Promoting choice and value
for all gas and electricity customers

The Retail Market Review: Domestic Proposals

Consultation

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Overview:

This consultation document marks the next stage of Ofgem's Retail Market Review (RMR). We are proposing to implement a range of reforms that are aimed at enhancing effective consumer engagement in the retail energy markets in Great Britain (GB), leading to greater and more effective competition.

Our aim is to make it easier for consumers to choose the tariff that is right for them, and for new suppliers to enter the market. We also plan to strengthen and continue to enforce the Probe remedies. We believe our proposals represent the most effective and fastest way of enhancing effective engagement and competition in the retail energy markets. If, however, it becomes likely that suppliers will oppose our proposals, we retain the option that we have flagged in our previous consultations of referral to the Competition Commission for a market investigation reference.

These proposals represent an important development in the functioning of the retail market and it is important to consult fully to allow stakeholders time to present their views. Our deadline for responses to this consultation is 23 February 2012.

Context

Ofgem's principal objective is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition. The Retail Market Review (RMR) represents Ofgem's attempt to enhance competition in the retail energy markets and make it work more effectively so that the benefits can be realised by more consumers than at present.

The proposals presented in this document are the results of two of the five workstreams initiated in the March RMR consultation. These are proposals to improve tariff comparability and proposals to strengthen the Probe remedies in the domestic market. We summarise their key elements below. Proposals on strengthening the Probe remedies in the non-domestic market were published in a separate consultation document on 23 November 2011[1]. Proposals to improve market liquidity are expected to be published before the end of the year and the initial findings from the accountant's study of company segmental accounts will be published early in 2012.

In conjunction with this consultation document we also publish draft impact assessments on the proposals covered herein and the draft legal text for new and amended licence conditions. We have also published our latest consumer research undertaken to inform our findings.

Associated documents

All documents are available at www.ofgem.gov.uk

- The Retail Market Review: Draft Impact Assessments for Domestic Proposals, Supplementary Appendices, November 2011, Reference: 116A/11
- The Retail Market Review – Non Domestic Proposals, November 2011, Reference: 157/11
- The Retail Market Review – Draft Impact Assessment for Non Domestic Proposals, November 2011, Reference: 157A/11
- Retail Market Review: Energy bills, annual statements and price rise notifications; advice on the use of layout and language. A Research Report For Ofgem, Lawes Consulting and Lawes Gadsby Semiotics, November 2011
- Tariff Comparability Models, Volume 1 - Consumer qualitative research findings, Creative Research, October 2011
- Consumer reactions to varying tariff comparability models, Quantitative Research conducted for Ofgem, Ipsos MORI, 18 October 2011
- Ofgem's Retail Market Review – update and next steps (non-liquidity proposals), June 2011

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[1] Please see the following link:
http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=70&refer=Markets/RetMkts/rmr

- Ofgem's Retail Market Review – update and next steps (liquidity proposals), June 2011
- The Retail Market Review – Findings and Initial Proposals, March 2011, Reference: 34/11
- Ofgem Consumer First Panel, Year 3 2010/11, Findings From The Second Set Of Workshops, Opinion Leader, March 2011
- Customer Engagement with the Energy Market – Tracking Survey, Ipsos MORI, March 2011
- Vulnerable Customer Research, FDS International, March 2011
- Energy Supply Probe - Proposed Retail Market Remedies, August 2009, Reference: 99/09
- Ofgem Consumer First Panel, Research Findings from the Second Events – Billing Information and Price Metrics, March 2009
- Ofgem Consumer First Panel, Research findings from first event, January 2009
- Energy Supply Probe - Initial Findings Report, October 2008, Reference: 140/08

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Executive Summary

This consultation document marks the next stage of Ofgem's Retail Market Review (RMR). We are proposing to implement a range of proposals that are aimed at enhancing effective consumer engagement in the retail energy markets in GB, leading to greater and more effective competition. We consider that our package of remedies is a necessary and proportionate intervention given the findings of our RMR analysis and consumer research.

The proposals presented in this document are the results of two of the five workstreams initiated in the March RMR consultation and constitute an integrated package of remedies. These are proposals to enhance tariff comparability and proposals to strengthen the Probe remedies in the domestic market. We consider these remedies complement each other strongly and would work best as an integrated package. We summarise their key elements below. Proposals on strengthening the Probe remedies in the non-domestic market were published in a separate consultation document on 23rd November 2011[2]. Proposals to improve market liquidity are expected to be published before the end of the year and the initial findings from the accountant's study of company segmental accounts will be published early in 2012.

Proposals to enhance tariff comparability

Our research tells us that consumers will be far more likely to engage effectively in the market if we make comparisons between tariffs easier. Our recent Consumer First Panel research also tells us that many consumers are disillusioned with the retail energy market and feel a sense of frustration in the face of rising prices. It will take a great deal to persuade many of these customers that engagement in the market is worthwhile. For these reasons we believe it is important to be bold in our reforms.

In the current environment of rising cost pressures, it is not an option to leave consumers without the protection of effective price restraint. We consider that the best way to deliver this is through an effective, competitive market, and we consider that with industry support, the package we present in this document will achieve this. However, we intend to monitor the impact of our proposals closely. We will keep open the option of further interventions to protect consumers, particularly vulnerable consumers, including potentially a 'backstop' tariff.

Current challenges, including the need to ensure security of supply and moving towards a low carbon economy, are placing ongoing upward pressure on wholesale prices and mean that unless we act now there is a real risk that disillusionment and disengagement with energy markets will continue.

Given the above, and in light of the March RMR consultation responses and the findings of our consumer research, we consider that the best means of tackling tariff complexity

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[2] Please see the following link:
http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=70&refer=Markets/RetMkts/rmr.

and promoting effective engagement is by implementing a proposal broadly in line with that published in the March RMR consultation[3] and monitoring its impact closely. The main features of this proposal remain largely unchanged since March:

- suppliers would offer only one standard tariff per payment method;
- Ofgem would set a standardised element for all standard tariffs;
- suppliers would compete on a single unit rate for each standard tariff;
- all non-standard tariffs would be fixed duration with no automatic contract rollovers;
- all non-standard tariffs would have switching windows with no exit fee, which will include a time-limited guarantee to allow customers to benefit from the old price until they switch; and
- prices, terms and conditions for non-standard tariffs would be guaranteed for the duration of the contract.

In response to our March RMR consultation we have made some amendments to our original proposal. For instance, specific standard tariffs will also be available for consumers whose premises are fitted with multi-rate meters (i.e. Economy 7 (E7), Economy 10 (E10), or dynamic teleswitching (DTS) tariffs). As a result of this change, every consumer in the country will have access to a simple, standard tariff for both their electricity and mains gas supply.

In addition to our core tariff proposal, we are also proposing to introduce two additional information measures to accompany all tariffs: a price comparison guide and a standardised Tariff Information Label. The price comparison guide will allow consumers to compare the price among tariffs ‘at a glance’, while the Tariff Information Label will help consumers compare a number of key features among tariffs. These two additional information measures will interact with and reinforce our core tariff proposal and will be supported by our proposals to improve bills, annual statements, contract renewal statements and price increase notifications. Taken together as a package, our proposals will provide the necessary information and prompts for customers to engage more effectively with the market.

An area that we recognise will need further examination is the interaction between our core tariff proposal and new, innovative time of use (ToU) tariffs, which will become increasingly prevalent with the rollout of smart meters. We are keen to ensure that our proposals facilitate the effective take-up of innovative tariffs. With this in mind, we intend to review the interaction between our core tariff proposal and innovative ToU tariffs. In the meantime, we consider the features of non-standard products, including their fixed duration, are unlikely to act as barriers to early adopters of ToU tariffs, who are already likely to be reasonably engaged in the market.

Proposals to improve bills, annual statements, contract renewal statements and price increase notifications

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[3] In addition to the RMR core proposal we developed four other tariff proposals. We include a detailed discussion of each proposal in the Impact Assessment (IA) that accompanies this document. We present a detailed cost benefit analysis in the draft Impact Assessment and explain why the RMR core proposal remains our preferred option for implementation.

We have developed a package of proposals to improve the quality of information provided to consumers to prompt and enable effective engagement with the energy markets. To do this, we are proposing improvements to bills, annual statements, contract renewal statements and price increase notifications to make them more recognisable, more relevant, clearer and easier to understand.

This will include requirements on suppliers to separate bills and annual statements and to send them to consumers separately. Annual statements, contract renewal statements and price increase notifications will have to follow a common format to help consumers understand the information presented to them and to facilitate the use of this information to make informed switching decisions. We will also require suppliers to use standard terms and phrases for key information in all key communications between suppliers and customers.

Our research shows that simplifying tariffs alone is not enough to ensure effective engagement. It shows that there needs to be improvements in the information provided to consumers and for there to be prompts for them to engage with the market. Therefore, our proposals have been developed with this in mind.

In addition to these advancements, we also propose to tighten Standard Licence Condition (SLC) 31A and SLC 23 to ensure that the requirements properly reflect Ofgem original policy expectations and facilitate our proposals for standard and non-standard contracts.

Proposals on enhancing the Standards of Conduct

We consider that stronger and broader Standards of Conduct (SOCs) will facilitate improvements in supplier conduct and give consumers more confidence in their energy supplier, and the energy market in general. We propose recasting the SOCs and applying them to all interactions between suppliers and consumers. We also propose to make SOCs legally binding by incorporating them into an overarching, enforceable licence condition.

Further actions

We announce two further actions Ofgem is undertaking. First, Ofgem has nominated itself to inherit the Confidence Code[4] from Consumer Focus. A successful Confidence Code will play an important role in inspiring consumer trust in switching sites, thereby improving effective engagement. Second, we will investigate how Ofgem can expand its role in monitoring suppliers to include collecting and publishing data on supplier performance and complaints.

Next steps

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[4] The Confidence Code is a voluntary code of practice for online domestic price comparison services. Responsibility for the Confidence Code is being considered by the Department for Business, Innovation and Skills (BIS) as part of its Consumer Landscape Review.

The proposals in this consultation document represent the combination of a wide range of stakeholder views, detailed consumer research and further development work. We welcome recent moves by several of the large suppliers to begin to rebuild trust with consumers. However, having assessed the impacts, risks and potential unintended consequences, we believe our proposals represent the most effective and fastest way of enhancing effective engagement and competition in the retail energy markets. We consider our package of remedies is fundamentally a pro-competitive package which can benefit consumers as a whole. If we believe that certain customers, such as vulnerable customers, may require additional support at any point, we will consider what further measures might be needed in liaison with the government.

As we have noted previously, we believe our proposals are necessary to enhance effective competition and to improve customers' experience of the retail energy market. However, if we believe is it likely that suppliers will oppose our proposals, we retain the option that we have flagged in our previous consultations of referral to the Competition Commission for a market investigation reference.

Our RMR proposals and the smart meter rollout are complementary. Increasing engagement now is necessary to help consumers realise the benefits of smart meters. Similarly, in the medium term, smart meters will facilitate consumer engagement and stimulate innovation in the market. However, we recognise that there will still be a need to review, in the medium term, the appropriate regulatory arrangements required to both facilitate the introduction of innovative ToU tariffs and ensure consumers are best able to benefit from the additional information available to them and the new tariff structures that will emerge.

We now invite views on our proposals. We have included licence drafting to clarify how we plan to implement these measures. Some of these remedies will take time to implement formally in the licence, but there is nothing stopping suppliers from moving sooner where they can – and we encourage that.

These proposals represent an important development in the functioning of the retail market and it is important to consult fully to allow stakeholders time to present their views. Our deadline for responses to this consultation is 23 February 2012.

1. Introduction

Chapter Summary

This chapter puts this document in context with wider RMR work and highlights the areas to be discussed. It also sets out that we will not, at this stage, be proposing to extend our domestic tariff proposals into the non-domestic sector. But we are doing more to help business customers get the best out of the market.

1.1. This consultation document marks the next stage of Ofgem's Retail Market Review (RMR). We are proposing to implement a range of reforms that are aimed at enhancing effective consumer engagement in the retail energy markets in Great Britain (GB), leading to greater and more effective competition.

1.2. In our March document we set out five proposals to help make the energy retail markets in GB work in the interests of consumers. We list these proposals below:

- Proposal 1: Improve tariff comparability
- Proposal 2: Enhance liquidity
- Proposal 3: Strengthen Probe remedies – domestic
- Proposal 4: Strengthen Probe remedies – non-domestic
- Proposal 5: Improve reporting transparency

1.3. The proposals presented in this document are the results of two of the five workstreams initiated in relation to each of the workstreams above. These are Proposal 1: Improve tariff comparability and Proposal 3: Strengthen the Probe remedies in the domestic market.

1.4. In the March RMR consultation, we said the proposals to improve tariff comparability would address the complexity of tariff information provided by suppliers by making it simple for domestic consumers to compare prices and choose a better deal. On the proposals to strengthen the Probe remedies in the domestic market, we said these would address the continued poor performance by the companies to our Probe remedies by making sure they are strengthened, and where necessary enforced, so that they achieve their original objectives. Our objectives for these two proposals have not changed.

1.5. Since March, we have worked to refine the proposals presented in the original consultation. First, we have reviewed in detail the responses to our March consultation. Where appropriate we have reflected stakeholder views in the design of our proposals. Second, we have carried out comprehensive consumer research on our tariff and domestic proposals. In conjunction with this consultation, we are publishing the detailed research reports from our consumer research, outlining the analysis undertaken and the findings. Finally, we have continued to liaise with stakeholders, holding bilateral meetings with the Big 6 energy suppliers and a number of meetings with small suppliers and consumer groups.

1.6. We consider our proposed reforms are a necessary intervention given the findings of our RMR analysis and our consumer research. They would bring real benefits to consumers, and are most effective when implemented as a package. Our tariff proposals would make it simple for domestic customers to compare suppliers' prices 'at a glance', while still allowing choice and flexibility for those customers that want them. Customers should find it easier to identify how to save money, whether by switching supplier or moving to a cheaper tariff with their current supplier. New suppliers with new products and ideas should find it less difficult to enter the market to compete with the incumbents. With more competition and empowered consumers holding suppliers to account we would anticipate more effective competition, which we would expect to bring benefits through keener prices, better customer service and greater innovation.

1.7. Enhancing bills, annual statements and price increase notifications would prompt customers and enable the greater engagement that is needed to allow the full effect of our tariff proposals to be realised. Further regulations in the form of the Standards of Conduct will ensure that suppliers' behaviour is more directly influenced by principles of fairness and transparency, enhancing consumers' experience of the market. We are also seeking additional regulatory functions and powers in areas where we think they are needed.

1.8. Taken as a package we believe our proposals will have a significant impact by increasing the level of consumer engagement, improving the effectiveness of competition and reducing the magnitude of consumer harm we observed in our RMR analysis.

1.9. This consultation is open for consultation for 3 months and will close on 23 February 2012. Running in parallel there will also be a further consultation on the standing charge methodology, which will be published in January 2012.

1.10. The structure of this document is as follows: in section 2, we set out proposals to improve tariff comparability. Here we present the details of our tariff proposal and provide a commentary on its costs and benefits. We also present our information remedies which include improvements to contract renewal statements, the introduction of a price comparison metric and a tariff information label.

1.11. Section 3 presents our proposals to improve bills, annual statements, price increase notifications and other variations subject to SLC 23. In each case, we discuss the options we have considered and present our current proposal. We also discuss two further actions Ofgem is undertaking: Ofgem's proposed inheritance of the Confidence Code[5] from Consumer Focus and how Ofgem can expand its role in complaints monitoring.

1.12. Section 4, details our plans for the Standards of Conduct (SOCs). We propose recasting the SOCs and applying them to all interactions between suppliers and consumers. We also propose to make SOCs legally binding by incorporating them into an overarching, enforceable licence condition.

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[5] The Confidence Code is a voluntary code of practice for online domestic price comparison service - Ofgem has nominated itself to take on the Confidence Code when Consumer Focus ceases to exist.

1.13. Section 5, discusses how our proposals can benefit vulnerable consumers. A summary of our consumer research is available in Appendix 2 and the research reports will be published alongside this consultation.

1.14. Finally in Section 6, we discuss next steps.

2. Improving tariff comparability

Chapter Summary

Building on the high-level proposals outlined in our March consultation document, we present our proposed reforms for enhancing effective engagement by consumers. Our proposals will improve tariff comparability, simplify the structure of standard energy tariffs and improve decision-making by consumers while maintaining innovation and choice in the market.

Question 1: Do stakeholders agree that we should introduce the RMR core proposal?

Question 2: Which cost elements should be included in the standardised element of standard tariffs?

Question 3: Do stakeholders agree that our information remedies would help consumers engage effectively? If not, what would be more appropriate remedies?

Question 4: Do stakeholders consider that the price comparison guide should be presented in a p/kWh figure, a £ per month figure or both?

Question 5: Do stakeholders agree that the proposed exceptions for legacy social tariffs and extremely high consumption domestic consumers are appropriate?

Question 6: Do stakeholders agree that we should not allow an exception for suppliers to offer a green standard tariff in addition to an 'ordinary' standard tariff?

Question 7: Do stakeholders believe it would be appropriate to introduce a six-month price guarantee for standard tariffs, or do you consider that this would undermine the simplicity of the RMR core proposal?

Background

2.1. At present, many consumers are disengaged from the energy retail market. Of particular concern is the growing complexity of pricing information and the high number of sticky consumers[6]. Many consumers who try to switch find it difficult to make a well-informed choice, which leads some to switch to more expensive tariffs. In addition, 75 per cent of consumers[7] are on standard tariffs[8] which lack any obvious decision or trigger points for engagement.

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[6] Sticky consumers are those customers that choose not to switch, cannot switch due to their circumstances, or are put off switching due to other features of the market such as tariff complexity. In the March consultation we estimated that around 40-60 per cent of customers in the energy sector are currently sticky (although we recognise they may have switched in the past) and that vulnerable customers are likely to be disproportionately represented in this group.

[7] DECC (January 2010) 'Energy Trends', p. 48 and 49. This figure is the simple average of the percentage of GB gas and electricity customers on standard tariffs.

[8] Standard (or 'evergreen') products are those that have no termination date.

2.2. Many of the remedies following the 2008 Energy Supply Probe (the 'Probe') were designed to increase consumer engagement and enhance competition. The Probe also sought to remove unjustified price differentials between customer groups through SLC 25A and SLC 27.2A. SLC 25A contains a sunset clause such that it lapses after three years. This clause was introduced to reflect our expectation that the full package of measures proposed following the Probe would accelerate the transition of energy supply markets to fully effective competition. We are considering the implication of the RMR proposals for SLC 25A.

Progress since the Probe

2.3. While there has been notable progress against some Probe remedies (e.g. SLC 25A and 27.2A removed unjustified differentials from prepayment meter and off-gas-grid tariffs worth around £300 million), we are disappointed with the reaction of suppliers to many of the measures aimed at enhancing effective engagement.

2.4. The RMR found that the number of passive consumers had increased and the number of active consumers decreased since the Probe[9]. A significant proportion of consumers remain disengaged from the market[10]. We found that complex tariff structures are contributing to consumer disengagement and that the quality of switching remains a concern as a large proportion of consumers are not sure if they saved money by switching.

Progress since the March RMR consultation

2.5. Respondents to our March consultation agreed that the current large number of energy tariffs and the complex structure of many tariffs act as a barrier to effective consumer engagement with the market. There was a consensus that action was needed to tackle this complexity but views were mixed on whether our proposals are the best way to address the problems.

2.6. Our recent Consumer First Panel[11] has shown us that many consumers have become disillusioned with the energy retail market and feel a sense of frustration in the face of rising prices. It will take a great deal to persuade many of these customers that engagement in the market is worthwhile. Current challenges, including the need to ensure security of supply, are placing ongoing upward pressure on wholesale prices and mean that unless we act now there is a real risk that disengagement with energy markets will continue and may increase.

2.7. Increased engagement will be vital if customers are to get the most out of innovative time-of-use (ToU) tariffs and smart metering. Without improvements in the short term, consumers may not realise the full potential benefits of smart metering. For these reasons we believe it is important to be bold in our reforms.

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[9] For definitions of active and passive consumers, see the description of our customer segmentation model in Appendix 2.
[10] We reported in the RMR that 20-30 per cent of consumers are disengaged and a further 20-30 per cent are permanently disengaged.
[11] This research was conducted in November and the report will be published by the end of the year or early 2012.

2.8. In the light of consultation responses and the findings of consumer research we consider that the RMR core proposal, alongside the other measures set out in this document, remains the best means of tackling tariff complexity and promoting effective engagement[12]. Consumers have told us they would be far more likely to engage effectively in the market if it is easier to make comparisons between tariffs. In our quantitative research[13], 74 per cent of non-Economy 7 (non-E7) respondents[14] and 76 per cent of Economy 7 (E7) respondents stated that they would be more likely to switch if a common standing charge and a price comparison metric were introduced. The research also indicates that a fixed standing charge and price comparison guide (both elements of the RMR core proposal) significantly improve consumer decision-making. We recognise that, through our other reforms, we need to nudge consumers to engage with this information to compare tariffs.

2.9. In the current environment of rising cost pressures, it is not an option to leave consumers without the protection of effective price restraint. Although we prefer to see that delivered through an effective market, we intend to monitor the impact of our proposals closely and to keep open the option of further interventions to protect consumers, including potentially a 'backstop' tariff.

Our proposals

2.10. The key objective of our tariff proposals is to enhance effective engagement by consumers. This can be achieved by improving tariff comparability, simplifying the structure of standard energy tariffs and improving decision-making by consumers. We also want our proposals to retain choice for consumers and leave scope for innovation, especially as smart meters are rolled out.

2.11. We described high-level proposals in the March RMR consultation. The main features of our March proposals were:

- suppliers would be allowed to offer only one standard tariff per payment method;
- Ofgem would set a standardised element for all standard tariffs;
- suppliers would set a single unit rate for each standard tariff;
- suppliers would set all elements of non-standard tariffs including structure;
- all non-standard tariffs would be fixed duration;
- no adverse unilateral variations to non-standard tariffs would be permitted;
- no auto-rollovers for non-standard tariffs; and
- adequate switching windows to be provided with no exit fee.

