses that provide equipment and services to the industry.

The Energy Suppliers Forum, which is managed and supported by Cornwall Energy, has 15 members.

Consumer Focus currently look after the confidence code for switching sites which may be a helpful document to consider.

DECC publish statistical information on energy prices and energy trends that may be useful to consider.

Useful websites:

- **Business in the Community**
www.bitc.org.uk
- **Business Link**
www.businesslink.gov.uk
- **Energy UK**
www.energy-uk.org.uk
- **Energy Suppliers Forum**
www.es-net.org.uk
- **Department of Energy and Climate Change**
www.decc.gov.uk
- **Department for Business Innovation and Skills**
www.bis.gov.uk
- **Information Commissioner's Office**
www.ico.gov.uk
- **Ofgem**
www.ofgem.gov.uk