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The David and Goliath struggle over national transfer of power

GOING FOR GROWTH

Josephine Moulds reports on the challenges facing Britain's upstart energy suppliers as they seek to attract customers from the Big Six

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A tenth of Bulb Energy's gas comes from pig slurry. Octopus Energy, set up by Greg Jackson, below, aims to beat the Big Six by being lean and internet based

If you search for an energy deal on a price comparison website, the chances are several unfamiliar names will crop up. Long-dominated by British Gas, E.ON, EDF, SSE, ScottishPower and Npower, there has been a flood of entrants to the market, with 14 new suppliers in the past year.

Down from 99 per cent in 2012, the so-called Big Six still have an 85 per cent share of the market, but they are haemorrhaging customers at a rate of 120,000 a month.

Luke Watson is one of those trying to upset the energy market's status quo. The former Royal Navy submariner set up GB Energy at the end of 2014 with the financial backing of Brett Trevalyan.

In its first year, the company achieved sales of £22 million, which are expected to increase to almost £110 million this year. GB Energy has 170,000 customers but has kept staff numbers down to 22 by outsourcing its customer service to a contact centre in Nottinghamshire.

To enter this notoriously complex market, Mr Watson's company is one of several that have bought a pre-accredited, pre-licensed energy supply company "off the shelf" from Utiligroup, a software company.

'It's such a fragmented marketplace and there are so many moving parts and suppliers'

He says Utiligroup does exercise some discretion over who it sells its energy companies to. Before setting up GB Energy, Mr Watson ran a consultancy that helped homes to improve their energy efficiency, which he says reassured the software group of his credentials. "We had to convince Utiligroup that we did in fact have an idea," he adds.

"The fact that I had a bit of an energy background helped. I had been involved on the other side of the fence with energy and funding. Utiligroup have a duty of care to ensure that they are not just handing over a company to any Tom, Dick or Harry."

Nevertheless, the biggest challenge of entering the market has been getting to know the inner workings of a complex industry.

"It is such a fragmented marketplace and there are so many moving parts and so many suppliers involved. Actually understanding where a new supplier fits within the whole industry in relation to the likes of National Grid, and how you trade . . . it is a bit of a nightmare," Mr Watson says.

Utiligroup is not alone. Bulb Energy, another new entrant, opted for a different "off the shelf" option from the rival Utiliteam consultancy.

Hayden Wood, a former management consultant, and Amit Gudka, a former energy trader at Barclays, launched Bulb in August last year, offering 100 per cent renewable electricity. Its energy sources include the weird and wonderful: 10 per cent of its gas comes from pig slurry.

Another selling point for Bulb, which has cut its prices six times in just over a year, is its claim that it will bring prices down in line with wholesale energy prices quicker than its rivals, tackling a familiar criticism of the Big Six. "We review our prices every single day," Mr Wood says. "If there is a significant movement, we will pass those savings to customers; or if prices have gone up then we might have to increase our prices."

Complexity is not the only hurdle that new entrants have to clear. Fluctuations in energy prices can pose a particular challenge to small energy suppliers.

Greg Jackson, a serial entrepreneur, set up Octopus Energy in April this year, with the backing of Octopus Investments, a fund manager and venture capital firm.

He says that financial heft is crucial in this market. "Energy as a commodity has prices that can vary enormously. Last week the price of electricity in the market went up from £40 per megawatt hour to £1,000 per megawatt hour, only for an hour or so. You need to be financially well-backed to be able to handle that."

Like its rivals, Octopus aims to beat the Big Six by remaining a lean, internet-based operation. "The big energy companies have enormous legacy systems. They are built around the idea of call centres, lots of heavyweight 20-year-old technology."

As a private company, Octopus does not have to deliver shareholder returns and Mr Jackson says it is aiming for a "small single-digit per cent" profit margin as it races to build a big customer base. That means he can keep prices low beyond the first year, when energy companies usually lift their rates.

Octopus, Bulb and GB Energy all supply small businesses and say that this is an area where they can make a particular difference on price. Customer service is another area where they aim to beat the Big Six.

Having launched in 2009, Ovo now has almost 700,000 customers and announced pre-tax profits of £30million in the first half of this year.

Stephen Fitzpatrick, its chief executive, says that keeping consistent levels of customer service is the biggest challenge when scaling up.

"It's very easy to keep the customer in mind when you're very small, but as you grow and the team gets bigger, it's much more difficult to maintain that culture of allowing people the freedom to treat customers as individuals, rather than everything being dictated by policy."

Mr Wood explains the problem of rogue brokers mis-selling energy to small and medium-sized businesses: "They claim they are collecting all the tariffs in the market, but really they are just selling whatever product gets them the most commission.

"As a consumer, you take for granted the protections that you are given. In the small and medium-sized business sector, there is no protection for those companies."

Energy watchdog Ofgem said that a recent investigation into the market by the Competition and Markets Authority had found inconclusive evidence of malpractice by brokers, or "third-party intermediaries", when it came to mis-selling to the smallest businesses. "We will continue to monitor TPI behaviour," it says.

Mr Fitzpatrick, who launched Ovo before it was possible to buy readymade energy supply companies, says that it is now too easy for start-ups to enter the market.

"A lot of people who have entered recently have underestimated how difficult it is. It's a very complicated business to get right."

He is concerned about the losses for customers if a company folds. Ofgem began a consultation in June to clarify the consumer protection in place if that happens. It says that customers will continue to have an energy supply if their supplier goes out of business and it will limit any disruption caused.

Mr Fitzpatrick says: "If energy companies start to go out of business and customers lose money, someone should be asking questions about how these people got licences."

Others argue that tighter restrictions would make the market less competitive.

Steve Peters, managing director of Utiliteam, says: "If we and our competitors hadn't been creating offthe- shelf supply companies, then the market wouldn't be as vibrant as it is now. If you start putting in further checks and balances, that could hurt competition."

How 'supplier in a box' kick-started a revolution

It was not a change in regulations so much as a clever new product that prompted the flood of new entrants into the energy market.

In 2009, Utiligroup, a software company based in Chorley, Lancashire, helped Ovo Energy through the desperately complex process to become a domestic energy supplier.

Utiligroup, which was founded by veterans of the energy market, spotted a bigger opportunity in the process. Now it and other consultancies package up and sell ready-made energy suppliers that have already jumped through many of the regulatory hoops.

Utiligroup sets up a shell company and obtains a licence for that company to supply electricity and gas. It also gives it the necessary software and services to deal with the complex data transfer required to manage electricity and gas customers, and helps it through the initial stages of industry accreditation required by Ofgem, which proves the new company can manage those data flows.

It offers this "supplier in a box" to entrepreneurs and other market entrants such as local councils, which are setting up not-for-profit energy companies. The new supplier must then go through a probationary period serving a limited number of customers, where it is monitored to ensure that it is functioning as it should.

Mark Coyle, of Utiligroup, estimates it used to cost about £2 million and take about 18 months to set up an energy business. He says Utiligroup has "pared down to the bone" any up-front costs and has cut the timescale to six months. The new energy suppliers then pay for their services based on the number of customers they have.