2.12. Our proposals would simplify the structure of standard tariffs, provide transparency and retain choice for those consumers that choose to engage in the market. A regional standing charge, set annually by Ofgem, combined with a single unit rate tariff structure, would enable consumers to select the cheapest standard tariff by simply

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[12] The reasons that we are minded to introduce the RMR core proposal are discussed further below and in our draft Impact Assessment.
[13] Ipsos MORI (October 2011), "Consumer reactions to varying tariff comparability".
[14] Note that neither the E7 or non-E7 group contained E10 customers, and therefore the non-E7 group was comprised of customers with single-rate meters only.

comparing the unit rate[15]. Those consumers who opt for a non-standard tariff and come to the end of their contractual term would be placed onto the supplier's standard tariff if they failed to make an active choice of a new tariff. Those that do not engage will remain on, or be placed onto, a standard tariff.

2.13. Since the March consultation we have refined the RMR core proposal and have considered four other tariff options. We have also considered how information might be better communicated to prompt and enable engagement. The development of these regulatory options was based, in part, on responses to the March consultation and the results of consumer research.

2.14. In this chapter we focus on the option we are minded to introduce: the RMR core proposal. We briefly note the key reasons that we do not favour the alternative options towards the end of this chapter. A full discussion of the alternative options is in the draft Impact Assessment (see Appendix 7).

RMR core proposal

2.15. The key features of the RMR core proposal are shown in the box below.

[15] To facilitate this simplicity we consider that a number of rules and prohibitions will be necessary, including (but not limited to) a prohibition on suppliers offering discounts or linking standard domestic supply contract to contracts for other goods and services.

For **standard (evergreen) tariffs**:

- No end date and a maximum notice period of 28 days for termination.
- All suppliers limited to one standard tariff per payment method for consumers whose premises are fitted with single rate meters.
- All suppliers limited to one standard tariff per payment method for consumers who are on E7 tariffs. Derogations available for E10 and DTS tariffs.
- All standard tariffs will be structured to consist of a compulsory standing charge, plus a single unit rate (day/night rates for E7 tariffs) set by suppliers.
- All suppliers will be prohibited from offering discounts and combining standard tariff supply contracts with other goods and services.
- The compulsory regional standing charge will be set annually by Ofgem. We may also set a regional adjuster to the unit rate to account for regional differences in network costs that vary with consumption.
- All non-E7 consumers in each region will have the same standing charge, regardless of payment type.
- All E7 consumers in each region will have the same standing charge, regardless of payment type, but this could differ from the non-E7 charge.
- All other revenue would be recovered through a single unit charge (day/night rates for E7 tariffs) per payment method set by suppliers in a p/kWh format.

For **non-standard tariffs**:

- No limitation on number or type of tariffs, but they must be fixed term, with a clear end date and clear switching windows. Exit fees will be allowed.
- Price information must be presented in a 'standard equivalent' format that allows price comparisons with standard tariffs. This will be through the price comparison guide described in the 'Information Remedies' section below.
- All penalties and key contract terms must be made clear to customer in advance of agreeing a contract.
- No auto-rollovers: at the end of each fixed-term consumers would default onto a standard tariff with the same payment method unless they expressly agree to extend the contract or enter into a new contract with a supplier.
- Adequate switching window provided with no exit fee and no notice periods. We are minded to require this window to be 42 calendar days. Suppliers would be required to write to consumers in a format prescribed by Ofgem to notify them at the beginning of the switching window which will prompt further engagement. Consumers would be free to switch with no exit fee and, if they inform their supplier that they intend to switch during the switching window, they may benefit from the same prices until the switch is completed.
- No unilateral price increases or other adverse unilateral variations. This means that a supplier could not, during a fixed term period, increase the price or unilaterally change any other terms or conditions in any way that would leave the consumer being worse off.
- Regular disclosure by Ofgem of suppliers' average non-standard tariff price presented in a 'standard equivalent' format. This will aid transparency between suppliers' standard and non-standard tariff prices.

For all tariffs:

- We are minded to require all suppliers to include key tariff information in a Tariff Information Label, with the format mandated by Ofgem (this is described in the 'Information Remedies' section below).

- We are minded to regulate the manner in which the supplier and customer may mutually agree to change the terms and conditions of their tariff, as described in the variations to contracts section below.

- Suppliers could use regional names for their tariffs.

2.16. To implement and facilitate the RMR core proposal, we are minded to make changes to some existing rules and introduce a number of new rules[16].

Exceptions to the RMR core proposal

Variations to contracts

2.17. Prohibiting suppliers from increasing the price and making adverse unilateral variations in respect of other terms and conditions of non-standard tariffs will affect the types of tariff available in this segment of the market[17]. If no exceptions to this rule were permitted, all non-standard tariffs would be fixed price. However, by way of exceptions which we consider are in line with general consumer protection law[18], we are proposing to allow suppliers to have tariffs that automatically provide for an increase in price in the following ways:

- the precise timing and amount of the price increase is expressly agreed in advance as part of the terms of the contract and is not in any way subject to the supplier's discretion[19]; and / or

- the contract provides that variations to the price will occur automatically only in a manner which is fully linked to fluctuations in a published and transparent stock exchange quotation or index or a financial market rate that the licensee does not control.

2.18. For the avoidance of doubt, these proposals will mean that suppliers would not be able to offer fixed-term, variable price tariffs that track increases in the supplier's standard tariff or other suppliers' tariffs. Given that these restrictions may result in suppliers seeking to mutually agree contractual variations with customers, we are also proposing rules to regulate how such mutual variations may be agreed in relation to both standard and non-standard tariffs.

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[16] For the avoidance of doubt, this may include additional modifications to licence conditions to those illustrated in the appendices.
[17] For background on Ofgem's interpretation of unilateral variations to charges please see the guidance issued in respect of standard licence condition 23: http://www.ofgem.gov.uk/Markets/RetMkts/Compl/pricechange/Documents1/Guidance%20letter%20on%20SLC%2023.pdf.
[18] e.g. the Unfair Terms in Consumer Contracts Regulations 1999.
[19] This exception would include some time-of-use tariffs such as E7.

Social and discounted tariffs

2.19. Social and discounted tariffs are gradually being phased out and replaced by the Warm Home Discount. We note that our proposals may be introduced before all consumers have been transferred from legacy social and discounted tariffs. If this occurs, we are minded to allow suppliers to apply for derogations to the RMR core proposal for those social and discounted tariffs that were reported to Ofgem under the voluntary social programme. Given that these tariffs are to be phased out in the relatively near future, we believe it would not be proportionate to require suppliers to change the structure of social and discounted tariffs.

2.20. Derogations for social and discounted tariffs would apply only to the standard tariff proposals and will not necessarily cover all elements (e.g. 28 day notice periods may still be required). The derogations would be time-limited and would expire on 1 April 2014 (i.e. the date from which no legacy spending counts towards Warm Home Discount obligations). When the derogations expire, all those on social / discounted tariffs would default onto the relevant supplier's standard tariff unless they actively choose a non-standard tariff. This is likely to require additional communication to affected customers, both when the new arrangements are introduced and when the exemption ends.

Extremely high users

2.21. We are minded not to require suppliers to offer standard tariffs to domestic consumers with extremely high consumption levels. A standard tariff that is designed for a typical domestic consumer is unlikely to be cost reflective for those that have exceptionally high consumption levels. The main additional costs to suppliers associated with serving these customers are likely to be hedging or market risk if the customer switches away or bad debt risk if they fail to pay. In the event that such a consumer fails to choose a new tariff at the end of the fixed-term period, they would be placed onto a deemed contract.

2.22. We will be doing further work to determine the appropriate eligibility criteria for this exemption. For example, at this stage we consider that eligibility could be based on profile classes for electricity (e.g. domestic customers that have a meter of profile class three or greater) or consumption levels. Our analysis has shown that an extremely small proportion of non-E7 consumers use more than 20,000 kWh of electricity or more than 65,000 kWh of gas each year[20]. We seek the views of stakeholders on the principle of offering this exception and invite stakeholders to propose eligibility criteria.

Setting the standardised element

2.23. A regional standing charge (set annually by Ofgem) combined with a single unit rate tariff structure would enable consumers to select the cheapest standard tariff by simply comparing the unit rate[21]. Our proposed approach would involve setting a single standing charge to cover the non-locational incremental fixed costs of serving an

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[20] Ofgem (2010), 'Revision of typical domestic consumption values', page 8.
[21] To facilitate this simplicity we consider that a number of rules and prohibitions will be necessary, including (but not limited to) a prohibition on suppliers offering discounts or linking standard domestic supply contract to contracts for other goods and services.

additional customer and a regional adjuster to account for differences in transmission and distribution charges. We are consulting on what elements should be included in the standing charge and will consult on the detailed methodology that would be used to set the standing charge and regional adjuster in early 2012.

2.24. The purpose of an Ofgem-set standing charge would be to allow suppliers to recover some of the fixed costs of supplying each customer. The standing charge would be policy-neutral and would not be used for the purpose of promoting environmental, social or other policies. Policy development would continue to take place by the relevant authority and supplier obligations arising from such policies would continue to be determined by the appropriate processes. While costs associated with such policies may be recovered through the standing charge depending on how we set it, we would set the charge such that it allowed suppliers only to recover the cost of their obligations.

2.25. The standing charge element of our proposals would have a sunset clause. The initial sunset would occur five years after the licence condition comes into force. Ofgem would be able to revise the duration of the 'setting the standing charge' part of the licence condition by issuing directions. If we do not issue directions and the sunset occurs, suppliers would still be required to comply with the standing charge and single unit rate tariff structure, but will be responsible for setting their own standing charge.

Components of the standing charge

2.26. We have considered whether the standing charge should include only network costs that are based on the number of customers served by a supplier (a 'narrow' definition) or whether it should have a 'wider' definition and also include some other incremental costs of serving an additional customer[22]. The main pros and cons of setting a wide standing charge are summarised in the table below[23]. We invite stakeholders to comment on whether a wide or narrow standing charge would be most appropriate, and to provide evidence in support.

Table 1: Key pros and cons of a wide standing charge

Pros	Cons
Ensures that low users do not become unprofitable	Greater risks for small suppliers due to inability to adjust prices in response to changes in a larger number of costs
May be more reflective of the costs imposed for serving one additional customer	Low users (who are more likely to be low income and some of whom are vulnerable) pay more per unit (in total) than high users
Avoids consumption-based cross subsidies between consumers	Likely to imply standing charge higher than those faced by most consumers on standard tariffs at the moment

[22] Note that similar issues are considered by DECC from the perspective of the Energy Company Obligation (ECO). Their most recent consultation can be found at the following location: http://www.decc.gov.uk/en/content/cms/consultations/green_deal/green_deal.aspx
[23] A more detailed discussion is in the draft Impact Assessment (see Supplementary Appendix 7).

	Narrow standing charge is the simplest method and the least resource intensive to administer

2.27. With regard to network costs, the standing charge would include only those elements that are charged separately to suppliers. We would not include network costs that are passed through via the wholesale price or, in the case of transmission charges, via charges set by the distribution companies[24]. At this stage, we intend to include the following network charges in either a narrow or wide standing charge:

- Electricity: TNUoS charge and DUoS fixed charge
- Gas: NTS exit charge, LDZ capacity charge, LDZ commodity charge and customer capacity charge

2.28. Table 2 shows ballpark estimates of the cost of components of the standing charge which we consider would fall within our 'wide' definition. A range is presented for transmission and distribution costs to reflect the regional differences in these costs. This table refers to the estimated current costs to suppliers and should not be taken to be the level at which a standing charge might be set. We will present further analysis of these costs in our methodology consultation in early 2012. It is also important to note that the table presents only those network charges that are set on a per-customer basis and does not include network charges that are based on consumption.

Table 2: Estimated range of costs to suppliers

	Gas		**Electricity**	
Cost element	**Additional annual cost per-customer (£)**	**Rolling total (£)**	**Additional annual cost per-customer (£)**	**Rolling total (£)**
Transmission	1 to 19	**1 to 19**	6 to 26	**6 to 26**
Distribution[25]	110 to 143	**112 to 152**	9 to 20	**24 to 39**
Environmental programmes[a]	27	**139 to 179**	27	**51 to 66**
Metering[b]	23	**162 to 202**	15	**66 to 81**
Warm Home Discount	6	**168 to 208**	6	**72 to 87**

a *Includes the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP). May be replaced by ECO in the future if DECC chooses to define supplier obligations on the basis of market share.*

b *Including the cost of meter reading*

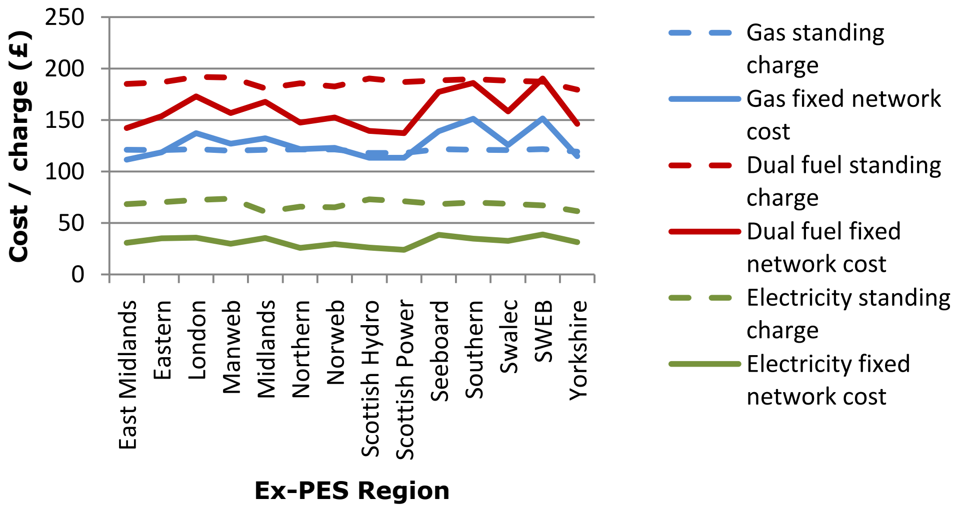
Comparison of 'narrow' standing charge with current standing charges

[24] Our thinking on this issue is evolving and our consultation early next year will contain our minded-to position.

[25] The minimum / maximum network cost does not always equal the sum of minimum / maximum distribution and transmission charges. This is because the cheapest / most expensive distribution region is not always the cheapest / most expensive for transmission.

2.29. Figure 1 plots the average current standing charge in each region against our estimates of network costs that are charged on a per-customer basis ('fixed' network costs, which would form the basis of a 'narrow' standing charge)[26]. The estimates are based on all tariffs that were available to consumers on 28 October 2011.

Figure 1: Standing charges and fixed network costs



Source: Ofgem analysis based in part on data from TheEnergyShop.com

2.30. The average current standing charge of electricity and dual fuel tariffs is above fixed network costs whereas the standing charge of some gas tariffs is below fixed network costs in some regions. Given that suppliers incur per-customer costs other than network charges (e.g. environmental programme costs and metering costs) this analysis indicates that there is either a cross-subsidy from electricity to gas consumers or a cross-subsidy from high users of gas to low users of gas. In addition, there appears to be less variation in regional standing charges than there is in regional network costs. This may suggest that there are cross-subsidies between regions, though differences in other costs to serve between regions may explain some of the smoothing.

2.31. Comparing Table 2 and Figure 1, it is apparent that the cost to suppliers of components of the 'wide' standing charge is greater than current average standing charges for gas and electricity. The average standing charge for gas is £121, compared with costs of between £168 and £208 for a wide RMR standing charge. For electricity, the average standing charge is £68, compared with costs of between £72 and £87 for a wide RMR standing charge. This implies that the wide standing charge would be higher than those faced by most consumers currently on standard tariffs.

Regional unit rate adjuster

2.32. Some elements of transmission and distribution charges are charged on a per-customer basis whereas others are based on the amount of energy delivered to consumers. As described above, the regional standing charge would account for differences in per-customer costs between regions, though the extent to which it might

[26] For tariffs that have a two-tier structure, we calculated an 'effective standing charge' as: Effective standing charge = (Tier 1 unit rate – Tier 2 unit rate)*Tier 1 threshold.

differ between regions will depend on the detailed methodology for setting the standing charge.

2.33. Ofgem may also set a regional adjuster to the unit rate to account for differences between regions in the consumption-based cost of transmission and distribution. Currently, consumption-based network charges are approximately £48 higher in the most expensive region than in the least expensive region, all else being equal. The extent to which the regional unit rate adjuster would differ between regions will depend on the detailed methodology used to set it. We invite stakeholders to comment on whether they favour a regional adjustment to the unit rate.

Information remedies

2.34. Our key objective is to enhance effective engagement by consumers. As discussed above, one aspect of our proposals is to simplify the structure of standard tariffs but for this to be fully effective at increasing consumer engagement we need to implement additional information remedies.

2.35. Our proposals to strengthen the Probe remedies (see Chapter 3) and enhance Standards of Conduct (see Chapter 4) would help to maximise the benefits of our tariff simplification proposals, and vice versa. In particular, our proposals to improve the information provided on bills, annual statements and price notification letters would prompt consumer engagement. The additional information remedies described below would help consumers to engage more effectively and make correct switching decisions.

2.36. We have developed a price comparison guide to help consumers compare the price of different tariffs and a Tariff Information Label to help them compare non-price features of tariffs. These information remedies could be associated with any of the tariff simplification options, including the RMR core proposal that we are minded to introduce. The remedies would interact with and reinforce our tariff simplification proposals.

Price comparison guide

2.37. A price comparison guide would help consumers to compare the cost of tariffs available in the standard and non-standard segments of the market. It could be presented as a 'standard equivalent' unit rate (p/kWh) or as an indicative cost at certain consumption values (e.g. 'tariff X costs £Y per month for a low electricity user'). Our research identified pros and cons with a price comparison guide being presented as p/kWh or in pounds and pence. Using p/kWh may avoid the need for a consumer to know their consumption, as is necessary with a £ per month guide. However, a guide expressed in £ per month will be more tangible to many consumers than one expressed in kWh. At this stage, we are minded to require suppliers to express price comparisons using both approaches, but seek stakeholder views.

Tariff Information Label

2.38. One potential unintended consequence of tariff simplification might be that consumers begin to focus on price to the exclusion of non-price features of tariffs. We consider it important that consumers have access to a range of key tariff information and so have begun to develop a Tariff Information Label. This Label would bring together key information about a consumer's tariff that they can use to make comparisons at a later date, though this purpose would need to be carefully explained to consumers. We are minded to require suppliers to complete a Label for each of the tariffs they offer, both standard and non-standard. We envisage that this information would be easily available if a consumer wishes to see it, though some consumers may find it to be too much information[27].

2.39. An early example of the Label is presented below for illustration[28].

Figure 2: Example of Tariff Information Label

Supplier	ABC Energy		
Fuel	Electricity		
Tariff name	ABC Standard		
Tariff type	Standard		
Payment method	Direct debit		
Unit rate	10p/kWh		
Standing charge	£10 per month		
This tariff lasts for	There is no end date to this tariff		
The price is guaranteed for	N/A. The supplier will notify you at least one month before the price changes		
Exit fees	There is no fee if you switch from this tariff		
Additional products / services included	N/A		
Consumer satisfaction rating	*****		
Standard Equivalent Rate (SER)	**10p/kWh (all users)**		
Estimated monthly price	Low user £ 23.75	Medium user £ 37.50	High user £ 48.33

Assumptions for annual consumption: Low user = 1,650 kWh; Medium user = 3,300 kWh; High user = 4,600 kWh.

2.40. We commissioned expert research on the way in which language is currently used by energy suppliers and changes that could be made to the benefit of consumers[29]. This research found that the consistent format and language of information can aid understanding of and engagement with information. This suggests that, to maximise consistency and the benefit to consumers, Ofgem should set the terminology that would be permitted in the Label and the format in which it would be presented. This would include standardising the words that could be used to describe tariff types. The Label could include a customer satisfaction rating to help inform switching decisions.

2.41. We tested the Tariff Information Label with one round of the regular Consumer First Panel[30]. There was some concern among Panellists about how they would make use

[27] By way of example, we envisage that the Tariff Information Label will need to be provided at the same time suppliers are required to provide information about key contractual terms pursuant to standard licence condition 23.1).
[28] The Label will be further refined following consultation so as to have maximum benefit for consumers.
[29] Lawes Consulting (November 2011), 'Energy bills, annual statements and price rise notifications: advice on the use of language'.
[30] Initial results from the Consumer First Panel in November 2011 are based on emerging analysis from the workshops. Full, final findings will be provided in the Panel report which Ofgem will publish later in the year.

of the Label but the idea of a tariff comparability tool did have appeal, especially among those more open to switching. Panellists were asked to design their own Label, selecting the pieces of information that they would wish to include from a set of pre-printed cards. The majority of designs included tariff type, unit rate, standing charge and payment method. There is evidence to suggest that presenting non-price tariff information in a tabular format would appeal to consumers, though it may be important for any table to contain several tariffs for ease of comparison.

Key impacts of the RMR core proposal

2.42. In this section, we briefly discuss the key impacts of the RMR core proposal. A more detailed discussion is in the draft Impact Assessment.

Impacts on consumers

Tariff structure and information remedies

2.43. A key objective of our proposed intervention in the retail market is to make it easier for consumers to compare energy tariffs and to assess whether or not they are on the best tariff for their circumstances. Our initial assessment is that the RMR core proposal, supported by our information remedies, is likely to lead to improved accessibility of information and improved tariff comparability across the market. Our consumer research suggests that a common standing charge and a price comparison metric would encourage more consumers to engage with the energy retail market.

2.44. In the standard tariff segment of the market under the RMR core proposal, comparison is made significantly easier by strictly limiting the number of tariffs available, requiring tariffs to have a 'standing charge plus unit rate' structure and setting the same regional standing charge for all suppliers. This means consumers would only need to compare supplier-set unit rates to work out whether they could save money by switching to another standard tariff. Our consumer research shows that this makes it far easier for consumers to choose the cheapest tariff and so would improve decision-making. The key research findings are presented below and a full discussion is in the draft Impact Assessment.

2.45. The quantitative research found that a fixed standing charge with single unit rate[31] and price comparison guide (both elements of the RMR core proposal) significantly improve consumer decision-making. When standing charges differed between suppliers and consumers were shown just the standing charge and unit rate, only 44 per cent of non-E7 consumers selected their cheapest tariff for their given consumption value. Approximately 81 per cent of non-E7 respondents selected the cheapest standard tariff for the consumption value they were given when faced with a number of tariffs with a fixed standing charge (but without a price comparison guide). This success rate rose to 85 per cent when a price comparison guide was also provided.

2.46. Only 19 per cent of E7 consumers correctly selected the cheapest tariff when standing charges differed between suppliers and they were shown only the standing

[31] For E7 tariffs, there would be separate unit rates for daytime consumption and nighttime consumption.

charge and the day / night unit rates. When standing charges were fixed across suppliers, 47 per cent of E7 respondents selected the cheapest tariff in the test without a price comparison guide but 70 per cent were successful when a price comparison guide was also provided. This highlights the importance of a price comparison guide to E7 consumers.

2.47. The RMR core proposal, in conjunction with our proposals to improve the information provided on bills and annual statements, is likely to promote more frequent engagement amongst proactive and reactive consumers. Our proposals are also designed to prompt and aid passive and disengaged consumers to engage. In our quantitative research, 74 per cent of non-E7 respondents and 76 per cent of E7 respondents stated that they would be more likely to switch if a fixed standing charge and price comparison guide were introduced.

2.48. In line with Ofgem's general objectives under the gas and electricity directives, our RMR proposals seek to promote competition and consumer engagement[32]. Increased consumer engagement will be vital if consumers are to get the most out of innovative ToU tariffs and smart metering. Without improvements in the short term, consumers may not realise the full potential benefits of smart metering. Our RMR proposals will contribute to creating market conditions which maximise these consumer benefits. Our proposals aim to preserve and stimulate opportunities to offer innovative products, including those associated with smart metering.

Rollovers and switching windows for non-standard tariffs

2.49. Banning automatic rollovers to another non-standard tariff would protect consumers from being rolled onto a potentially more expensive tariff without their express consent. It would also ensure that consumers would not be rolled onto a tariff for which they would be required to pay a termination fee in order to switch and would allow them to switch supplier with relatively little notice.

2.50. Behavioural economics suggests that individuals are 'loss averse', in other words, a loss has a significantly greater impact on an individual than the equivalent gain[33]. As a result, financial losses to the consumer in the form of termination fees are likely to have a greater impact on switching than the same level of savings available from switching to a new deal. This suggests that consumers would be more likely to engage in the market if suppliers were required to offer an adequate switching window with no exit fee than if termination fees were always applied to fixed term tariffs. On this basis, we propose that suppliers offer a switching window with no exit fee of 42 calendar days before the date any fixed-term period of a contract is due to expire.

2.51. To help ensure a smooth transition between fixed term contracts and avoid the need for consumers to default onto a standard tariff for a short period of time following the end of a fixed term contract, we will be requiring suppliers to charge customers the

[32] In particular, our objectives of "ensuring that customers benefit through the efficient functioning of their national market, promoting effective competition and helping to ensure consumer protection".
[33] Kahneman, D., Knetsch, J. and Thaler, R. 1990, 'Experimental tests of the endowment effect and the Coase theorem', The Journal of Political Economy. 98, 1325-1348.

same prices for up to 41 days after any fixed term period has expired[34]. This would reduce the hassle of switching to another supplier and so would promote regular engagement.

2.52. The proposal to ban automatic rollovers to another non-standard tariff would also create incentives for suppliers to promote consumer engagement if they wish to encourage consumers to agree another offer with them. Suppliers would be required to write to consumers in a format prescribed by Ofgem in advance of their fixed term tariff ending[35]. This would remind them that they will default onto the supplier's standard tariff if they do not make an active choice to take another fixed-term tariff and so would prompt consumers to find a new tariff.

2.53. With greater engagement and improved switching decisions our proposals would lead to increased competitive pressure on suppliers. More intensive competition would lead to competitive pressure on prices and so would lead to bills being lower than they would be if we did not intervene in the market.

Distributional impacts

2.54. As briefly described in the following paragraphs, and detailed in the draft Impact Assessment, our assessment of distributional impacts shows that almost all consumers should benefit from the introduction of the RMR core proposal. The proposal does not require all consumers to engage with the market to make it work better, only that the increase in engagement is great enough to put competitive pressure on prices to the benefit of all consumers. Further, all domestic consumers will benefit from standard tariffs that are clearer and (for non-E7 tariffs) consist of a single unit charge, distilling choice of standard tariff down to one number. For standard tariffs, suppliers would no longer be able to set higher prices for some consumers than for others that use the same payment method.

2.55. Proactive and reactive consumers will benefit from tariffs which are more comparable and easier to understand. These consumers will be able to make better decisions due to the increased transparency of tariffs and the clearer information available to them. Disengaged and permanently disengaged consumers are likely to benefit from the consolidation of standard tariffs as they are likely to be on suppliers' higher price standard tariffs. They would also benefit from any 'ripple effect' if switching among suppliers' standard tariffs by active consumers were to keep standard prices at competitive levels.

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[34] To gain this protection we propose the following two conditions: (a) a customer would need to inform their current supplier of their intention to switch supplier within the switching window (which would include the date the fixed term period was due to expire); and (b) the new supplier would need to have completed the process for switching that customer within 42 days of the date the customer informed their current supplier.

[35] Whilst we have not set out detailed proposals for prescriptive information for contract renewal in this consultation document, we envisage that our proposals will be in line with the objectives and proposals for prescriptive information for elements of bills annual statements and price notification letters as discussed in Chapter 3.

2.56. Vulnerable consumers would also benefit from our tariff simplification proposals[36]. Those that wish to, and are able to, engage in the market would benefit from tariff simplicity and improved comparability. However, many vulnerable consumers cannot engage if they are in debt, have poor literacy or numeracy skills or do not have internet access. These consumers are likely to be on relatively expensive tariffs at present and so could see their bills fall following the consolidation of standard tariffs. They would also indirectly benefit from the ripple effect arising from increased competitive pressure in the standard segment of the market.

2.57. Our information remedies and accompanying proposals to strengthen the Probe remedies are designed to further encourage and help consumers to engage in the market and switch. We note, however, that some consumers will remain unable to engage following implementation of our remedies and that additional measures may be needed to protect these consumers. We will maintain dialogue with government on this issue and will monitor the impact of our proposals on vulnerable groups. If we find that certain consumers, particularly vulnerable consumers, may require additional support, we will consider what further measures might be needed.

Risks and unintended consequences

2.58. There is a risk that because Ofgem would set the standing charge for tariffs in the standard segment of the market, we may be seen as favouring standard tariffs. Our qualitative research suggests that consumers may be drawn to standard tariffs because of a perception (albeit incorrect) that these tariffs are regulated by Ofgem and so 'safer' than non-standard tariffs. We would work with suppliers and other stakeholders to clearly communicate our proposals and what they mean for consumers.

2.59. The RMR core proposal would mean that dual fuel tariffs would not be available in the standard segment of the market[37]. This aspect of the proposal has arisen from our concern that suppliers are using dual fuel 'discounts' to cross-subsidise the prices of one fuel with the revenues from another. Dual fuel tariffs obscure this and remove a consumer's ability to tell whether their supplier is offering both the cheapest electricity and the cheapest gas in the market. However, the removal of dual fuel 'discounts' from standard tariffs carries a risk of frustrating a significant number of consumers and possibly hampering our attempts to promote engagement. Given that consumers exhibit status quo bias, great care will be needed in communicating the benefits of our proposals in improving tariff transparency, removing cross-subsidies and demonstrating the opportunity for consumers to move onto the cheapest tariff.

2.60. The single regional standing charge may increase the risk faced by suppliers and could affect smaller suppliers more than larger suppliers. If an element of cost used to set the standing charge were to rise during the period for which the standing charge were fixed, it would be necessary for suppliers to finance the shortfall either from their cash / capital reserves or by raising the unit price of standard tariffs. As small suppliers tend to have smaller cash / capital reserves than large suppliers (as a proportion of revenue), they may have less scope to absorb cost changes. However, there is no clear evidence that small suppliers change their prices more frequently than larger ones at

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[36] The possible impact of our proposals on vulnerable consumers is discussed more fully in the draft Impact Assessment and in Chapter 5 of this document.
[37] Non-standard dual fuel tariffs could be offered by suppliers under the RMR core proposal.

present and so it seems that all suppliers have a similar response to changes in costs. It is not clear if this would change as a result of our proposals.

2.61. We also recognise that the 'no adverse unilateral variation' restriction on suppliers' non-standard tariffs could significantly affect the ability of suppliers to pass through changes in network costs during the fixed term. This additional risk is likely to affect smaller suppliers more than larger.

2.62. Finally, we note that the price comparison guide is less suitable for innovative ToU tariffs. More assumptions are needed to accommodate innovative ToU tariffs within the guide than for other tariffs, such as applying an example load profile to the tariff. This increases the risk that a price comparison guide could mislead consumers about the savings they could make. Recognising the importance of our tariff simplification proposals in the context of smart metering, we will initiate work to analyse the regulatory arrangements around innovative ToU tariffs. This will link with our wider Smarter Markets Strategy, on which we will be consulting.

Implementation costs

2.63. The RMR core proposal would have a cost impact on suppliers. The one-off cost associated with creating new tariffs and migrating a proportion of customers to the standard options may be large and is likely to vary between suppliers. Further, all suppliers would be required to publish tariff information in a specified format and so would incur ongoing costs. Suppliers would also incur ongoing costs due to the requirements for enhanced communications with customers and for providing switching windows with no exit fee. We would welcome any evidence from stakeholders on how large the one-off and ongoing costs are likely to be.

2.64. Ofgem would also incur costs under the RMR core proposal. We would regularly review and amend the level at which standing charges are set in light of changes in relevant costs. We would also monitor the impact of the proposals on consumers, especially vulnerable groups, and would monitor how suppliers implemented the revised tariff structures and information remedies. We would investigate any possible breaches and would take enforcement action against any suppliers found to have breached the licence conditions. However, these costs would be mitigated by our proposed requirements for suppliers to have contractual terms which reflect relevant licence conditions and which will therefore help individual consumers to take action or seek redress in respect of their supplier.

Summary

2.65. On balance, based on the evidence currently available, we consider that the likely benefits arising from the RMR core proposal are greater than the likely costs. Our proposals would tackle the issue of low and ineffective consumer engagement with the retail market. The package of remedies will improve transparency, aid consumer understanding of the market, promote engagement and provide clearer information to help consumers to make better switching decisions. This would lead to increasingly effective consumer engagement and to a more competitive market. Our proposals would also benefit those consumers that are unable to, or choose not to, engage.

2.66. We consider that the RMR core proposal is a proportionate response to the problems with the retail market that were identified in the March RMR consultation document. The draft Impact Assessment in Appendix 7 contains a detailed discussion of the costs and benefits of the proposal and presents qualitative and quantitative evidence that shows that our proposals would benefit consumers.

Alternative proposals

2.67. As part of our work we have considered a wide range of other potential tariff features, based on our initial findings, responses to the March consultation and our consumer research. From the features we considered, we produced four main alternative proposals which are described in the table below.

Table 3: Alternative regulatory proposals

Proposal name	Description
Variable standing charge	identical to the RMR core proposal, other than one major difference: Ofgem would not set the standing charge of standard tariffs and so suppliers would have greater freedom.
Single tariff structure	would require all tariffs to be structured as a single standing charge (set by Ofgem for all tariffs) and unit rate. All other features of the RMR core proposal would remain. This proposal goes further than that proposed by Which? in that we would still require suppliers to distinguish between standard and non-standard tariffs[38]. Suppliers would be permitted to offer only one standard tariff per payment method.
Price comparison only	would require suppliers to present a price comparison guide with their tariffs. As today, there would be no restriction on the range or number of tariffs a supplier could offer. Ofgem would design the methodology to calculate the price comparison guide and the format in which it should be presented.
Airline options[39]	would retain the elements of the RMR core proposal, the only difference being that Ofgem would allow suppliers to offer a defined set of optional extras with their standard tariff. This proposal would allow suppliers to offer a wider range of standard tariffs.

2.68. While the ***variable standing charge proposal*** would simplify the structure of tariffs, it would not improve comparability as much as the RMR core proposal. This was highlighted in our quantitative research where only 50 per cent of non-E7 consumers could select the cheapest tariff, given tariffs with different standing charges, compared with 85 per cent when tariffs were presented with a uniform standing charge[40]. Relative to the RMR core proposal, we consider that the benefit of giving suppliers greater

[38] See www.which.co.uk/campaigns/energy-and-environment/tackle-tariffs/the-which-simple-energy-tariff/ for a description of the Which? proposal.
[39] i.e. a number of sequential choices like those available when you book an airline ticket online.
[40] In both cases, these results correspond to the findings when a price comparison metric was also available. The results without the price comparison metric are 44 per cent and 81 per cent, respectively.

freedom in setting the standing charge does not outweigh the loss arising from reduced tariff comparability.

2.69. The ***single tariff structure*** proposal is more interventionist than RMR core and, at first glance, appears to make it easier for consumers to compare tariffs. However, given that suppliers would be free to apply discounts or other incentives to non-standard tariffs it would be necessary to use a price comparison guide to compare standard and non-standard tariffs. The benefit of the single tariff structure proposal over RMR core is therefore unclear.

2.70. This proposal would create problems for suppliers in designing certain tariffs and so would restrict innovation and limit the choice available to consumers. It would also require suppliers to amend their whole tariff portfolio resulting in substantially greater implementation costs compared with RMR core. Which?'s version of the proposal would not reduce the number of tariffs available as it would change only the structure of tariffs and would place no restriction on the number of standard tariffs offered by suppliers.

2.71. On balance, we do not believe the benefits accrued from the single tariff structure proposal outweigh the additional costs associated with its implementation.

2.72. The ***price comparison only*** proposal is less interventionist than the RMR core proposal. This proposal would improve tariff comparability and would impose a lower cost on suppliers, largely because it would not simplify the structure of tariffs. The retail market would remain as complex and difficult for consumers to navigate as it is today and we are sceptical that the price comparison only proposal would lead to increased consumer engagement in the market. We believe that pursuing a price comparison only approach would lead to a lower net benefit than would the RMR core proposal.

2.73. The additional features that would be available under the ***airline options*** proposal may be appreciated by some consumers who would value a wider choice of products that do not have a termination date. However, compared to the RMR core proposal the additional options would increase complexity in the standard tariff segment of the market. The wider range of standard tariffs that would be available under this option may allow suppliers to reduce price competition through diversification of tariffs. These effects would lead to reduced tariff comparability and so the proposal is less likely to promote consumer engagement in the market than the RMR core proposal.

2.74. The airline options proposal would also give suppliers more freedom in the standard tariff segment of the market. We have significant concerns that this would erode our efforts to introduce a simplified tariff. Our quantitative consumer research showed that only 50 per cent of non-E7 participants correctly identified the cheapest supplier under the airline options proposal. This compares with 85 per cent of non-E7 consumers that identified the cheapest supplier when standing charges were the same for all suppliers and a price comparison guide was provided.

2.75. It is worth noting that the OFT is concerned with the 'drip pricing' strategies of airlines due to the lack of transparency in charges and it is possible that the airline options proposal could lead to similar forms of consumer detriment[41]. If this were to

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[41] We also note that this is one of the issues that has led to new EU legislation, i.e. the consumer

occur, consumer trust in the energy retail market may be lower than it is at present. On balance, we do not believe that the benefits of increased choice of standard tariffs outweigh the significant complexity that would be introduced in this segment of the market.

2.76. The draft Impact Assessment in Appendix 7 contains a full assessment of the alternative proposals.

Backstop tariff and additional features

Backstop tariff

2.77. In the current environment of rising cost pressures, it is not an option to leave consumers without the protection of effective price restraint. Although we prefer to see this delivered through an effective market, we intend to monitor the impact of our proposals closely and keep open the option of further interventions to protect consumers, including potentially a 'backstop' tariff.

2.78. A backstop tariff, for example priced relative to a basket of other tariffs available in the market, could potentially benefit consumers who are unable to navigate the market as it would be an alternative to participating in the competitive market. The backstop tariff could be designed to apply to certain customers, such as vulnerable groups. Alternatively, a wider backstop could potentially be available to all consumers and could replace the standard tariff in the RMR core proposal. In this context it would essentially act as the backstop tariff to all non-standard tariffs.

2.79. For reasons described in the draft Impact Assessment, we do not propose to introduce a wider backstop tariff at this stage. However, we do not rule out the potential for additional protection for vulnerable groups. This could be a targeted backstop, a requirement for suppliers to offer the best tariff to vulnerable consumers or other measures. We will maintain dialogue with government on this issue and invite consultation respondents to suggest what additional protective measures can be put in place to protect vulnerable consumers within the context of our proposals[42].

Additional features

2.80. We seek views on two additional features that could be associated with any of the tariff simplification proposals[43]. These are: to include an exception to allow suppliers to offer a green standard tariff in addition to an 'ordinary' standard tariff; and to include a six month price guarantee for standard tariffs. The first of these features could ensure that a wide range of green tariffs would continue to be available in the standard segment of the market. The second would give consumers the assurance that when they switched

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rights directive which will, from 2014, exempt consumers from being liable for hidden charges.
[42] This is explored further in Chapter 5 and in our draft Impact Assessment.
[43] The draft Impact Assessment discusses four other additional features that we have considered, but are not seeking stakeholder views on their pros and cons.

to a new standard tariff, their price would not change for the first six months. This could increase confidence in switching.

2.81. For reasons detailed in our draft Impact Assessment, we are minded not to allow suppliers to offer a green standard tariff in addition to an ‘ordinary’ standard tariff. We note that any dispensation for green standard tariffs would double the number of tariffs in the standard segment of the market and so would add significant complexity. Under the RMR core proposal, suppliers would be free to choose to offer a green standard tariff (for each payment type) instead of a non-green standard tariff. Some suppliers already focus on offering green / renewable energy tariffs and we expect that they would offer a green standard tariff under the RMR core proposal in any event without providing for a further exception. However, we do not wish to undermine our sustainability objectives and believe that there is sufficient doubt concerning the impact of our proposals on green tariffs that we should consult on the issue.

2.82. It is not clear if the benefits of the six-month price guarantee for standard tariffs would outweigh the costs, given that a 30-day price guarantee is already in place and would offer some protection for standard tariffs. Consumers that wished to have a longer price guarantee could choose a non-standard tariff, for which the price throughout the fixed term would be known in advance. However, some consumers may not be comfortable with switching to a tariff that has an exit fee. Ofgem does not have a minded to position on this issue and would welcome the views of stakeholders.

Conclusion

2.83. Figure 3 summarises our assessment of the key impacts of the five proposals, and the extent to which each proposal meets our objectives. Based on the evidence currently available, we consider that the net benefit of the RMR core proposal – supported by our proposals to strengthen the Probe remedies – would be greater than that of the other options considered. It also meets our objectives more effectively than any of the other policy options.

2.84. A detailed discussion of these issues is presented in the draft Impact Assessment.

Figure 3: The RMR tariff proposals

	Improve tariff comparability	Simplify tariff structure	Increase engagement	Facilitate innovation and choice	Improve decision-making	Low implementation cost	Low risk of unintended consequences
RMR core	✓ (green)	✓ (amber)	✓ (green)	✓ (amber)	✓ (amber)	✓ (amber)	✓ (amber)
Variable standing charge	✓ (amber)	✓ (amber)	✓ (amber)	✓ (amber)	✓ (red)	✓ (amber)	✓ (amber)
Single tariff structure	✓ (green)	✓ (green)	✓ (amber)	✓ (red)	✓ (green)	✓ (red)	✓ (red)
Price comparison only	✓ (amber)	✓ (red)	✓ (amber)	✓ (green)	✓ (red)	✓ (green)	✓ (green)
Airline options	✓ (red)	✓ (red)	✓ (red)	✓ (amber)	✓ (red)	✓ (amber)	✓ (amber)

Note: Green = high benefit, or low cost/risk, amber = medium benefit, or medium cost/risk and red = low benefit, or high cost/risk

3. Strengthen Probe remedies - domestic

Chapter Summary

Building on the findings and the evidence gathered since our March consultation this chapter sets out proposals for strengthening the Probe reforms.

Question 8: Do stakeholders agree with our recommended proposal of Option 3 ('Introduce more prescriptive rules') for bills and annual statements?

Question 9: Do stakeholders agree with our recommended proposal for SLC 23 notifications including price increase notifications of option 3 ('Additional information plus prescribed format') and option 4 ('Tighten and clarify policy intent')?

Question 10: We seek views from stakeholders on the additional requirements outlined in option 3 ('Additional information plus prescribed format') for SLC 23 notices including price increase notifications.

Question 11: We seek views on any proposals to restrict the inclusion of additional materials (e.g. marketing material) along with SLC 23 notifications.

Question 12: We seek views along with any supporting data or evidence for our proposals for information signposted to consumers in option 4 ('Tighten and clarify policy intent') for SLC 23 notifications including price increase notifications.

Question 13: We seek views on any additional recommendations which stakeholders consider relevant for bills, annual statements and SLC 23 notifications.

Question 14: We intend to consult on the content of the Confidence Code separately if and when we take over the governance responsibility for it. However at this stage we welcome any early views on developing the Confidence Code.

Question 15: We welcome views from stakeholders on our proposals for enhanced monitoring.

Question 16: We invite specific views on costs and other implications if we were to introduce our proposals. Please provide details and cost estimates where appropriate broken down by each proposal.

Background

Our findings

3.1. The Retail Market Review (RMR[44]) included an assessment on the progress of the reforms we implemented as part of our 2008 Energy Supply Probe (the Probe[45]). The Probe found that the competitive market was working. However, there were a number of areas that could be working more successfully for consumers. To address these areas

[44] The Retail Market Review – Findings and initial proposals, March 2011, Reference: (34/11).
[45] Energy Supply Probe – proposed retail market remedies, April 2009, Reference: (41/09).

we introduced a package of reforms, with the objectives to improve the quality and accessibility of information, and empower consumers to engage effectively in the market.

3.2. At the time the RMR was launched many of the Probe reforms had been in place for over a year and our monitoring activities suggested that the issues identified in the Probe had not materially improved. The Retail Market Review allowed us to take a more in-depth look at supplier's activities and the impacts of the Probe reforms for consumers.

3.3. The RMR found that suppliers had made changes to implement the Probe reforms set out in the licence conditions. This went some way to provide the intended benefits to consumers; however, significant shortcomings remained. We found some of the changes made by the companies were not in line with the spirit of the Probe reforms, and in some cases suppliers were not fully compliant. In some instances where suppliers have implemented Probe reforms they have provided consumers with complex or unclear information. This limits consumers ability to understand the key messages and engage with the market resulting in poor switching decisions. These factors in turn have contributed to widespread mistrust of the suppliers and negatively impacted competition.

3.4. Where necessary we have taken appropriate action by launching investigations into suspected non-compliance, such as the investigations launched last year into the sales and marketing activities of some of Big 6 suppliers. Our consumer research showed that, since the implementation of the Probe reforms, the number of consumers that were not engaging with the energy market remained broadly stable[46]. Therefore, consumer disengagement remains a key concern for Ofgem and we are keen that our remedies address this concern.

Our March 2011 proposals

3.5. Therefore, as part of the RMR document, we put forward proposals to strengthen a number of domestic licence conditions, including those obligations introduced at the time of the Probe. We proposed to implement more prescriptive measures to ensure consumers receive appropriate and clear information.

3.6. We planned to achieve this through, enhancing licence obligations on informational requirements on suppliers as well as considering routes to encourage consumer trust in switching sites. We also set out our intention to further enhance our monitoring efforts, to provide greater transparency on supplier performance, compliance to licence conditions and additional insights into the consumer experience.

Designing proposals – new evidence

3.7. Our proposals to enhance information relate to Standard Licence Condition 31A (SLC 31A), which sets out rules governing bills and annual statements. In addition, we are reviewing Standard Licence Condition 23 (SLC 23), which requires suppliers to communicate the principal terms of a contract to consumers and to notify consumers of any unilateral variations to their contract that will adversely affect them, including a price increase.

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[46] The Retail Market Review – Findings and initial proposals, March 2011, Reference: (34/11).

3.8. Our proposals have been developed taking into account findings from additional consumer research, responses to our March RMR consultation document, our general market monitoring, anecdotal consumer complaints and review of information suppliers provide to domestic customers for SLC 31A and SLC23.

3.9. Responses to the RMR consultation document expressed strong support for our proposals although suppliers were generally less supportive than consumer groups and other respondents. Suppliers' main concern appears to be that the adoption of a more prescriptive approach may impact their ability to innovate and to differentiate their service offerings.

3.10. Following this review, we have written to domestic energy suppliers outlining our expectations regarding compliance with SLC 31A and SLC 23. To ensure our intent was clear we also issued guidance on some of the requirements of SLC 23[47]. For SLC 31A we have asked them to review their bills and annual statements and make the required amendments. Alongside this, we have provided suppliers timelines within we would like to see this happen so that consumers can benefit from such a clarification in the near term.

3.11. In order to identify improvement areas we commissioned an expert study to review the language and format of bills, annual statements and price increase notifications. Results from the language experts published in the report, 'Energy bills, annual statements and price rise notifications: advice on the use of language'[48] (the language report), indicate that consumers may be better able to understand the information provided and engage with the market if they understand why they are receiving specific details, and how information can be used to help them.

3.12. This report highlighted the importance of grouping together key pieces of information, and of using consistent terms and language. The research also identified where suppliers fail to meet certain principles of communication. For example, it tells us some sections of energy bills, statements and price rise notifications showed almost the same level of complexity as the Harvard Law Review.

Our Proposals

3.13. The objectives of our proposals are to:

- facilitate greater consumer engagement in the market;
- improve the quality of information suppliers provide to consumers; and
- enable consumers to make well-informed decisions regarding their choice of energy tariff.

3.14. To address our concerns with supplier communications we propose standardising certain elements of bills, annual statements and price increase notification letters[49] as

[47] Guidance on notification of price increases - Standard Licence Condition 23, 16 August 2011.
[48] Lawes Consulting, 'Energy bills, annual statements and price rise notifications: advice on the use of language', November 2011, published along side this Consultation.
[49] As outlined previously in our 'Improving tariff comparability' chapter, whilst we have not set out detailed proposals for prescriptive information for contract renewal in this consultation document,

well as tightening the current drafting of relevant licence conditions to clarify our policy expectations. The key features of our 'Minded to' proposals are outlined in the box below.

Standard Licence Condition 31A – Bills and annual statements

- Existing rules regarding information requirements for bills and annual statements will be altered to clarify our policy intent.

- For both bills and annual statements key information will be provided using standardised language, and in some cases standardised formats. This will help promote clarity for consumers and foster consumer engagement.

- Where possible, standardisation of terminology will be consistent with those prescribed under other proposals, including the 'Tariff Information Label', price increase notifications and correspondence regarding contract renewals.

Standard Licence Condition 23 – Price increase notifications including notifications for other relevant variations

- Suppliers will be required to provide additional information on a notification required by SLC 23, such as the effective date, an estimation of the monthly/annual future cost of the charge, and a comparison of the new and current charges.

- All information must be personalised to the consumer.

- Where a notice relates to an increase in the unit rates or the standing charge, suppliers will be required to provide the information that relates to the certain price increase in a standardised table format.

- The notice can not contain any additional materials such as marketing materials related to other products or services.

3.15. We tested our proposals for more prescriptive requirements for bills, annual statements and price increase notifications with our Consumer First Panel[50] including any elements we propose to standardise.

3.16. During the consultation process we welcome further input on our proposals, and we also plan to seek additional input from experts and consumer groups. The prescriptive format of relevant material has been developed in line with the objectives identified

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we envisage that our proposals will be in line with the objectives and proposals for prescriptive information for elements of bills annual statements and price increase notification letters.

[50] Ofgem's Consumer First Panel is a deliberative forum made up of around 100 consumers recruited across England, Scotland and Wales, chosen to be broadly representative of consumers. The Panel meets regularly to discuss key issues impacting on their participation in the energy market and panellist change every year.

above. Preliminary examples of standardised price increase information on notifications have been provided in Appendix 3 to provide our initial view. Examples of standardised components of bills and annual statements that were tested with consumers will be published shortly after this consultation.

3.17. When developing our proposals we have also considered the potential synergies with other RMR proposals, and wider industry developments. For example, the rollout of smart meters will improve the information available to consumers in the future and Ofgem is considering what consumption and billing information should be made available to consumers in the context of smart metering. Consumer engagement is key to realising the benefits of smart metering; improving customer experience now will facilitate such future engagement. In the future, as the smart metering initiative progresses, there is the potential for the accuracy of information available to consumer and speed of the switching process to improve significantly.

3.18. In addition to our proposals on informational remedies Ofgem has recently announced its proposal to take over the governance of the Confidence[51] Code from the Consumer Focus following the Consumer Focus's imminent abolition in 2013. This intention was expressed as part of Ofgem's formal response to BIS's Consumer Landscape consultation[52]. This code will be an important tool to build consumer trust and engagement. In our view one of the key benefits of taking over the governance of the Confidence Code is that this initiative will facilitate implementation of the wider RMR package of remedies as well as include future developments such as sophisticated Time of Use tariffs (TOUs) as the smart meter rollout progresses. We note that BIS is considering its options regarding who should take over the Confidence Code.

3.19. We also plan to further enhance our monitoring efforts regarding supplier performance. This work will link with BIS Consumer landscape consultation as well as the new powers and duties that the Third Package[53] has granted us.

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[51] The Confidence Code is a voluntary code of practice that some online Domestic Price Comparison sites are accredited to. This code is currently governed by Consumer Focus and provides consumers with assurances about the information provided when engaging with the market through switching sites.

[52] BIS recently concluded its Consumer Landscape consultation; among other things this addressed the continuation of the Confidence Code after the abolition of Consumer Focus (likely to be in 2013).

[53] The term "Third Package" refers to Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 (Gas Directive) and Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 (Electricity Directive), concerning common rules for the internal market in natural gas and electricity respectively. Article 36 of the Electricity Directive and Article 40 of the Gas Directive impose on the Authority a number of new objectives which relate (amongst others) to ensuring competition and ensuring that customers benefit through the efficient functioning of the market and consumer protection (now part of Ofgem's principal objective under the Gas Act 1986 and the Electricity Act 1989). Article 37 of the Electricity Directive and Article 41 of the Gas Directive give the Authority a number of new monitoring powers (now part of the Gas Act 1986 and of the Electricity Act 1989), including the obligation to monitor the level of competition and market opening at wholesale and retail levels, prices for household customers, and any distortion or restriction of competition.

Proposals on bills and annual statements

3.20. From July 2010 new licence conditions were introduced (Standard Condition 31A of the supply licence – SLC 31A) requiring domestic suppliers to include on all bills information on the consumer's tariff, their energy consumption for the last 12 months and the projected costs for the following 12 months[54]. Suppliers were also required to issue an annual statement to all consumers which should contain the information required on bills plus the principal terms and conditions of the tariff and any premiums or discounts as compared with the supplier's standard monthly direct debit tariff[55].

3.21. In order to address our ongoing concerns with the quantity and quality of information suppliers provide to their consumers in bills and annual statements we examined several possible policy options which are discussed below. The full analysis of likely impacts of these measures is set out in the draft Impact Assessment which is presented in Appendix 8.

Option 1 ('Continue to rely on current arrangements')

3.22. The aim of the SLC 31A is to provide domestic customers access to the information they need, via energy bills or annual statements, to help them to engage effectively with the energy markets. SLC 31A requires suppliers to provide specified information to their customers on each bill, and further details once in every 12 month period (an annual statement). However, in a number of cases suppliers have not complied with the spirit of this SLC.

3.23. Under this option we would draw on the existing licence condition and provide separate supplementary guidance with clarification to suppliers on how they should interpret and implement each obligation in relation to bills and annual statements. With this approach we would also continue to monitor suppliers practices.

3.24. This approach would be relatively quick to implement. It would also result in limited costs implications for the industry, and ultimately for consumers.

3.25. Providing guidance regarding the application of SLC 31A may address some concerns we have about how key information is presented on bills and annual

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[54] Information required under this provision includes: the exact name of a customer's tariff; consumption for the period covered by the bill compared with consumption for the corresponding period in the previous year; and, where the customer has held their contract fro 12 months or more, consumption for the previous 12 months; illustrative projections (in £) for the following 12 months; and details of any time of use tariffs which may apply. There is also an absolute requirement that this information is clear and easy to understand, does not mislead the customer, and is fair in terms of its content and how it is presented. There are also separate requirements under Standard Condition 31 for bills to inform the customer that Consumer Direct can provide information and advice to consumers and how to contact the Consumer Direct.

[55] In addition to information required on bill, annual statement should include also: details of premium/discount between customer's current tariff and the licensed supplier's standard direct debit tariff; details of relevant Principal Terms of the customer's contract; a reminder in a prominent position that the customer can change their supplier/switch and information about where to find impartial advice and information about switching.

statements, but we note this option would not be sufficient to address all areas of concern.

3.26. Our research shows that consistency between different customer communications allows consumers to become more familiar with such information and makes it easier for them to understand and use the details provided. Therefore, our evidence strongly suggests that with this option we would not go far enough to address our concerns.

Option 2 ('Introduce amendments to SLC 31A')

3.27. This option would entail changing the drafting of some elements of SLC 31A to clarify our policy intent directly within the licence. This would limit the scope for alternative interpretations of these obligations and help ensure suppliers' actions are in line with both the spirit and letter of licence condition. We would also give added weight to guidance on the interpretation of this licence condition to enable us to offer a strong steer to industry now, and in the future.

3.28. For example, under this proposal we would enhance and clarify requirements concerning information currently presented on bills and annual statements, and outline how any premium or discount the consumer received relative to their supplier's standard direct debit tariff should be displayed. In addition to this, suppliers would be required to separate bills from annual statements and send them as a separate piece of correspondence. Currently they are often provided together, and the difference between the two is not clear creating confusion for consumers.

3.29. This option may address some areas around current interpretation of relevant rules. However, the language research indicates that more could be done to improve consumer understanding of the information currently required on bills and annual statements and prompt consumer engagement (i.e. information must be clearer by using consistent terms and language, grouping together key pieces of information etc.). Therefore, this measure alone would not be able to address all those concerns.

Option 3 ('Option 2 plus, introduce more prescriptive rules')

3.30. Under this option we would introduce amendments to SLC 31A to tighten the drafting and clarify policy intent. However, we would also introduce more prescriptive rules to ensure consumers receive information in a clear (more standardised) format that will facilitate greater levels of consumer engagement.

Bills – proposal

3.31. In addition to proposals outlined in Option 2, this option would include the introduction of the following requirements:

- a requirement to use consistent wording for the key information provided across the industry; and
- a requirement to provide a standardised summary box which should include the exact tariff name, the amount of energy used, tariff rate in p/kWh, an estimate of that customer's annual energy bills, applicable termination fees

and end date for fixed term period (where relevant) as well as a message noting how this information can be used.

3.32. To the greatest extent possible, this proposal would seek to maintain a consistent terminology and formatting across a range of different consumer communications.[56]

3.33. This option would provide customers with key information (i.e. the name of their current tariff, and their annual energy consumption) in one location that would help them explore energy offers. This approach would not unduly increase information requirements for bills, and would resolve issues of clarity layout and tone to make key information more accessible, and increase the number of consumers engaging with the energy market.

Annual statements – proposal

3.34. In addition to proposals outlined in Option 2, this option would include introducing the following requirements for all 'annual statements' suppliers send to their consumers:

- a requirement to use standardised terms or phrases for key information (including the title of the document);
- a requirement to use common formats to present relevant information;
- a requirement to group the relevant pieces of information about consumers principal terms;
- a requirement to clearly outline what the annual statement document is (e.g. make clear that it is 'your annual energy statement'), include messages to prompt consumers to engage, explain why the information is helpful to consumers and how it can be used to engage; and
- a requirement to provide a standardised 'Tariff Information Label' for the consumers current tariff in a format and location set by Ofgem.

3.35. We see the annual statement as a critical tool to help consumers to engage with the market. Annual statements need to be clear and help consumers have the information they need to compare tariffs and suppliers. We believe this can best be achieved by ensuring relevant key information is presented clearly and in one place, separate from other types of correspondence. Such communication can become even more important to consumers who may not receive regular bills, such as those with prepayment and direct debit tariffs.

3.36. Clear, standardised information on annual statements can prompt consumers to engage. Clear information about tariffs will make it easier for consumers to compare deals from all suppliers.

[56] At present terms such as 'tariff', 'contract', 'plan' and 'package' are used interchangeably as are 'bill', 'account', 'summary' and 'statement'. Research shows that presentational consistency allows consumers to become more familiar with such information and makes it easier for them to understand and use the details provided.

3.37. This proposal will also link in with language and formats used within the 'Tariff Information Label' on the annual statement, and will work in tandem with tariff simplification proposals to provide greater clarity to consumers. The language research shows that such consistency allows consumers to become more familiar with such information and makes it easier for them to understand and use the details provided.

3.38. Findings from our Consumer Panel work and other research indicate that consumers would value additional information to help them understand what a kWh means, and how it relates to their lives and energy use. We welcome views on what could be done to help consumers better understand what a kWh represents.

3.39. This option would promote clear and consistent use of language and formats for annual statements across the industry, and is more likely to achieve our policy objective: to enhance consumer engagement with the energy market. We believe that our proposed measures are a proportionate response to the problems that they seek to tackle.

3.40. This option will eliminate suppliers' ability to interpret some aspects of our remedies in ways that are not always in the best interest of their consumers. Overall, this proposal will provide consumers with the necessary information to prompt and aid their engagement with the market.

Bills and annual statements – 'minded to' proposals

3.41. Based on existing evidence from consumer research, an understanding of current supplier practices, views from language experts and consumer research we propose to introduce measures outlined in Option 3 (Introduce amendments to SLC 31A and introduce more prescriptive rules). As noted earlier in this chapter, we will conduct further research and seek expert input to help ensure any prescriptive elements are presented in a way that best helps consumers and promotes clarity and engagement.

3.42. We are aware that systems changes associated with this proposal could result in costs for the industry and, ultimately, consumers to be higher than they would be with the two other options discussed. However, we feel that the benefits to consumers and the market would outweigh potential drawbacks.

3.43. In their responses to the consultation, suppliers argued that the adoption of a more prescriptive approach may impact innovation and their ability to differentiate their service offerings. However, in the medium term, we believe the positive impact this proposal could have on consumers, and competitive pressures within the market, make it proportionate. This proposal would not prevent suppliers from having their own branding on their communications.

3.44. We see the annual statement as a critical tool to help consumers to engage with the market, and can be even more important to consumers who may not receive regular bills, such as those with prepayment tariffs. We believe the proposed standardisation of some elements of bills and annual statements would help to empower consumers and enhance competition.

3.45. In the case of both bills and annual statements further changes may be needed to these (or similar) documents to facilitate Government-led initiatives such as the Green Deal as well as discussions concerning incorporating details of a suppliers 'cheapest tariff' into bills. We will continue to work with industry, consumer groups and Government to consider how best to support provision of such information to consumers while meeting the objectives outlined in this consultation.

3.46. Our proposals for SLC 31A are summarised in Figure 4 below.

Figure 4: A summary of our proposals in relation to SLC31A

	Our Minded to Proposals re SLC 31A	Change to existing obligations
SLC 31A Information about gas/electricity consumption patterns	**Information required on bills**	
	• The exact name of a customer's tariff	(No change)
	• Consumption for the period covered by the bill compared with consumption for the corresponding period in the previous year	(No change)
	• Consumption for the previous 12 months where the customer has held their contract for 12 months or more	(Modification to existing)
	• Illustrative annualised bill estimate (in £)	(Modification to existing)
	• Details of any time of use tariffs which may apply	(No change)
	• Present key info using standardised language and formats (e.g. in a standardised summary box)	(New Requirement)
	Information required on annual statements	
	• The exact name of a customer's tariff	(No change)
	• Details of premium/discount between customer's current tariff and the licensed supplier's standard direct debit tariff	(Modification to existing)
	• Details of relevant Principal Terms of the customer's contract	(Modification to existing)
	• A reminder in a prominent position that the customer can change their supplier/switch	(Modification to existing)
	• Information about where to find impartial advice and information about switching	(No change)
	• Consumption for the previous 12 months where the customer has held their contract fro 12 months	(Modification to existing)
	• Illustrative annualise bill estimate (in £)	(Modification to existing)
	• Details of any time of use tariffs which may apply	(No change)
	• Provide a standardised 'Tariff Information Label' for the tariff supplier offers	(New Requirement)
	• Use common formats and language to present relevant information	(New Requirement)
	• Group the relevant pieces of information about consumer's principal terms	(New Requirement)
	• Outline what the annual statement document is and explain its purpose and how relevant information can be used by consumers to help them engage	(New Requirement)
	Requirements for both bills and annual statements	
	• The information must be clear, easy to understand and does not mislead the customer, and be fair in terms of its content and how it is presented	(Modification to existing)
	• Separate bills from annual statements and send them as a separate piece of correspondence	(New Requirement)
	• Use consistent wording for the key information provided across the industry	(New Requirement)

Proposals for price increase notifications and other variations subject to SLC 23

3.47. Under the current requirements of SLC 23 domestic suppliers are required to notify their consumers at least 30 days in advance of a unilateral variation to their contract which increases the charges for the supply of gas or electricity[57] (hereafter 'price increase'), or which is otherwise to the significant disadvantage of the customer (collectively 'the variation')[58].

3.48. Once a customer is aware of such a variation (by any means) they can notify their supplier of their intention to switch up until the day it is due to become effective. The customer can then avoid the variation to their contract, provided their proposed new supplier contacts the current supplier within 15 working days to inform them they will be taking over supply within a reasonable period of time. In addition, once a customer has notified their supplier of their intention to switch (on or before the date the variation becomes effective), the supplier may be prevented from charging an exit fee.

3.49. We recognise that providing consumers with an advance notice of a price increase facilitates budgeting decisions by providing consumers with an element of predictability[59], and provides relevant information which can be a trigger for consumer engagement. Whilst we appreciate this, we are concerned the information in these notifications is not being provided in a clear and easily comprehensible manner, which can make it difficult for consumers to realise these benefits.

3.50. With a view to address our concerns we are minded to propose standardising specific elements of the price increase information, which is presented in certain price increase notifications, as well as to strengthen the relevant licence condition in relation to all variations (changes) caught by SLC 23.

3.51. In the case of variations that don't relate to unit rates or standing charges, whilst we are not proposing to standardise the format, we are still proposing requirements to ensure that the customer is made fully aware of the effect of the variations in a clear and transparent manner.

3.52. Whilst we have set out draft legal text in Appendix 4, we will be considering whether any further amendments or changes to clarify the existing licence conditions are necessary to facilitate our proposals.

3.53. We are committed to ensuring that our proposals are compatible with developments in the market, including the roll out of smart meters. We note that the

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[57] Including charges for the provision of a meter.

[58] For instance, this could be an increase in the unit rates or the standing charge of a tariff, or any other variation which increases the charges, such as an increase in the charge for paper billing.

[59] Consumer First Panel sessions at the start of 2011 identified a need for greater predictability and reliability of prices and offers; a "fair" system would give consumers greater confidence in difficult economic times.
http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/Ofgem_OpinionLeader_Tariff_Report_Final.pdf.

standardised table templates we propose could be adapted for any other standard TOU tariffs we consider appropriate in the future.

3.54. The following section presents the options we considered for developing our "minded to" proposals[60] and provides a high level summary of their main advantages and disadvantages. Further detail regarding the evaluation and impact of these options is discussed in Appendix 8 of the accompanying draft Impact Assessment for the domestic proposals of the RMR.

Option 1 ('No change'): Continue to monitor and enforce existing conditions

3.55. Alongside the requirements of SLC 23 to provide advance notice of an increase in price, the current obligations require suppliers to provide consumers with key information in a prominent position on the notice. This includes information on how to find impartial advice about switching supplier. However, within the relatively broad scope of prominence requirements suppliers have flexibility regarding how they display the price increase information, the content, layout and presentation of these notices.

3.56. In light of the responses to the RMR March 2011 consultation and our review of suppliers' notifications, Ofgem is concerned that, suppliers are falling short of the policy expectations of SLC 23. We have identified a number of areas of improvements for enhancing the impact of notifications. In some cases, information provided to consumers has been complex, constraining the ability of consumers to make informed choices has contributed to a widespread mistrust of suppliers and consumer disengagement. We have also observed that key information is either not provided to consumers or incomplete.

3.57. While we recognise that a minority of suppliers have demonstrated some good practices, overall, in view of our concerns we do not consider option 1 ('No change') as suitable especially given the risk that no change will result in continuation of poor practices.

Option 2 ('Additional information'): Require suppliers to include additional information (without restrictions on format)

3.58. Under this option we would require suppliers to provide additional personalised price and tariff information. Suppliers would have the freedom to present this information according to their own formats. However, we would clarify through licence amendments that the customer must be made fully aware of the effect of the variations or changes in a transparent manner.

3.59. We propose that for all variations subject to SLC 23, including those variations which do not relate to unit rates or standing charges, suppliers would be required to provide additional information which is personalised for the individual consumer. For example, this would include (but not limited to);

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[60] In developing and evaluating these options we took into account responses to RMR March consultation, an internal review of suppliers' price increase notifications, complaints information received by Ofgem, and consumer research.

- Provide previous charges alongside the new charges;
- Estimate the monthly and annual impact of the price change for each customer
- Where there is a price increase in the unit rate or standing charge, the tariff details, including tariff name, region and payment type
- All charges must be shown inclusive of VAT.

3.60. This option improves the quality of the information to consumers while imposing very limited additional costs on suppliers.

3.61. Our RMR findings and review of price increase notifications demonstrate that while suppliers have the flexibility to interpret the licence condition and develop their own formats they have often been ineffective in communicating the key information to consumers. This lack of clarity can make it difficult for consumers to find, interpret and utilise relevant information.

3.62. Whilst this option would address some of our concerns around the quality of the information consumers receive suppliers would still have the scope to provide this information in a complex form.

3.63. The input from our language experts as well as findings from Ofgem's Consumer Panel suggests that standardisation of terms and formats would improve transparency and comparability between suppliers. Therefore, it is our view that this proposal on its own would not be sufficient to address the concerns identified.

Option 3 ('Additional information plus prescribed format'): Require suppliers to include additional information and consult on a prescribed format for price increase information

3.64. To address our concerns regarding the quality and clarity of information, this option would require a standardised table format for the price increase information presented in price increase notification letters. Appendix 3 presents examples of our proposed standardised format for the price information for E7, Dual Fuel and Single Fuel.

3.65. These examples incorporate some of the key information that we understand is relevant to consumers, based on our consumer research and advice from language consultants, which is discussed in Appendix 2. In contrast to option 2 ('Additional Information'), we would require the following personalised information in a standardised table;

- Provide previous unit rates and standing charge alongside the new charges;
- Estimate the monthly and annual impact of the price change for each customer,[61]
- Require only personalised tariff information in the notification,

[61] We will consider prescribing the methodology for the calculation of projected charges, if we identify through this consultation process that there appears to be a risk that suppliers may produce figures on an inconsistent basis. This methodology may address the situation caused when customers have less than 12 months consumption history with their current supplier.

- Personalised tariff details, including tariff name, region and payment type and;
- All charges are shown inclusive of VAT.

3.66. The format and content would be developed further based on the responses from this consultation and stakeholder engagement. Following this, we will consider if it is necessary to commission additional product testing with consumers, consumer groups or experts.

3.67. Whilst at this stage we do not intend to propose a prescriptive format for those variations that do not relate to unit rates or standing charges, suppliers will be required to provide the additional information related to these variations which is outlined in the standardised table detailed above. Similarly, we would clarify through licence amendments that suppliers must ensure that the customer is made fully aware of the effect of the variations in a transparent manner.

3.68. We are committed to ensuring that our proposals are compatible with market developments and will adapt these standardised table formats for other tariffs, where appropriate in the future. This option takes into account the proposals under Tariff comparability (Proposal 1) of the RMR (for standard and multi-rate tariffs)[62]. We would propose similar prescribed formats and language regardless of the developments following the consultation for the Tariff comparability proposals.

3.69. We recognise that practices by some suppliers already reflect certain information and format improvements that we are proposing through this option. Whilst this maybe true for some suppliers in our view this option removes the risk of misinterpretation of the licence condition by suppliers in total and therefore has the potential to have strong positive impact on a large number of consumers.

3.70. Our research and evidence suggests that an improved, consistent format can support improved decision-making by consumers and prompt engagement. It is our firm view that this approach will enable consumers to compare the price information easily between suppliers, leading to an increase in consumer switching activity, consumer awareness and competitive intensity.

Option 4 ('Tighten and clarify policy intent'): Introduce amendments to SLC23 to tighten the drafting and clarify policy intent

3.71. This option would entail amending the existing licence condition to clarify the original policy intent of the existing obligations SLC 23. Unlike Option 2 ('Additional Information'), this option enhances the prominence requirements on existing information or scenarios caught by SLC 23. This would address areas where we have identified improvements that are within the spirit of the current licence condition, but which are ineffectively implemented by suppliers.

3.72. We propose that these amendments would primarily cover:

[62] The prescribed format will be in line with the comparison metric established in our tariff comparability proposals.

1. clarity on what variations are subject to SLC 23 in light of the requirements of the gas and electricity Directives;

2. clarifying that the consumer can avoid the increase in charges through switching to another tariff with the same supplier in response to a variation;

3. ensuring that the following items, in addition to current obligations, are clearly signposted in all notifications, including:

   - The date the variations are intended to take effect;
   - Impartial advice on changing supplier;
     The notice must contain a clear title which relates to the increase in charges;
   - An explanation of the key reasons for the increase in charges; and
   - The circumstances in which a supplier cannot charge a termination fee; and
   - The circumstances under which a customer's outstanding charges (debt) could prevent that customer from switching supplier.

3.73. This will ensure that the consumer protection measures are effective and operate as originally intended in terms of customers being able to avoid effect of variations. In particular, we are proposing to extend the period in which the licensee has to receive a notice of transfer from the new supplier from 15 to 30 working days. This extension ensures that the new supplier has sufficient time after cooling off period has expired to notify the current supplier of their intention to take over supply.

Additional information, including marketing material

3.74. We have also noted that when sending out notifications under SLC 23, suppliers often include additional information such as marketing material on additional products or services. However, language experts advise that such information can be confusing for customers and advise that this type of information needs to be adequately defined and distinguished.

3.75. In our view this may result in consumers discarding the entire notice thinking it to be unimportant. Therefore, we propose to clarify that any such material should be not be included in the notice. Furthermore, we will require that the notification is a stand alone document.

3.76. The advantage of option 4 (Tighten and clarity policy intent) is that it addresses any potential ambiguity regarding the original policy intent of SLC 23. At the same time, it does not represent a significant expansion of the intended scope of the licence condition. This option would provide consumers with clarity on their rights to avoid variations and assist in prompting consumers to engage more effectively with the market. The clarity of information will improve consumer confidence, awareness and empower consumers to exercise their rights.

Price increase notifications – 'minded to' proposals

3.77. We have carried out a draft Impact Assessment of the options above which can be found in the associated supplementary appendices, Appendix 8.

3.78. On the basis of our assessment we are proposing a combination of option 3 ('Additional information plus prescribed format') and option 4 ('Tighten and clarify policy intent'). We believe a combination of these options will ensure consumers receive the key information in a clear and easily understood format. It will provide consumers with the benefits of clarity, simplicity and control.

3.79. Improving the clarity of information provided on the notice will assist in strengthening consumer confidence and will empower consumers to engage in the market through switching supplier. Therefore, it is our strong view that a combination of option 4 ('Tighten and clarify policy intent') and option 3 ('Additional information plus prescribed format'), will clarify the policy expectation of the licence condition and ensure the benefits of SLC 23 can be realised by effectively by consumers.

3.80. We summarise our proposals for SLC 23 price increase notifications and other variations in Figure 5 below.

Figure 5: A summary of our proposals in relation to SLC 23

	Our Minded to Proposals	Change to existing obligations
SLC 23 - Price increase notifications and other variations, including the principle terms	Requirement to provide the principal terms before a contract entered into.	(Modification to existing)
	Requirement to provide principal terms about deemed contracts	(No change)
	30 days' advance notice of an increase in charges or other unilateral variation.	(No change)
	The notice must inform the customer of following information;	
	• Customer can switch supplier to avoid the increase	(No change)
	• Where to find impartial advice and information about switching supplier	(No change)
	• A statement to consider switching supplier	(New Requirement)
	• Outstanding charges (debt) may prevent a customer from changing supplier	(Modification to existing)
	• A comparison of current charges with the new proposed charges	(New Requirement)
	• Information on the key reasons for the increase in charges	(New Requirement)
	• The effective date of the increase in charges	(New Requirement)
	• Monthly and annual estimates of the cost of the charge	(New Requirement)
	• For an increase in charges only, personal tariff details such as tariff name, region and payment type.	(New Requirement)
	The information above must clear, easy to understand and some information must be in a prominent place on the notice.	(Modification to existing)
	Information related to personalised tariff details and the price increase (including unit rates or standing charges) are subject to a standard format.	(New Requirement)
	All charges must be inclusive of VAT.	(New Requirement)
	All information provided must be personalised to the customer.	(New Requirement)
	The notice must have a clear title which relates to the increase in charges (or other unilateral variation).	(New Requirement)
	The information on the notice cannot contain any additional material, or provided in conjunction with a bill, annual statement or marketing material.	(New Requirement)
	The consumer can notify their supplier they are going to switch, either on or before the effective date of the new charges	(No change)
	To avoid the increase, the new supplier has **30 working days** to notify the existing supplier that they intend to take over supply.	(Modification to existing)
	The consumer can switch to different tariff with the existing supplier to avoid the increase in charges	(New Requirement)
	If a consumer is objected to switching by the current supplier, for example due to outstanding debt, they have a further 30 days at the previous charges to resolve the objection.	(No change)
	Supplier is required to explain the circumstances where a termination fee cannot be charged	(New Requirement)
	Power for the Authority to issue directions relating to the format of notifications and specifying some additional information which must be included in notifications	(New Requirement)
	Circumstances where the notification rules do not apply	(New Requirement)
	Requirement for the supplier to have terms and conditions that reflect SLC 23	(New Requirement)

Enhanced consumer confidence in switching sites

3.81. Independent price comparison websites play an important role to enhance effective customer engagement by providing tariff comparisons and a switching service. Our research[63] shows that in 2010, door knocking was the principal method by which consumers found out about deals offered and switched. Second to this was on-line comparison sites with around 20% of consumers finding out about deals this way. With multiple tariffs on offer these sites can help consumers compare and select tariffs which most appropriately meet their needs and preferences.

3.82. In our Consumer First Panel at the start of 2011 we explored the role of switching sites. The more active and engaged consumers perceived the websites as useful, with some noting that the websites allowed them to compare tariffs or suppliers in their own time and convenience, with no sales pressure, whilst provided an often quick and easy point of reference. Some Panellists reported seeing out of date or conflicting results when using comparison sites. There was also some debate amongst Panellists as to the impartiality of switching websites. Overall, there was a distinct appetite for an impartial service, with many feeling that it was not a necessity for Ofgem to be its provider as long as it had the integral quality of independence.

3.83. Therefore, in the March 2011 RMR consultation document, we sought views on whether more needed to be done to improve consumer trust and use of switching sites.

3.84. The Confidence Code[64], a voluntary code of practice for domestic online price comparison sites administered by Consumer Focus, is a useful tool for setting standards and inspiring consumer trust in switching sites. Some respondents to the RMR March consultation suggested that Ofgem take governance of the Confidence Code, as the regulator's branding may increase its visibility and help inspire greater consumer confidence in these sites. Stakeholders also offered a number of other operational suggestions to enhance consumer trust in switching sites. We discuss respondents' suggestions, concerns with the functioning of switching sites and the relative impacts of their suggestions in the draft Impact Assessment in Appendix 9.

3.85. We progressed these suggestions under Ofgem's wider work with the Department for Business, Innovation and Skill (BIS) work on institutional changes to the consumer landscape in UK. In June this year BIS published its consultation on changes to the consumer landscape to reform the current institutional arrangements to ensure that consumer advice, representation and enforcement are delivered effectively and efficiently. Part of this is the abolition of Consumer Focus in 2013. The closure of Consumer Focus raises the issue about the continuation and governance of the Confidence Code. We note that BIS is in the process of considering responses to its consultation.

3.86. On the basis of our assessment, Ofgem has proposed taking over responsibility for the Confidence Code in our official response to BIS. We consider that this will provide

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[63] Based on switching sites data from the January 2011 MORI survey (a key input into the RMR).
[64] Consumer Focus provides accreditation to domestic switching sites through this code.

us with a key tool to implement some of the above suggestions for operational improvements to switching sites thereby facilitating greater consumer trust in such tools. Currently we do not have any indication that this will be problematic, and are in discussions with Consumer Focus regarding the detailed arrangements.

3.87. This initiative fits closely with the themes and proposals emerging from the RMR by helping to prompt and aid engagement and build trust. We consider that there would be strategic benefits in Ofgem taking on this function, some of which are listed below.

i. It will synergize our efforts under the RMR to make the market more transparent and enhance effective consumer engagement.
ii. It will enable effective implementation of other RMR proposals, such as our tariff simplification, standardisation and tariff presentation on switching sites proposals. In future this can also cover the more Smart Time of Use tariffs.
iii. The Confidence Code will provide an effective tool to influence operational improvements to domestic switching sites.
iv. The Confidence Code may become a method of helping suppliers comply as well as a mechanism for dealing with switching sites that don't have any relationship with suppliers[65].
v. Ofgem has the relevant expertise to consider these issues effectively.
vi. Ofgem branding may help inspire consumer confidence.

3.88. We consider that Ofgem is well placed to take on this responsibility. It will enable us to influence and improve the domestic switching site services market, and thereby inspire consumer trust and engagement in the market.

3.89. Ofgem will continue to engage with BIS on this issue. In our view it is essential that information at these sites is provided in a clear and easy to comprehend manner. This may include the transparency of commission arrangements between suppliers and switching sites. In the event that the Confidence Code is transferred to Ofgem we intend to review it and suggest improvements and alignments with other RMR measures where appropriate.

Enhanced Monitoring

3.90. In the RMR March consultation we proposed enhancing our monitoring. In such cases we proposed to enhance the level of transparency on suppliers' compliance with licence obligations. We noted that we may consider regular naming and shaming of companies that in our assessment performed below a satisfactory level of compliance and publishing more regular reports that place poor supplier behaviour in the public spotlight. Our March consultation document sought views from stakeholders on enhanced monitoring activity by Ofgem.

3.91. In response to this question some stakeholders provided various views such as developing a framework for monitoring competition, Enhanced (more granular)

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[65] For example our proposals under the "Standards of conduct" would imply that suppliers will be responsible for any switching sites that act as their representatives, that is, where they have a direct or indirect relationship with the switching sites.

complaints monitoring and developing indicators of customer service. With respect to complaints monitoring some stakeholders suggested Ofgem to regularly collect and publish detailed complaints data from suppliers similar to the model followed by the FSA. This would put in an element of "reputational regulation" in our activities.

3.92. We consider the issue of enhanced monitoring by Ofgem having linkages with our wider duties under the gas and electricity directives and as well linkages with the BIS consumer landscape consultation work.

3.93. In April 2011, BIS and the Cabinet Office published a strategy document, Better Choices: Better Deals[66], in which it set an expectation/intention that more complaints and performance data held about businesses should be made available, and that regulators, departments and public service providers should release the complaints data they hold.

3.94. Under the new Electricity and Gas Directive of the 3rd package, the Authority has the following new monitoring duty: monitoring the level and effectiveness of market opening and competition at retail levels, including prices for household customers including prepayment systems, switching rates, disconnection rates, charges for and the execution of maintenance services, and complaints by household customers, as well as any distortion or restriction of competition, including providing any relevant information, and bringing any relevant cases to the relevant competition authorities[67].

3.95. In its consultation on changes to the consumer landscape, BIS has sought views on how the provision of consumer information to consumers can be improved upon. As part of its statutory functions Consumer Focus publishes company performance information for the Big 6 in the form of a league table based upon contacts and complaints to its Extra Help Unit, Consumer Direct, and the Energy Ombudsman. It is unclear who will take on this role if Consumer Focus is dissolved in 2013.

3.96. We view the provision of data on energy company performance as a key source of information for consumers to enable them to participate in the market. In our response to the BIS consultation we have therefore recommended that Ofgem takes responsibility for this information function after the abolition of Consumer Focus. This would be consistent with arrangements in the communications and financial sectors where comparable functions are currently performed by the sectoral regulator.

3.97. We do currently publish the results of our annual research into customers of the Big 6's satisfaction with complaints handling, and quarterly and annual data on performance against the social obligations in supplier licences. Exercising our powers to include collect and publish data on supplier performance, on a more regular basis with respect to tariff prices and complaints would be similar to the approach taken by other regulators. The proposed changes in the consumer landscape provides an opportunity to shape the type of information that should be captured and published.

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[66] Cabinet Office Strategy paper http://www.cabinetoffice.gov.uk/resource-library/better-choices-better-deals.

[67] Whilst we will be required to collect information, there is no equivalent duty to publish it.

3.98. We recognise that there is a considerable amount of information collected which is unpublished and its usefulness untested. We intend to debate the scope and breadth of the information that it would be helpful to collect and publish - including who might be best placed to do the latter - with consumer groups, industry and Government as part of our RMR work.

4. Standards of Conduct

Chapter Summary

Feedback from consumers concerning their views of energy supplier activity, current supplier practices and the impact these have on consumer engagement has caused us to reconsider the ability of our current Standards of Conduct to promote best practice and transparency. We propose to introduce a revised set of Standards of Conduct as an principles-based, overarching, enforceable licence condition.

Question 17: Do you consider the revised SOCs will help achieve our objectives?

Question 18: Do you agree the revised SOCs should apply to all interactions between suppliers and consumers?

Question 19: Do you agree that the SOCs should be introduced as an overarching, enforceable licence condition?

Question 20: Do you have information regarding potential costs this may impose on suppliers?

4.1. Our RMR evidence shows that consumer engagement in the market is low. Our research shows reasons for this include a lack of trust in suppliers and a perception that they make things deliberately complex. We also found that in many cases suppliers have not adhered to the spirit of the existing Standards of Conduct (SOCs). Therefore, we proposed to introduce one or more of the SOCs into new or existing licence conditions. This document focuses on policy options around the SOCs as they relate to the domestic supply market.[68]

4.2. Promoting fair and transparent interactions with suppliers is the policy intent of the existing SOCs. It is clear that, in many cases, suppliers' actions are not in line with this. There is also concern that, as currently drafted, the SOCs are too narrow in scope and that we cannot hold supplier accountable if they do not act in line with these measures. As a result, our existing SOCs have not had the desired impact.

4.3. Further research conducted since March support our findings about the link between perceptions of supplier behaviour and consumer engagement. From a consumer protection standpoint it means that, in general, consumers are not benefiting from clear and transparent information. It also means individual consumers, and the market as a whole, are not seeing the full benefits of competition. A significant proportion of consumers are currently not encouraged to engage with the market, with the result that competitive pressures on suppliers are not as strong as they could be. Moreover, consumers who are not engaged are less likely to know what they are paying for their energy, interact with their supplier if they have a problem, seek alternative or new products or consider

[68] We discussed policy options as they relate to the non-domestic supply market in our non-domestic Consultation Document and Impact Assessment (see list of associated documents).

switching supplier. To encourage consumers to engage with the market it is important for them to feel they can trust energy suppliers and their representatives.

4.4. For these reasons we are proposing to introduce the new SOCs in a licence condition that we can enforce. Our proposed SOCs are in Figure 6 below and would require that the licensee shall take all reasonable steps to ensure that[69]:

Figure 6 - Proposed new Standards of Conduct

(a) the licensee, its staff and any Representative behave and carry out any actions in a fair, honest, transparent, appropriate and professional manner;

(b) the licensee, its staff and any Representative provide information (whether in Writing or orally) to a Customer which:

- (i) is complete, accurate and not misleading (in terms of the information provided or omitted);
- (ii) is communicated (and, if provided in Writing, drafted) in plain and intelligible language;
- (iii) relates to products or services which are appropriate to the Customer to whom it is directed; and
- (iv) is otherwise fair both in terms of its content and in terms of how it is presented (with more important information being given appropriate prominence);

(c) the licensee, its staff and any Representative:

- (i) make it easy for a Customer to contact the licensee;
- (ii) act promptly and courteously to put things right when the licensee, its staff and any Representative make a mistake; and
- (iii) otherwise ensure that customer service arrangements and processes are complete, thorough, fit for purpose and transparent.

4.5. These SOCs would require better treatment of consumers across the industry. They enable us to set out the principles that we would require suppliers to adhere to in order to see positive outcomes for consumers, and suppliers would have a degree of flexibility with regard to how they achieve those outcomes.

Background

Key issues

4.6. The existing SOCs (see Figure 7 below) were introduced as part of the Probe. They are intended to, among other things, give consumers confidence that suppliers would treat them fairly at all times and that they would be provided with full, clear and accurate information by suppliers. In practice, they are targeted, non-binding

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[69] Note that this formulation assumes a binding licence obligation. For more information on this option see the draft licence condition 1A in Appendix 4.

measures that outline our expectations regarding how suppliers should treat consumers in specific interactions such as sales and marketing (where consumers may be directly prompted to make a choice about their energy tariff).

Figure 7 – Existing Standards of Conduct

These apply to domestic and small business consumers

(1) [The supplier] must not sell a customer a product or service that he or she does not fully understand or that is inappropriate for their needs and circumstances;

(2) [The supplier] must not change anything material about a customer's product or service without clearly explaining to him or her why;

(3) [The supplier] must not prevent a customer from switching product or supplier without good reason;

(4) [The supplier] must not offer products that are unnecessarily complex or confusing; and

(5) [The supplier] must make it easy for customers to contact [it] and act promptly and courteously to put things right when [it] make[s] a mistake.

4.7. However, they have not had the intended effect on supplier behaviour. This in turn has meant the intended improvement in consumer trust and engagement has not happened. Despite the existing SOCs, evidence from our Consumer First Panel suggests that the underlying issues of trust and engagement have not improved since their introduction – indeed, these issues appear to be getting worse. This may be due to their status as non-binding provisions that are limited in scope.

4.8. Whilst the existing SOCs are not directly enforceable, we may have regard to them when considering our enforcement priorities and assessing the extent to which supplier conduct has harmed consumers. This also means we may only refer to them in relation to existing licence conditions or statutory requirements.

4.9. Our inability to enforce the existing SOCs means suppliers are not compelled to adhere to them; this is likely a factor in explaining why suppliers have not embraced the spirit of these measures. We have tried to encourage suppliers to follow the SOCs on a voluntary basis. However, it now appears that without a mechanism to ensure supplier adherence, the SOCs will not deliver an improved experience for consumers when interacting with the retail energy market. There are precedents for such an approach within other markets: a range of regulators have given legal force to codes of conduct or similar measures. Such an approach should result in better treatment of consumers, and help to increase their trust in the market. Previous Consumer Panel research has noted consumers have more confidence in protections introduced as legally binding rather than voluntary measures.

4.10. In addition, we consider that SOCs could play a key role in addressing a range of areas where concerns around consumer and supplier interactions exist. Our research shows that consumers have a general, underlying mistrust of suppliers. Suppliers (as opposed to other organisations such as switching sites, Consumer Focus or Ofgem) are often the most visible organisations consumers look to for information about tariffs and the energy industry. However, consumers often do not feel they can comprehend or trust this information and, therefore, do not use it to help them engage, and some may choose not to access it in the first place. Consumer research and other consumer feedback has also noted issues relating to interactions with suppliers beyond the scope of existing licence conditions. Without a sufficiently broad scope, SOCs cannot foster consistently positive interactions that would support increased levels of consumer trust and engagement.

Case studies – use of industry codes and standards

4.11. To help inform our work in this area we have examined examples (and, where possible, best practice) regarding the use of industry codes and standards of conduct in other countries and different sectors.

4.12. Many regulators give legal force to codes of conduct. Key mechanisms include:

- requiring suppliers to incorporate a code of conduct into supply contracts (e.g. Commission for Energy Regulation (CER) in Ireland);
- requiring suppliers to develop their own codes of conduct as part of a licence condition (e.g. Ofcom); and
- requiring suppliers to abide by a code of conduct dictated by the regulatory authority (e.g. FSA; Australian state energy regulators).

4.13. There are two broad approaches with regard to scope:

- a holistic approach, in which higher level principles (and more detailed standards if appropriate) are intended to cover a wide range of activities (e.g. FSA); and
- a piecemeal approach, comprising one or more standalone codes for specific areas of activity (e.g. Ofcom; Australian state energy regulators).

4.14. Our findings based on the above research – and the recently introduced RIIO approach to network price controls – emphasise both the potential benefits of using principles as a regulatory tool, and the importance of ensuring such principles are directly enforceable.

Our proposals

4.15. Our key objectives are to improve the quality of consumer interactions with suppliers, help promote greater levels of trust in the energy industry, encourage greater levels of consumer engagement and promote competition. In putting forward these options we have also considered our principal statutory objective, which is to protect the interests of existing and future consumers.

4.16. We have also been particularly mindful of our new regulatory objective under the gas and electricity directives[70] of:

"ensuring that customers benefit through the efficient functioning of their national market, promoting effective competition and helping to ensure consumer protection".

4.17. In the options outlined below we explore a variety of ways to improve the existing SOCs and address the key issues identified above.

4.18. In the first section we present the key components that underpin each option considered in this chapter. We then outline the three main options, which consider the legal status or application of the new SOCs. Finally, we provide an assessment of these options as they relate to the domestic market and confirm our preferred approach.

Common elements of each option

4.19. Based on our research, we consider the coverage of the existing SOCs to be too limited (both in terms of behaviours captured and scope of application). In their current form, we do not consider relying on the existing SOCs would provide the best mechanism for improving supplier behaviour in all their interactions with consumers, increasing consumer trust in suppliers, and prompting engagement in the market.

4.20. Each of the options considered, therefore, incorporates changes to the nature and content as well as scope of application of the SOCs as described in the following sections.

Nature and content

4.21. We propose to recast the SOCs as wider-reaching, high level principles, using the spirit of existing SOCs as a foundation. This would enhance their coverage without removing their focus on consumer interactions (see proposed new SOCs in Figure 6 above).

4.22. The proposal to adopt these SOCs builds on a principles-based approach to regulation adopted as part of the Energy Supply Probe. Similar provisions already exist as 'objectives' within the Domestic Marketing Licence Condition SLC 25, and our proposals expand this approach to other areas. As well as providing a broad level of protection for consumers and addressing matters not covered by current measures, the new SOCs could enable us to limit the need for more prescriptive measures in the future. Additionally, this approach would give suppliers some flexibility with regard to how they achieve the standards, which they could adapt

[70] As set out in Article 40(g) of Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 and in Article 36(g) of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009, concerning common rules for the internal market in natural gas and electricity respectively.

over time. This is an important feature given the technological and market innovations that may result from the roll-out of smart metering, for example.

Scope of application

4.23. In keeping with the drafting and objectives of the new SOCs, our intention is to apply these provisions to all supplier interactions with consumers[71]. These may include, but are not limited to, the following activities: billing; meter reading; any written or oral communications with Customers; any sales and marketing activities; the exercise of Rights of Entry; the exercise of disconnection powers; and debt recovery. This would expand coverage of the SOCs to facilitate a broad level of protection for consumers, which is important given evidence of widespread consumer mistrust of suppliers. It is also consistent with the high level nature of our proposed principles.

4.24. However, by focusing only on interactions between suppliers and consumers, the proposed SOCs go no further than we consider necessary. For example, we are not looking to extend the scope of SOCs to cover interactions between Licensees that do not clearly impact consumers, or interactions between Licensees and the regulator, as seen with principles or codes of conduct within other industries. Also, although we are prepared to take enforcement action to uphold the proposed SOCs, it will remain the case that consumers will also need to continue to resolve any individual concerns they have with suppliers directly or with the help of the Energy Ombudsman. We do not normally have a direct role in resolving individual disputes.

Options analysis

Option 1 ('Legally binding via an overarching licence condition')

4.25. With this option we would implement new SOCs that incorporate high level principles and apply to all interactions between suppliers (including their representatives) and consumers. The new SOCs would be introduced as a binding, overarching licence condition. They would, therefore, be directly enforceable. We would carry out regular monitoring of suppliers' (and their representatives') adherence to the new SOCs, and where there is suspicion of non-compliance we will consider and, if appropriate, take enforcement action.

4.26. This would introduce a legal obligation on suppliers to adhere to the new SOCs. Suppliers would be required to take all reasonable steps to achieve each of the principles, and to avoid doing anything which might jeopardise their ability to achieve them.

4.27. We consider that the new SOCs are drafted in a way that enables suppliers to understand how they can meet the principles they contain. To clarify our interpretation of this licence condition we may issue Guidance or other material, if

[71] Including interactions between representatives of suppliers with consumers. For these purposes a representative would include a person that is directly or indirectly authorised to represent the supplier.

appropriate. We will in due course also consider what compliance and enforcement processes may be most appropriate when enforcing principles-based requirements. When determining whether to pursue enforcement action, as set out in our Enforcement Guidelines we would consider the level of consumer harm and impact on competition, as is the case with existing licence conditions.

Option 2 (‘Non-binding + industry commitment’)

4.28. Under this option, implementation of the new SOCs would remain voluntary. It would, however, be supported by a public commitment from suppliers to adhere to them. Suppliers’ performance against this commitment would be monitored by Ofgem on a regular basis (see the section of our draft Impact Assessment on Post Implementation Review for details).

4.29. Having made a public commitment, which would be monitored by Ofgem, under this option suppliers would face a greater reputational incentive to adhere to the new SOCs than they would in the absence of such undertakings. Although this is more likely to drive the improvements we are looking for compared to a scenario where no commitment was given, we do not propose to pursue this option because we would continue to have concerns regarding the degree to which this will promote supplier adherence. We welcome recent supplier commitments to improve their relationship with consumers. However, based on past and current practice we consider that firmer measures are needed.

Option 3 (“Non-binding”)

4.30. Under this option, the legal status of the new SOCs would remain unchanged and implementation would be voluntary. We would continue to have regard to adherence to them in determining enforcement priorities, but could not enforce them directly.

4.31. Although the nature and scope of the new SOCs would be improved, we do not propose to pursue this option because we would continue to have significant concerns regarding supplier adherence, and their limited incentive to do so.

Conclusion

4.32. We are minded to introduce Option 1 (‘Legally binding via an overarching licence condition’). Our RMR evidence shows that poor supplier behaviour, low consumer trust and levels of consumer engagement with the market need to be addressed. This approach appears to offer the best way to ensure that our key objectives are met.

4.33. We consider that stronger, broader SOCs are most likely to support improvements in supplier conduct. This should benefit consumers by directly improving their experience. It would also enable them to have confidence in the regulatory protections regarding their interactions with suppliers (and their representatives). This should help promote consumer engagement and provide both direct and indirect benefits from increased levels of competition in the market.

4.34. The principles-based nature of the new SOCs will give suppliers a degree of flexibility regarding implementation. This will allow them to adapt their approach over time while still delivering the outcomes we, and consumers, expect. Also, we see this proposal working in tandem with other, more prescriptive, proposals discussed in previous sections of this document. For example, the new SOCs should help to ensure that other consumer related licence conditions (including those proposed under the RMR) are applied and interpreted consistently with them.

4.35. Options 3 ('Non-binding') and 2 ('Non-binding + industry commitment') would rely primarily on reputational incentives. We are concerned such incentives – even if supported by a public commitment from suppliers – would not deliver the intended outcomes. This concern is based on experience to date, namely that the non-binding SOCs introduced following the Probe have not had the intended impact on supplier behaviour, consumer trust or engagement.

4.36. In our view the proposed SOCs formalise what we expect a competitive supplier should do as a matter of course. Although we recognise that some suppliers will have to make more substantial changes than others, we do not anticipate this proposal will result in unreasonable or overly burdensome compliance and enforcement costs. Moreover, such costs would be outweighed by the benefits to consumers. Further consideration of the impact of this proposal is outlined in the attached draft Impact Assessment (see Appendix 10).

5. Vulnerable consumers

Chapter Summary

This chapter describes how our proposals may affect vulnerable consumers and what steps we are taking to ensure they are protected.

Question 21: Do you agree with our analysis of the impact on vulnerable consumers?

Question 22: What are your views on the need for further intervention?

Question 23: Who in particular should any additional support be targeted at?

Insight into consumer engagement

5.1. Our research tells us that consumers generally see the energy market as complex and hard to navigate. A relatively small proportion of consumers regularly shop around to find a better deal and a significant number of consumers are disengaged from the market. Those consumers who are vulnerable are more likely to be disengaged or 'sticky' consumers. Many of those in vulnerable groups are less likely to be able to navigate the market and access deals such as online tariffs. Our recent Consumer First Panel, completed in early November 2011[72], indicated that as prices rise across the industry, consumers are generally feeling helpless and see little reason to switch suppliers. Our research is published on our website and a summary of our recent work is available in Appendix 2.

5.2. The RMR package aims to empower consumers to become more active and to make good decisions. We want consumers to understand the information they receive, compare tariffs and consider switching tariffs or suppliers. Encouraging more, but not necessarily all, consumers to engage effectively with the market should help constrain prices to competitive levels. This is particularly important in the current economic climate and as consumers, including vulnerable and the fuel poor, face price rises in the move to develop a secure and low carbon energy sector. However, certain consumers may still choose not to engage with the market and other consumers, particularly vulnerable groups, may be unable to.

Benefits for all consumers

5.3. The RMR package is designed to have a number of direct and indirect benefits for all consumers by creating a more transparent, effective and competitive market which consumers can trust. As we set out in our Impact Assessment, we consider that vulnerable consumers potentially stand to gain the most from our proposals given they are typically 'stickier' than mainstream customers. For the most benefit to accrue, there would need to be more effective engagement from such consumers. However, those

[72] The full report will be published by the New Year.

consumers who are unable to engage with the market, or who choose not to engage, will benefit from the 'ripple effect'.

5.4. It may be that there is still a proportion of less engaged consumers how choose to remain in the standard part of the market. If this is the case, it is likely that suppliers will focus their consumer acquisition on the non-standard/fixed term part of the market, and may compete more dynamically with their competitors. This may lead to a divergence between the price of standard and non standard tariffs, which we will actively monitor and take action if required. Therefore, to get the best deals, consumers will need to shop around and switch if there is benefit in doing so. It may be the case that some vulnerable consumers struggle to do this.

5.5. We are considering how, and who is best placed, to communicate the RMR changes to vulnerable consumers. It is important that consumers are aware of the changes and understand them. Moreover, the transition itself provides a useful opportunity to engage more consumers in the market. Alongside this we will continue to run our Energy Best Deal campaign in partnership with Citizens Advice. The campaign provides advice to frontline advice workers and consumers to raise awareness on getting help and saving money by switching or saving energy.

Protecting vulnerable consumers

5.6. Our March consultation asked whether respondents felt our proposals were sufficient to protect vulnerable consumers, or whether further action was needed. Many stakeholders replied that it was too early to answer that question and called for Ofgem to monitor the impact of our proposals on vulnerable groups. The Fuel Poverty Advisory Group suggested a 'fair trade' tariff could be established for vulnerable groups, the price of which would be pegged to a basket of tariffs in the market. Some respondents also questioned whether further intervention would enter the realm of social rather than regulatory policy and so be for government.

5.7. We are aware that some consumers will remain disinterested and unwilling to engage with the energy market. This may be because they consider switching to be a hassle, they see little difference between suppliers, they may be happy with their current supplier or they may be loyal towards what they perceive to be national brands.

5.8. We expect that those consumers who engage most effectively with the market are most likely to get the best deals. Other customers, such as vulnerable consumers, may simply not be able to engage with the market because of limited literacy and numeracy skills, or because they are without internet access. Recent data from the Office of National Statistics shows that consumers who are disabled, lower income and elderly are less likely to be online. From our research we note that there are degrees of vulnerability and a consumer showing more than one of the above features is particularly likely to struggle to engage. Our research also highlighted that switching decisions may be more complex for consumers on time of use tariffs such as Economy 7 as they have to consider multiple rates.

5.9. We will continue to actively monitor the market and the extent to which it is working for all consumers. This will be done through the market data we collect and research we commission, such as our annual switching omnibus. As the RMR remedies are put in place we will monitor the impact, particularly on vulnerable consumers. We do not rule out further direct intervention if evidence shows that vulnerable groups are, or are likely, to miss out on the benefits of the RMR proposals.

5.10. Such direct intervention for vulnerable consumers could include a targeted backstop tariff[73] or a requirement on suppliers to offer the best tariff to vulnerable consumers. We intend to discuss these issues with government in due course. Government has already taken steps to identify consumers who require additional support, for example through the cold weather payments and the Warm Home Discount. Professor John Hills' Review of Fuel Poverty[74] also provides an important backdrop to our consideration of these issues.

[73] For further discussion of this point, please see chapter 2.
[74] Please see the following link: http://www.decc.gov.uk/en/content/cms/funding/fuel_poverty/hills_review/hills_review.aspx.

6. Next Steps

6.1. We believe that the proposals set out in this document represent the best balance between effectiveness to meet our aims and proportionality of the intervention. Our proposals for the domestic sector are a comprehensive package of remedies designed to allow consumers to benefit from more enhanced competition in the market by reducing the barriers to effective engagement.

6.2. As part of this consultation document, we have included licence drafting to clarify how we plan to implement these measures. We invite responses to our minded to proposals by **23 February 2012**. We are particularly interested in specific evidence on the costs and benefits of our proposals.

6.3. During this consultation period, we will be engaging with stakeholders to seek initial views and to ensure that an effective discussion takes place so that key issues can be flagged as soon as possible. If we implement our proposals, we hope to work constructively with domestic energy suppliers to put these arrangements in place as soon as possible. Some of these remedies will take time to implement formally, but there is nothing stopping suppliers from moving sooner where they can – and we encourage that.

6.4. We will also be publishing a further consultation on the standing charge element of our tariff proposals, due in January 2012.

Appendices

Index

Supplementary Appendix (published separately)

Appendix 1 - Consultation response and questions

1.1 Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2 We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3 Responses should be received by **23 February 2012** and should be sent to:

rmr@ofgem.gov.uk
Retail Markets
Ofgem
9 Millbank
London
SW1P 3GE

1.4 Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5 Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6 Next steps: Having considered the responses to this consultation, Ofgem intends to publish a decision document and final impact assessments. Any questions on this document should, in the first instance, be directed to:

David Hunt
Retail Markets
Ofgem
9 Millbank
London
SW1P 3GE
rmr@ofgem.gov.uk

<u>CHAPTER: Two</u>

Question 1: Do stakeholders agree that we should introduce the RMR core proposal?

Question 2: Which cost elements should be included in the standardised element of standard tariffs?

Question 3: Do stakeholders agree that our information remedies would help consumers engage effectively? If not, what would be more appropriate remedies?

Question 4: Do stakeholders consider that the price comparison guide should be presented in a p/kWh figure, a £ per month figure or both?

Question 5: Do stakeholders agree that the proposed exceptions for legacy social tariffs and extremely high consumption domestic consumers are appropriate?

Question 6: Do stakeholders agree that we should not allow an exception for suppliers to offer a green standard tariff in addition to an 'ordinary' standard tariff?

Question 7: Do stakeholders believe it would be appropriate to introduce a six-month price guarantee for standard tariffs, or do you consider that this would undermine the simplicity of the RMR core proposal?

<u>CHAPTER: Three</u>

Question 8: Do stakeholders agree with our recommended proposal of Option 3 ('Introduce more prescriptive rules') for bills and annual statements?

Question 9: Do stakeholders agree with our recommended proposal for SLC 23 notifications including price increase notifications of option 3 ('Additional information plus prescribed format') and option 4 ('Tighten and clarify policy intent')?

Question 10: We seek views from stakeholders on the additional requirements outlined in option 3 ('Additional information plus prescribed format') for SLC 23 notices including price increase notifications.

Question 11: We seek views on any proposals to restrict the inclusion of additional materials (e.g. marketing material) along with SLC 23 notifications.

Question 12: We seek views along with any supporting data or evidence for our proposals for information signposted to consumers in option 4 ('Tighten and clarify policy intent') for SLC 23 notifications including price increase notifications.

Question 13: We seek views on any additional recommendations which stakeholders consider relevant for bills, annual statements and SLC 23 notifications.

Question 14: We intend to consult on the content of the Confidence Code separately if and when we take over the governance responsibility for it. However at this stage we welcome any early views on developing the Confidence Code.

Question 15: We welcome views from stakeholders on our proposals for enhanced monitoring.

Question 16: We invite specific views on costs and other implications if we were to introduce our proposals. Please provide details and cost estimates where appropriate broken down by each proposal.

CHAPTER: Four

Question 17: Do you consider the revised SOCs will help achieve our objectives?

Question 18: Do you agree the revised SOCs should apply to all interactions between suppliers and consumers?

Question 19: Do you agree that the SOCs should be introduced as an overarching, enforceable licence condition?

Question 20: Do you have information regarding potential costs this may impose on suppliers?

CHAPTER: Five

Question 21: Do you agree with our analysis of the impact on vulnerable consumers?

Question 22: What are your views on the need for further intervention?

Question 23: Who in particular should any additional support be targeted at?

Appendix 2 - Consumer research summary

2.1 We have commissioned qualitative and quantitative research to explore consumer views on options for simplifying and comparing tariffs. An expert review of the language and format of bills, annual statements and price rise notifications was conducted. A summary of the research is provided below and the reports are available on our website. Ofgem's Consumer First Panel was run in early November, focusing on the information consumers receive from suppliers. This report is due out at the end of the year.

Tariff options

2.2 We commissioned a qualitative study[75] which conducted interviews in pairs and triads with 106 consumers, 38 of whom were vulnerable. To build on these findings, we also commissioned a quantitative piece of consumer research. This involved 2,000 online interviews with the general public, plus 202 face-to-face interviews with vulnerable consumers. The types of vulnerable groups involved were those on low incomes (including some where there was no one in the household in employment), those with low levels of literacy and/or numeracy, those with no or limited internet access and those with a disability.

2.3 All respondents to the qualitative research thought that the number of tariffs available should be reduced. They also thought it should be easier for consumers to compare tariffs and identify the most suitable tariff for their circumstances. Most respondents felt that all four of the proposals went some way towards achieving this. The main difference between the mainstream and vulnerable consumer samples was that vulnerable consumers often struggled more to understand what they were shown. Consumers on time of use tariffs (e.g. Economy 7) faced more complicated information and choices when looking at tariff information.

2.4 Presenting tariffs as a standing charge and unit rate was preferred to a two-tier unit rate, which consumers found complicated. An Ofgem-set standing charge across all standard tariffs was welcomed as it gave reassurance that some aspect of charging is being controlled. Some respondents appreciated that they could directly compare the cost of tariffs just by looking at the unit rate before they had seen the tariff information tables.

2.5 Presenting tariff prices in a monetary form was found to be more tangible and have the greatest potential to encourage switching. However, many consumers do not know what their energy consumption is, which limits the use of this method. Prices expressed as £/month were easy to understand for budgeting purposes. Prices expressed in £/year provided more of an incentive to switch as the savings appeared bigger.

2.6 A six month price guarantee period may work to increase consumer confidence that it is worth switching. Conversely a shorter time period could be counter-productive

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[75] Tariff comparability models, Consumer qualitative research findings, Creative Research, October 2011.

to encourage switching if it were perceived to signal a supplier's intent to increase prices as soon as the guarantee period is up.

2.7 While all four of the options tested were felt to offer some improvement over the status quo, there were also some difficulties associated with each one, which would need to be resolved to prevent reinforcing levels of disengagement. It was clear from our research that there was a low awareness and limited understanding of terminology used by suppliers, and whilst awareness was lowest for vulnerable consumers, other consumers also demonstrated limited understanding. Therefore improving customer communications would be required to accompany any changes to the tariff arrangements.

2.8 The quantitative work[76] followed the qualitative study and was designed to test the ability of consumers to select the cheapest tariff when presented with different tariff structures and information. Participants were asked to choose the cheapest tariff from a range of options, given an energy consumption value and a simplified table of energy tariffs. Some of the options included a price comparison guide in £/month. In this way, we tested the different features of the five RMR tariff proposals. The quantitative testing was conducted via both an online sample and through face-to-face hall tests that helped to boost the sample of vulnerable consumers and include those who do not have internet access.

2.9 The quantitative research findings indicate that for non Economy 7 customers, a fixed standing charge and price comparison metric significantly improve consumer decision making and were chosen as the most preferred tariff elements of those tested. The research showed that 74 per cent of non-Economy 7 customers said they would be more likely to switch if these elements were introduced. However we note that the models tested were simplified.

2.10 The research showed that 81 per cent of non-Economy 7 respondents selected the cheapest standard tariff when the standing charge was fixed (but without a price comparison metric). The time taken to make a choice was 28 seconds, the fastest of all the options tested. The inclusion of a price comparison metric resulted in a further improvement in the proportion of customers correctly choosing the best deal. Our research indicated that 85 per cent of respondents achieved this but the average time taken to choose increased to 41 seconds.

2.11 For Economy 7 respondents, in the tests with a common standing charge, 47 per cent selected the cheapest tariff in the test. This rose to 70 per cent when a price comparison metric was provided and the time taken to make a choice fell from 58 seconds to 48 seconds. Economy 7 consumers have day and night time rates and so face more complex choices. The price comparison metric can help this.

2.12 Overall, vulnerable consumers reflected mainstream consumers and were only slightly less able to make the correct decision. However, when the data from the hall tests is broken down it identifies degrees of vulnerability. Although the numbers are small it tells us that certain groups within the segment really struggled with the choices presented. Within the hall tests, only around a third of consumers were able to complete the online questionnaire without assistance. Two-thirds required some assistance from the interviewers to use the computer.

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[76] Consumer reactions to varying tariff comparability, Ipsos MORI, October 2011.

Supplier communications

2.13 We have explored consumer views on bills and annual statements in previous Consumer First Panels. The panels told us that consumers do not find their bills particularly user-friendly or easy to understand which can deter further engagement.

2.14 To add to this evidence base we commissioned an expert study to review the language and format of bills, annual statements and price rise notifications[77]. The aim was to identify how these documents could be improved to make them clear and engaging. The work used discourse analysis, semiotics and applied academic social-scientific literature.

2.15 The study concludes that there are many aspects of bills, annual statements and price rise notifications that would benefit from some reform. The key recommendations from the study are the need to use of consistent/standardised terms and language, grouping key information together and to clearly differentiate annual statements from bills. The work shows that some paragraphs of energy bills show almost the same level of complexity as the Harvard Law Review. The study states that "Since energy is essential and not a discretionary purchase, poor quality communication can lead to what psychologists call 'learned helplessness' (first described by Seligman, 1967), that is, consumers feel that their attempts to get better value are not getting them anywhere and so they disengage; they stop trying to influence the situation and become passive." Below is a summary of the guidance on good practice.

➔ **Language**

➔ Use short words and short sentences.
➔ Different people use language in different ways. 'Elaborated code' uses long, detailed sentences with multiple clauses. Think of a legal document. 'Restricted code' is simpler and more engaging for more consumers than elaborated code. For example, use per year rather than per annum or pro-rated; or avoid using 'if…then'.
➔ Use consistent and standardised terms or language. At present, tariff, contract, plan and package are used interchangeably. As are bill, account, summary and statement. This is confusing for consumers.
➔ If a word or phrase isn't commonly used in other pieces of information then we should assume consumers won't understand it. Instead, use a clearer/more commonly understood term, provide an explanation, or provide a glossary of key terms.
➔ Ensure information relates to the real world, i.e. use pounds and pence instead of kWh or provide an example of what 1 kWh actually is/does. Another example is for price rise letters which should show old and new prices for comparison.

➔ **Presentation**

➔ Three part lists are a clear and useful way to display information.
➔ Consider the 'Western Visual Semiotic' when presenting information. This means displaying information which is 'given' on the left side of the page and showing new information on the right.
➔ Group key words or relevant pieces of information. Information, such as principal terms, are often disorganised and scattered.

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[77] Retail Market Review: Energy bills, annual statements and price rise notifications; advice on the use of language, Lawes Consulting, November 2011.

- ➔ Show clearly what a document is and explain its purpose. Many consumers are unaware that they have received an annual statement.
- ➔ Keep key documents, such as annual statements and bills, separate and distinctive.
- ➔ There is a difference between whether information is in a prominent position and whether it is prominent. For example, information may be on the front page but it may be buried in a footnote or not very clear.

Consumer First Panel

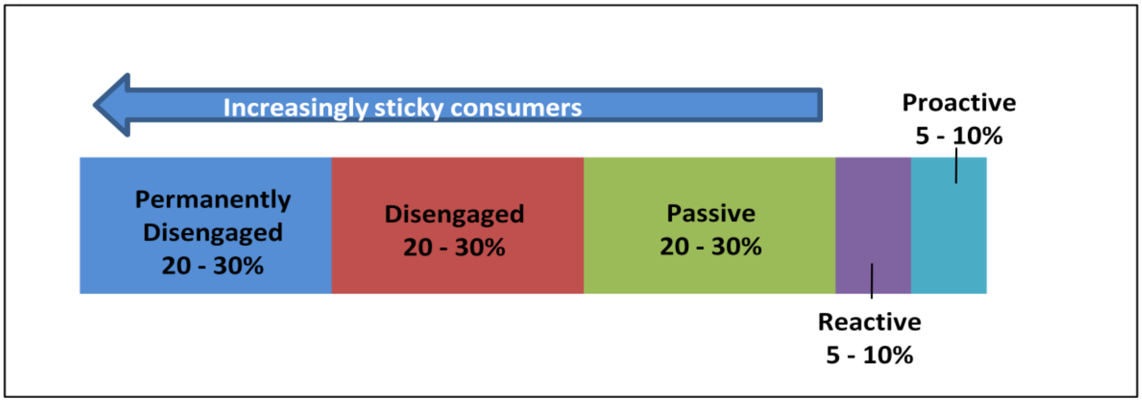
2.16 A new Consumer First Panel was convened in October. The Panel comprises over 100 consumers from around GB who are chosen to be broadly representative of the population. The Panels looked at the language and presentation of bills, annual statements and price rise notifications. As in previous years, some consumers recognised that they could be doing more to engage in the market, though many do not because of the perceived complexity. Compared with previous Panels there was a more prevalent sense of helplessness with a view that whatever action was undertaken it would not result in a long term benefit, as all prices are rising. There was a general feeling that whilst the product itself is simple, the energy market is unnecessarily complex and that suppliers were perceived to be responsible for this.

2.17 In terms of the supplier communications themselves, Panellists were clear on their requirements. Simple, pointed messages were considered necessary. Simplification and standardisation across suppliers would help consumers but not necessarily increase consumer engagement. Real evidence of cost savings were considered essential and consumers need help to become more aware of the energy they use. Full analysis of the Consumer First Panel will be published at the end of the year.

Consumer segmentation

2.18 We used our research for the March RMR consultation to identify broad segments in which we can class different types of consumers. Below we set out those categories and how our proposed RMR measures relate to them.

Figure 8 - Ofgem's segmentation of energy consumers, in terms of their attitudes and behaviour towards engaging



Source: Developed from Ofgem's quantitative and qualitative research

2.19 **Proactive consumers**: are likely to have switched supplier or tariff within the last year. They research alternative offers and will switch supplier without the need for prompting. As part of the RMR we wish to enable these consumers to continue engaging with the market and achieve better outcomes when they switch. These consumers are likely to be comfortable with a fixed term tariff, rather than simply engaging with the standard market.

2.20 **Reactive consumers**: are also likely to have switched supplier or tariff within the last year. They do not necessarily shop around or plan to switch, but may switch as a result of an encounter with a sales agent. Vulnerable consumers who switch are likely to do so via a sales agent. These consumers are reactive to sales agents but are less likely to be reactive to information they are sent. Under the RMR we want to clearer information to prompt these consumers to become more proactively engaged and to switch to a better deal. We note that over the last year some suppliers have temporarily or permanently stopped their direct sales activity.

2.21 **Passive consumers**: are those who report switching at some time in the past, but have not in the last year. Many of these consumers have switched once, most often to a dual fuel tariff with an incumbent supplier. Having made an initial saving with their first switch they may not switch again. Under the RMR we aim to empower these consumers. Simple and comparable tariffs aim to make switching – whether in the standard or fixed term market – easier and for consumers to have a better outcome. Improving supplier communications is designed to help more passive consumers to become engaged in the standard or, ideally, the non-standard market.

2.22 **Disengaged consumers**: are those customers who report never having switched but don't rule out switching in the future. Many disengaged consumers may only decide to switch in reaction to poor service from their supplier or following an encounter with a sales agent. They generally have little knowledge of (and in some cases little interest in) the energy market. Again, we want to help empower these consumers through our RMR proposals. These consumers may be more comfortable with standard tariffs, liking the comfort of an Ofgem-set standing charge.

2.23 **Permanently disengaged consumers**: are those consumers that claim to have never switched and in our research said they are unlikely to switch in the future. They are the stickiest consumers and many are likely to be vulnerable consumers. We recognise that many of these consumers feel that they are unable or unwilling to engage with the market. The RMR aims to increase consumer engagement overall and in doing so put downward pressure on prices for all consumers. More transparent standard tariffs will also help to protect the permanently disengaged. We will monitor the impact of the RMR proposals to determine whether further, direct protections are required for consumers who are permanently disengaged.

2.24 **Vulnerable consumers**: are more likely to be disengaged and if they do switch it is more likely to be via a sales agent. Consumers may be considered vulnerable if they are on a low income, frail elderly, disabled or chronically sick. These consumers, and those with limited numeracy and literacy skills, are less likely to be able to effectively engage with the market. We will monitor the impact of the RMR on these consumers and consider whether further protections are required.

Appendix 3 – Option 3 'Additional information plus prescribed format': Proposed standardised template

Figure 9 - Dual fuel standard tariff (multiple payment types)

Your electricity and gas prices are changing

Your region: London
Your tariff name: Standard Tariff
Your payment method for electricity: Direct Debit
Your payment method for gas: Standard Credit

You may be able to avoid the price increase if you agree a new contract with another supplier and let us know before 1 December that you intend to switch supplier. No termination fee will be charged.

Your estimated future costs for electricity and gas

The estimated future costs show what you would pay for electricity and gas based on the new prices and assuming your [estimated/actual] use is the same as the previous 12 months. Our records show you used 3300 kWh of electricity and 16500 kWh of gas in the last year.

Charge (including VAT)	Current price until 30th November 2011	New price from 1st December 2011
Your estimated average monthly costs including discounts	£86	£100
Your estimated yearly costs including discounts	£1030	£1180

How your electricity and gas prices will change

Electricity

Charge (including VAT)	Current price until 30th November 2011	New price from 1st December 2011
Standing charge (£/month) (set by Ofgem)	£3	£3
Unit rate (p/kWh) (set by us)	11p	13p

Gas

Charge (including VAT)	Current price until 30th November 2011	New price from 1st December 2011
Standing charge (£/month) (set by Ofgem)	£10	£10
Unit rate (p/kWh) (set by us)	2.9p	3.6p

However, did you know you could save money by just switching your PretendCo tariff? Visit our website at www.prentco.co.uk/products or call us on 01234 567891 to find out more.

Figure 10 - Single fuel gas standard tariff

Your gas prices are changing

Your region: London
Your tariff name: Standard Tariff
Your payment method Standard Credit

You may be able to avoid the price increase if you agree a new contract with another supplier and let us know before 1 December that you intend to switch supplier. No termination fee will be charged.

Your estimated future costs for gas

The estimated future costs show what you would pay for gas based on the new prices below and assuming your [estimated/actual] use is the same as the previous 12 months. Our records show you used 16500 kWh of gas in the last year.

Charge (including VAT)	Current price until 30th November 2011	New price from 1st December 2011
Your estimated average monthly costs including discounts	£50	£60
Your estimated yearly costs including discounts	£600	£720

How your gas prices will change

Charge (including VAT)	Current price until 30th November 2011	New price from 1st December 2011
Standing charge (£/month) (set by Ofgem)	£10	£10
Unit rate (p/kWh) (set by us)	2.9p	3.6p

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Figure 11 - Single fuel electricity standard tariff economy 7

Your electricity prices are changing

Your region:	London
Your tariff name:	Standard Economy 7
Your payment method:	Direct Debit

You may be able to avoid the price increase if you agree a new contract with another supplier and let us know before 1 December that you intend to switch supplier. No termination fee will be charged.

Your estimated future costs for electricity

The estimated future costs show what you would pay for electricity based on the new prices and assuming your [estimated/actual] use is the same as the previous 12 months. Our records show you used 1810 kWh of electricity during the day and 1485 kWh during the evening last year.

These estimated charges are based on daytime hours from [xx:xx] to [xx:xx] and night time hours from [yy:yy] to [yy:yy].

Charge (including VAT)	Current price until 30th November 2011	New price from 1st December 2011
Your estimated average monthly costs including discounts	£50	£60
Your estimated yearly costs including discounts	£600	£720

How your electricity prices will change

Charge (including VAT)	Current price until 30th November 2011	New price from 1st December 2011
Standing charge (£/month) (set by Ofgem)	£3	£3
Unit rate for daytime usage (p/kWh)	18p	22p
Unit rate for night time usage (p/kWh)	18.5p	21.5p

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Appendix 4 – Draft Licence Conditions for our RMR Proposals

<u>Contents</u>

1. NEW STANDARD CONDITION 1A

Standard Condition 1A – Customer Objectives for supply activities

Application of standard condition

1A.1. Standard condition 1A applies to all activities of the licensee which involve, or otherwise relate to, dealings with a Customer.

Customer Objectives and obligation to achieve them

1A.2.The licensee must take all reasonable steps to:

(a) achieve each of the Customer Objectives; and

(b) avoid doing anything which jeopardises its ability to achieve any of the Customer Objectives.

1A.3. The licensee must ensure that all standard conditions which apply to any activities of the licensee which involve, or otherwise relate to, dealings with a Customer are interpreted and applied in a manner consistent with the Customer Objectives.

1A.4. The Customer Objectives are that:

(a) the licensee, its staff and any Representative behave and carry out any actions in a fair, honest, transparent, appropriate and professional manner;

(b) the licensee, its staff and any Representative provide information (whether in Writing or orally) to a Customer which:

> (i) is complete, accurate and not misleading (in terms of the information provided or omitted);
>
> (ii) is communicated (and, if provided in Writing, drafted) in plain and intelligible language;
>
> (iii) relates to products or services which are appropriate to the Customer to whom it is directed; and
>
> (iv) is otherwise fair both in terms of its content and in terms of how it is presented (with more important information being given appropriate prominence);

(c) the licensee, its staff and any Representative:

> (i) make it easy for a Customer to contact the licensee,
>
> (ii) act promptly and courteously to put things right when the licensee, its staff and any Representative make a mistake, and
>
> (iii) otherwise ensure that customer service arrangements and processes are complete, thorough, fit for purpose and transparent.

Guidance on condition

1A.5 The licensee must have regard to any guidance on the interpretation of this condition which the Authority may issue and may from time to time revise.

Definitions for condition

1A.6 For the purposes of this condition:

“Customer Objectives” means one or more of sub-paragraphs 4(a) to (c) of standard licence condition 1A.

2. New standard condition 22A

Standard Condition 22A. Standard Domestic Supply Contracts

22A.1 Without prejudice to any Non-Standard Domestic Supply Contract which complies with Standard Condition 22B, the licensee, its staff and any Representative must only:

(a) offer to supply a Domestic Customer on the basis of a Standard Domestic Supply Contract which complies with Standard Condition 22A;

(b) supply a Domestic Customer on the basis of a Standard Domestic Supply Contract or a Deemed Contract which complies with Standard Condition 22A.

Standing Charge requirements

22A.2 In relation to any Standard Domestic Supply Contract and any Deemed Contract the licensee must ensure that:

(a) the Charges for the Supply of [Gas/Electricity] include the Standing Charge[78];

(b) when displaying or communicating the Charges for the Supply of [Gas/Electricity] in any form each of the following are separately identified from each other and any other charges;

(i) the Standing Charge;

(ii) the Unit Rate or, where applicable, Economy 7 Rates.

22A.3 The Standing Charge will be determined by the Authority for each Region of Great Britain in accordance with the methodology set out in Schedule 1 to Standard Condition 22A, following consultation with the licensee (which may be conducted before this condition takes effect), and specified for each Region of Great Britain in directions issued by the Authority.

Provision of Information to Authority

22A.4 After receiving a request from the Authority for Information that it may reasonably require for the purpose of determining the Standing Charge, the licensee must give that Information to the Authority when and in the form requested.

22A.5 The licensee is not required to comply with paragraph 22A.4 if it could not be compelled to produce or give the Information in evidence in civil proceedings before a court.

Restrictions on tariffs[79]

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[78] Subject to consultation, provision may be made for Ofgem to set a regional adjuster to Unit Rates to reflect regional differences with network costs.
[79] Subject to consultation, it is envisaged that text will be included to make different provision for

22A.6 The licensee must ensure (or, where there are any Affiliate Licensees, the licensee and any Affiliate Licensees must collectively ensure) that at all times all of their Standard Domestic Supply Contracts and Deemed Contracts collectively comply with the following requirements:

(a) without prejudice to an Economy 7 Tariff, the Charges for the Supply of [Gas/Electricity] must only include one Unit Rate;

(b) without prejudice to an Economy 7 Tariff, the licensee must not use (or, where there are any Affiliate Licensees, the licensee and any Affiliate Licensees must not collectively use) more than one Unit Rate for each of the Methods of Payment;

(c) the same Unit Rate must be offered and used throughout Great Britain and (without prejudice to paragraphs 1, 2, 2A and 2B of Standard Condition 27) may only differ for each of the Methods of Payment;

(d) the same Economy 7 Rates must be offered and used throughout Great Britain and (without prejudice to paragraphs 1, 2, 2A and 2B of Standard Condition 27) may only differ for each of the Methods of Payment;

(e) without prejudice to any one Tariff Name that is only used in a particular Region within Great Britain, but not Great Britain as a whole, the licensee must not use (or, where there are any Affiliate Licensees, the licensee and any Affiliate Licensees must not collectively use) more than one Tariff Name for each Standard Domestic Supply Contract or Deemed Contract that relates to:

(i) the particular Unit Rate used for each of the Methods of Payment;

(ii) the particular Economy 7 Rates used for each of the Methods of Payment.

(f) the Unit Rate used in relation to each of the Methods of Payment for any Deemed Contract must be the same as the Unit Rate used in relation to a Standard Domestic Supply Contract with each of the same Methods of Payment;

(g) subject to paragraph [7], the licensee must not use (or, where there are any Affiliate Licensees, the licensee and any Affiliate Licensees must collectively use) more than one set of Economy 7 Rates for each of the Methods of Payment.

(h) the Economy 7 Rates used in relation to each of the Methods of Payment for any Deemed Contract must be the same as the Economy 7 Rates used in relation to a Standard Domestic Supply Contract with each of the same Methods of Payment;

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domestic consumers with extremely high consumption levels.

Restrictions on the use of an Economy 7 Tariff

22A.7 The licensee may only supply (or offer to supply) Domestic Premises on the basis of a Economy 7 Tariff if the premises are Time of Use Premises.

Prohibition on Discounts

22A.8 Without prejudice to Compensation Arrangements, in relation to a Standard Domestic Supply Contract or Deemed Contract, the licensee must:

(a) not offer or use any Discount; and

(b) ensure that its staff or any Representative does not offer or use any Discount.

Prohibition on terms for other goods or services

22A.9 In relation to a Standard Domestic Supply Contract or Deemed Contract, the licensee must ensure that the terms and conditions (including the Charges for the Supply of [Gas/Electricity]):

(a) do not provide for any goods or services which do not directly relate to the supply/sale of [gas/electricity];

(b) are not in any way linked, associated or otherwise related to any goods or services which do not directly relate to the sale/supply of [gas/electricity]; and

(c) are provided in a separate document to any terms and conditions for goods or services which do not directly relate to the supply/sale of [gas/electricity].

Provision of information about standard tariffs

22A.10 The licensee must (or, where there are any Affiliate Licensees, the licensee and any Affiliate Licensees must collectively) prepare and keep up-to-date a document (hereafter referred to as a "Standard Tariffs Statement") which:

(a) is set out in Writing;

(b) is drafted in plain and intelligible language;

(c) is titled "Standard Tariffs Statement"; and

(d) contains only the following information:

> (i) all of the Charges for the Supply of [Gas/Electricity] that apply to the licensee's and any Affiliate Licensees' Standard Domestic Supply Contracts or Deemed Contracts along with the associated Tariff Name; and
>
> (ii) any other information relating to Standard Domestic Supply Contracts specified in directions which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

22A.11 If any person (including the Authority) requests a copy of the Standard Tariffs Statement, the licensee must provide a copy to that person free of charge within 5 days after the day the request was received or as soon as reasonably practicable thereafter.

Publishing information

22A.12 If the licensee or any Affiliate Licensees have a Website, the licensee must publish the Standard Tariffs Statement on that Website in a position that is capable of easily being accessed by any person and which does not require a person to input any information apart from their address or postcode.

Terms of Domestic Supply Contracts and Deemed Contracts

22A.13 Without prejudice to Standard Condition 22B, the licensee must ensure that each Domestic Supply Contract and Deemed Contract contains terms and conditions which reflect the provisions of Standard Condition 22A.

22A.14 Without prejudice to Standard Condition 22B, the licensee must not enforce or take advantage of any term of a Domestic Supply Contract or Deemed Contract if:

(a) the inclusion of that term is incompatible with Standard Condition 22A; or

(b) the enforcement or the taking advantage of that term would be so incompatible.

Exception to compliance with condition[80]

22A.15 The licensee is not required to comply with Standard Condition 22A to such extent and subject to such conditions as the Authority may from time to time direct.

Directions and Guidance

22A.16 The licensee must comply with any directions relating to the Relevant Matters for SLC 22A which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

22A.17 The licensee must have regard to any guidance on the interpretation of Standard Condition 22A which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

Definitions for condition

22A.18 In this condition:

"Affiliate Licensees" means any Subsidiary, Holding Company, or Subsidiary of a Holding Company of the licensee which holds a [gas/electricity] supply licence granted or treated as granted pursuant to [section 6(1)(d) of the Electricity Act 1989 / section 7A(1) of the Gas Act 1986];

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[80] Subject to consultation, it is envisaged that suppliers would be able to seek exceptions in respect of the limit on the number of tariffs for existing time of use tariffs such as Economy 10 and Dynamic Teleswitching. Subject to consultation, it is also envisaged that suppliers would be able to seek a time limited exception for existing social tariffs for vulnerable customers.

“Compensation Arrangements” mean any payment made by the licensee (including any voluntary payment) to a specific Domestic Customer in accordance with any customer service, complaint handling or redress arrangements which relate to any condition of this licence or any legislation;

“Deemed Contracts” means more than one Deemed Contract;

“Discount” means any form of payment, saving, rebate, benefit or reward (whether financial or otherwise) which is in any way linked or otherwise relates to a Standard Domestic Supply Contract or Deemed Contract;

“Economy 7 Rates” in relation to an Economy 7 Tariff, means two separate Unit Rates in circumstances where, during each period of 24 hours, one Unit Rate applies continuously for a specified period of 7 hours during that period of 24 hours and the other Unit Rate applies continuously to the remaining 17 hours during that period of 24 hours;

“Economy 7 Tariff” in relation to Time of Use Premises, means a Standard Domestic Supply Contract or Deemed Contract where:

(a) the Charges for the Supply of [Gas/Electricity] only include one set of Economy 7 Rates and no other Unit Rate or Unit Rates; and

(b) the one set of Economy 7 Rates are precisely set out in advance in that Standard Domestic Supply Contract or Deemed Contract; and

(c) the licensee does not use (or, where there are any Affiliate Licensees, the licensee and any Affiliate Licensees do not collectively use) more than one set of Economy 7 Rates for each of the Methods of Payment;

“Methods of Payment” in respect of the Charges for the Supply of [Gas/Electricity], means any of the following three methods:

(a) Payment by Cash;

(b) Payment in Advance Through a Prepayment Meter;

(c) Payment by Direct Debit;

“Payment by Cash” includes any frequency of cash payment and any form of cash payment (including those referred to in sub-paragraph 1(a) of Standard Condition 27), but for the purposes of this condition, all frequencies and forms of cash payment will collectively be treated as one of the three Methods of Payment;

“Payment by Direct Debit” includes any frequency of direct debit payment, but for the purposes of this condition, all frequencies of direct debit payment will collectively be treated as one of the three Methods of Payment;

“Payment in Advance Through a Prepayment Meter” includes any frequency of payment and any form of payment using a prepayment meter, but for the purposes of this condition, all frequencies and forms of payment using a prepayment meter will collectively be treated as one of the three Methods of Payment;

“Region” means [to be completed];

“Relevant Matters for SLC 22A” means any one of, combination of, or all of, the following:

(a) requirements for the licensee to publish information about their Charges for the Supply of [Gas/Electricity];

(b) requirements as to the frequency by which information about the licensees Charges for the Supply of [Gas/Electricity] must be published;

(c) requirements as to the manner and method by which information about the licensees Charges for the Supply of [Gas/Electricity] must be published;

(c) requirements as to the content, format and display of information about the licensees Charges for the Supply of [Gas/Electricity] which must be published;

“Time of Use Premises” means Domestic Premises which are fitted with a meter which is capable of registering Economy 7 Rates;

“Standard Tariffs Statement” means the document described in paragraph [10] of Standard Condition 22A;

“Tariff Name” means any name used by the licensee to describe, advertise or promote a Standard Domestic Supply Contract or Deemed Contract, including any name used to refer to the identity of the licensee or any Affiliate Licensees.

Termination of condition

22A.19 Subject to paragraph 20, paragraph 3 and Schedule 1 to this condition will stop having effect on and from [a date which is 5 years after commencement].

22A.20 The Authority may on more than one occasion issue directions providing that paragraph 3 and Schedule 1 to this condition will continue to have effect for a further period of time.

Schedule 1 to Standard Condition 22A

Paragraph 1. The Standing Charge will be determined by the Authority for each Region of Great Britain in accordance with the following methodology: [to be completed]

3. Template directions for specifying the Standing Charge for SLC 22A

The Company Secretary
Name and registered address of licence holder

[GAS/ELECTRICITY] SUPPLY LICENCE

STANDARD CONDITION 22A. Standard Domestic Supply Contracts

<u>Notice of directions issued by the Gas and Electricity Markets Authority pursuant to paragraph 3 of Standard Condition 22A</u>

WHEREAS:

1. Each of the companies to whom this Notice is addressed (‘the licensee’) holds [an electricity supply licence granted, or treated as granted, pursuant to section 6(1)(d) of the Electricity Act 1989 (‘the licence’) <u>and/or</u> a gas supply licence granted, or treated as granted, pursuant to section 7A(1) of the Gas Act 1986 (‘the licence’)].

2. The Gas and Electricity Markets Authority (‘the Authority’) has the power pursuant to paragraph 2 of Standard Condition 22A of the licence to determine the Standing Charge and issue directions in relation to that determination in respect of Standard Domestic Supply Contracts and Deemed Contracts.

3. In accordance with paragraph 3 of Standard Condition 22A, the Authority has determined the Standing Charge using the methodology set out in Schedule 1 to Standard Condition 22A.

4. In accordance with paragraph 3 of Standard Condition 22A of the licence, on [date] the Authority consulted with the licensee and has carefully considered the responses to that consultation.

NOW THEREFORE:-

5. The Authority hereby directs that the Standing Charge will consist of the amounts specified in the Schedule.

6. The directions shall take effect on and from the date specified below and shall continue until revoked or amended by the Authority following consultation with the licensee in accordance with paragraph 3 of Standard Condition 22A.

Dated the ---20[12]

[Name and title]

SCHEDULE
Directions issued by the Authority pursuant to paragraph 3 of Standard Condition 22A

Paragraph 1. The Standing Charge will consist of the amounts specified below in respect of each Region: [to be completed][81]

Region of Great Britain	Amount of Standing Charge per [Week/Month/Quarter] in pounds sterling
1	£0
2	£0
3	£0
4	£0
5	£0
6	£0
7	£0
8	£0
9	£0
10	£0
11	£0
12	£0
13	£0
14	£0

Definitions

[to be completed]

[81] For further information on Ofgem's proposals for setting the Standing Charge in relation to standard contracts please see chapter 2 of the consultation document and appendix 7 of the draft Impact Assessment.

4. New standard condition 22B

Standard Condition 22B. Non-Standard Domestic Supply Contracts

22B.1 Without prejudice to any Standard Domestic Contract and any Deemed Contract which complies with Standard Condition 22A, the licensee, its staff and any Representative must only supply or offer to supply a Domestic Customer on the basis of a Non-Standard Domestic Supply Contract which complies with Standard Condition 22B.

Prohibition on further fixed term periods

22B.2 Without prejudice to paragraph 5 of Standard Condition 22B and paragraph 9 of Standard Condition 24, the licensee must not extend in any way the duration of any fixed term period that applies to a Domestic Supply Contract.

Renewal of Non-Standard Domestic Supply Contracts

22B.3 The licensee must prepare a statement (hereafter referred to as a "Statement of Renewal Terms") which:

(a) is set out in Writing;

(b) is drafted in plain and intelligible language;

(c) is titled the "Statement of Renewal Terms";

(d) subject to sub-paragraph 3(e), only displays the following information and displays that information in a prominent manner:

> (i) the date the fixed term period of the Non-Standard Domestic Supply Contract is due to end;
>
> (ii) a reminder that the Domestic Customer may wish to consider changing their [Electricity/Gas] Supplier;
>
> (iii) information about where the Domestic Customer may obtain impartial advice and information about changing their [Electricity/Gas] Supplier;
>
> (iv) a statement explaining that if the Domestic Customer does not change supplier or does not expressly agree a new Standard Domestic Supply Contract, a new Non-Standard Domestic Supply Contract or a further fixed term period for a Non-Standard Domestic Supply Contract by the date the fixed term period of the Non-Standard Domestic Supply Contract is due to end, the Domestic Customer will become subject to a Standard Domestic Supply Contract with the same payment method that applies to the Non-Standard Domestic Supply Contract;
>
> (v) the Principal Terms that would apply if the Domestic Customer becomes subject to a Standard Domestic Supply Contract by virtue of paragraph 7 of this condition;
>
> (vi) the Principal Terms that would apply if the Domestic Customer agrees a further fixed term period for an existing Non-Standard Domestic Supply Contract; and

(vii) information about how and when the Domestic Customer may terminate their Non-Standard Domestic Supply Contract without being charged a Termination Fee and a statement explaining the effect of sub-paragraphs 9(a) to (d) of Standard Condition 24;

(viii) any other information relating to new Domestic Supply Contracts or the renewal of Domestic Supply Contracts specified in directions which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

(e) displays the information mentioned in sub-paragraph 3(d) in the format and manner which is specified in directions which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

22B.4 The licensee must provide a Domestic Customer with a copy of the Statement of Renewal Terms which complies with paragraph 3 of this condition on or about 42 days before the fixed term period of their Non-Standard Domestic Supply Contract is due to end.

22B.5 In relation to any Non-Standard Domestic Supply Contract, the licensee may only extend the duration of that Contract for a further fixed term period if:

(a) on or about 42 days before the fixed term period of a Non-Standard Domestic Supply Contract is due to end, the licensee has given the Domestic Customer a copy of the Statement of Renewal Terms which complies with paragraph 3 of this condition and a Notice which:

(i) is drafted in plain and intelligible language;

(ii) informs the Domestic Customer that the licensee is seeking the Domestic Customer's express agreement in Writing to a further fixed term period with or without proposed changes to other terms and conditions (including the Charges for the Supply of [Gas/Electricity]);

(iii) informs the Domestic Customer of the duration of the proposed further fixed term period and the nature, purpose and effect of any proposed changes to other terms and conditions (including the Charges for the Supply of [Gas/Electricity]);

(iv) informs the Domestic Customer they are under no obligation to agree to the proposed further fixed term period or any proposed changes to other terms and condition (including the Charges for the Supply of [Gas/Electricity]);

(v) contains any other information relating to new Domestic Supply Contracts or the renewal of Domestic Supply Contracts specified in directions which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise;

(vi) does not include any other information; and

(vii) displays the information mentioned in sub-paragraphs 5(a)(i) to 5(a)(v) in the format and manner (and in accordance with any instructions) specified in directions which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise;

(b) the Domestic Customer has expressly agreed in Writing to the proposed further fixed term period and, where applicable, any proposed changes to other terms and conditions (including the Charges for the Supply of [Gas/Electricity]) in response to the Notice given by the licensee in accordance with sub-paragraph 5(a);

(c) the duration of the further fixed term period is no longer than the duration of the fixed term period that currently applies to the existing Non-Standard Domestic Contract.

Prohibition on termination fees for non compliance

22B.6 Where the licensee fails to comply with paragraphs [2 to 5] and extends the duration of a Non-Standard Domestic Supply Contract for a further fixed term period, the licensee may not charge or otherwise seek to enforce a Termination Fee in respect of that Domestic Supply Contract.

Continued supply after a fixed term period has expired[82]

22B.7 Where a Domestic Customer does not change supplier or does not expressly agree a new Standard Domestic Supply Contract, a new Non-Standard Domestic Supply Contract or a further fixed term period for a Non-Standard Domestic Supply Contract by the date the fixed term period of a Non-Standard Domestic Supply Contract is due to end, the licensee must ensure that the terms of the Non-Standard Domestic Supply Contract provide that:

(a) the Domestic Customer will become subject to a Standard Domestic Supply Contract which complies with Standard Condition 22A; and

(b) the payment method which applies to the existing Non-Standard Domestic Supply Contract will continue to apply to that Standard Domestic Supply Contract.

22B.8 Without prejudice to paragraph 22B.2 of this condition and paragraph 9 of Standard Condition 24, if at the end of any fixed term period the licensee continues to supply a Domestic Customer, it must do so on the basis of:

(a) a Standard Domestic Supply Contract which complies with Standard Condition 22A and which is provided for by the terms of the Non-Standard Domestic Supply Contract in accordance with paragraph 7;

(b) a new Standard Domestic Supply Contract which has been entered into with the express agreement of the Domestic Customer and which complies with Standard Condition 22A;

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[82] Subject to consultation, it is envisaged that text will be included to make different provision for domestic consumers with extremely high consumption levels.

(c) a new Non-Standard Domestic Supply Contract which has been entered into with the express agreement of the Domestic Customer and which complies with Standard Condition 22B; or

(d) a further fixed term period in relation to an existing Non-Standard Domestic Supply Contract in circumstances where that Non-Standard Domestic Supply Contract and that further fixed term period complies with Standard Condition 22B.

Prohibition on increasing the Charges for the Supply of [Electricity/Gas] and other unilateral variations

22B.9 In relation to any Non-Standard Domestic Supply Contract, the licensee must not:

(a) increase the Charges for the Supply of [Electricity/Gas]; or

(b) unilaterally vary any other terms and conditions in any way which is to the disadvantage of a Domestic Customer.

Exception to compliance with condition

22B.10 The licensee is not required to comply with this condition to such extent and subject to such conditions as the Authority may from time to time direct.

22B.11 In respect of an increase in Charges for the Supply of [Electricity/Gas], the licensee is not required to comply with paragraph 9 if:

(a) all of the following requirements are satisfied:

(i) the Domestic Supply Contract provides that variations to the Charges for the Supply of [Electricity/Gas] will occur automatically only in a manner which is fully linked to fluctuations in a published and transparent stock exchange quotation or index or a financial market rate that the licensee does not control; and

(ii) the licensee has complied with paragraph 1 of Standard Condition 23; and

(iii) the method by which the Charges for the Supply of [Electricity/Gas] fluctuate automatically is set out in the Domestic Supply Contract in a prominent position and in plain and intelligible language; and/or

(b) all of the following requirements are satisfied:

(i) the Domestic Supply Contract expressly sets out in advance the precise variation or variations to the Charges for the Supply of [Electricity/Gas] which are scheduled to occur automatically by a precise amount (or precise amounts) and on a precise date (or precise dates) which is not subject to the licensee's discretion; and

(ii) the licensee has complied with paragraph 1 of Standard Condition 23; and

(iii) the precise variations to the Charges for the Supply of [Electricity/Gas] are set out in the Domestic Supply Contract in a prominent position and in plain and intelligible language.

Guidance

22B.12 The licensee must have regard to any guidance on the interpretation of Standard Condition 22A which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

Terms of Domestic Supply Contracts

22B.13 Without prejudice to Standard Condition 22A, the licensee must ensure that each Domestic Supply Contract contains terms and conditions which reflect and comply with the provisions of Standard Condition 22B.

22B.14 Without prejudice to Standard Condition 22A, the licensee must not enforce or take advantage of any term of a Domestic Supply Contract if:

(a) the inclusion of that term is incompatible with Standard Condition 22B; or

(b) the enforcement or the taking advantage of that term would be so incompatible.

5. Template directions for SLC 22B

The Company Secretary

Name and registered address of licence holder

[GAS/ELECTRICITY] SUPPLY LICENCE

STANDARD CONDITION 22B. Non-Standard Domestic Supply Contracts

Notice of directions issued by the Gas and Electricity Markets Authority pursuant to Standard Condition 22B

WHEREAS:

1. Each of the companies to whom this Notice is addressed ('the licensee') holds [an electricity supply licence granted, or treated as granted, pursuant to section 6(1)(d) of the Electricity Act 1989 ('the licence') and/or a gas supply licence granted, or treated as granted, pursuant to section 7A(1) of the Gas Act 1986 ('the licence')].

2. The Gas and Electricity Markets Authority ('the Authority') has the power pursuant Standard Condition 22B ('SLC 22B') of the licence to issue directions in respect of requirements relating the information that must be provided to a Domestic Customer about the renewal of a Non-Standard Domestic Supply Contract.

3. In accordance with SLC 22B of the licence, on [date] the Authority consulted with the licensee and has carefully considered the responses to that consultation.

NOW THEREFORE:-

4. The Authority hereby directs that the licensee must comply with the requirements specified in the Schedules.

5. The directions shall take effect on and from the date specified below and shall continue until revoked or amended by the Authority following consultation with the licensee in accordance with SLC 22B.

Dated the --20[12]

[Name and title]

SCHEDULE

Directions issued by the Authority pursuant SLC 22B

[to be completed: standardised templates for contract renewal notifications and instructions for their completion][83]

[to be completed: definitions used in the directions notice and schedule]

[83] For further information relating to Ofgem's proposals for standardised information (including Bills, Annual Statements and Price Increase Notifications) please see chapter 3 of the consultation document and appendix 8 of the draft Impact Assessment.

6. New standard condition 22C

Condition 22C. Tariff Information Label and Price Comparison Guide/Indicator

Tariff Information Label

22C.1 The licensee must prepare and keep up-to-date a document (hereafter referred to as the "Tariff Information Label") which:

(a) is set out in Writing;

(b) is drafted in plain and intelligible language;

(c) only contains information relating to the licensee and its Domestic Supply Contracts and/or Deemed Contracts specified in directions which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise;

(d) complies with any directions relating to Relevant Matters for SLC 22C which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

Price Comparison Guide/Indicator

22C.2 Where the licensee, its Staff or any Representative provides or is required to provide information about the licensee's Charges for the Supply of [Gas/Electricity], the licensee must:

(a) ensure that it provides the Price Comparison Guide/Indicator in accordance with any Relevant Matters for SLC 22C specified in directions which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise; and

(b) ensure that its Staff or any Representative provides the Price Comparison Guide/Indicator in accordance with any Relevant Matters for SLC 22C specified in directions which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

Definitions for condition

22C.3 In this condition:

"Relevant Matters for SLC 22C" means any requirements as to:

(a) the content, format and/or display of any information which must be included in the Tariff Information Label by virtue of this condition or any directions issued pursuant to this condition;

(b) the format and/or display of the Price Comparison Guide/Indicator;

(c) the instructions for how the licensee must prepare the Tariff Information Label and/or the Price Comparison Guide/Indicator in respect of Standard Domestic Supply Contracts and/or Non-standard Domestic Supply Contracts (including, but not limited to, how the licensee must carry out any calculations for the purposes of the Tariff Information Label and/or the Price Comparison Guide/Indicator).

(d) how the licensee, its staff and any Representative must:

(i) communicate the Tariff Information Label and/or the Price Comparison Guide/Indicator to a Domestic Customer or any other person;

(ii) explain to Domestic Customers how any calculations have been carried out for the purposes of the Tariff Information Label and/or the Price Comparison Guide/Indicator.

7. Template directions for SLC 22C

The Company Secretary

Name and registered address of licence holder

[GAS/ELECTRICITY] SUPPLY LICENCE

STANDARD CONDITION 22C. Tariff Information Label and Price Comparison Guide/Indicator

Notice of directions issued by the Gas and Electricity Markets Authority pursuant to Standard Condition 22C

WHEREAS:

1. Each of the companies to whom this Notice is addressed ('the licensee') holds [an electricity supply licence granted, or treated as granted, pursuant to section 6(1)(d) of the Electricity Act 1989 ('the licence') and/or a gas supply licence granted, or treated as granted, pursuant to section 7A(1) of the Gas Act 1986 ('the licence')].

2. The Gas and Electricity Markets Authority ('the Authority') has the power pursuant Standard Condition 22C ('SLC 22C') of the licence to issue directions in respect of requirements relating the Tariff Information Label and Price Comparison Guide/Indicator.

3. In accordance with SLC 22C of the licence, on [date] the Authority consulted with the licensee and has carefully considered the responses to that consultation.

NOW THEREFORE:-

4. The Authority hereby directs that the licensee must comply with the requirements specified in the Schedules.

5. The directions shall take effect on and from the date specified below and shall continue until revoked or amended by the Authority following consultation with the licensee in accordance with SLC 22C.

Dated the ---20[12]

[Name and title]

Schedule 1 to Standard Condition 22C

Paragraph 1. The Tariff Information Label[84] must be in the format and include the information illustrated in the table set out below and be populated in accordance with the instructions:[to be completed]

Paragraph 2. The Tariff Information Label must be completed in accordance with the following instructions: [to be completed]

Paragraph 3: [other requirements to be completed]

[84] For further information on Ofgem's proposals for the Tariff Information Label please see chapter 2 of the consultation document and appendix 7 of the draft Impact Assessment.

Schedule 2 to Standard Condition 22C

Paragraph 1. The Price Comparison Guide/Indicator must be provided in the format and in accordance with the instructions and requirements set out below:

(a) [format and display requirements to be completed]

(b) [methodology and instructions for calculating the Price Comparison Guide/Indicator to be completed]

(c) other requirements[to be completed]

8. New standard condition 23A – mutual variations

23A.1 This condition applies to any mutual variation or proposed mutual variation to the terms of a Domestic Supply Contract.

23A.2 Without prejudice to paragraph 5 of Standard Condition 22B, the licensee may only agree a mutual variation to the terms (including the Charges for the Supply of [Gas/Electricity]) of a Domestic Supply Contract with a Domestic Customer if:

(a) the mutual variation does not relate to extending the duration of a Domestic Supply Contract or a fixed term period in any way;

(b) the licensee has given the Domestic Customer Notice of the proposed mutual variation and that Notice:

(i) is given at least 30 days in advance of the date the mutual variation is intended to take effect;

(ii) is drafted in plain and intelligible language;

(iii) informs the Domestic Customer that the licensee is seeking to agree a mutual variation;

(iv) informs the Domestic Customer of the nature, purpose and effect of the proposed mutual variation;

(v) informs the Domestic Customer in a prominent position that they are under no obligation to agree to the mutual variation;

(vi) does not include any other information; and

(c) the licensee has complied with paragraph 1 of standard condition 23; and

(d) the Domestic Customer has expressly agreed in Writing to the mutual variation in response to the Notice given by the licensee in accordance with sub-paragraph 2(a).

Terms of Domestic Supply Contracts

23A.3 The licensee must ensure that each Domestic Supply Contract contains terms and conditions which reflect the provisions of Standard Condition 23A.

23A.4 The licensee must not enforce or take advantage of any term of a Domestic Supply Contract if:

(a) the inclusion of that term is incompatible with Standard Condition 23A; or

(b) the enforcement or the taking advantage of that term would be so incompatible.

9. Amendments to definitions in SLC 1

Principal Terms means, in respect of any form of Contract or Deemed Contract, the terms that relate to:

(a) Charges for the Supply of [Electricity/Gas];

(aa) where the licensee is relying on sub-paragraph 10(a) of Standard Condition 22B or sub-paragraph 8(a) of Standard Condition 23, the method by which Charges for the Supply of [Electricity/Gas] fluctuate automatically;

(ab) where the licensee is relying on sub-paragraph 10(b) of Standard Condition 22B or sub-paragraph 8(b) of Standard Condition 23, the precise variations to the Charges for the Supply of [Electricity/Gas];

(b) any requirement to pay Charges for the Supply of [Electricity/Gas] through a Prepayment Meter;

(ba) in relation to a Domestic Supply Contract, any Credit Limiting which applies, including the Credit Limit;

[Electricity only] (bb) in relation to a Domestic Supply Contract, any Load Limiting which applies, including the Load Limit;

(c) any requirement for a Security Deposit;

(d) the duration of the Contract or Deemed Contract (including any arrangements for renewing or extending the duration of the Contract or any fixed term periods);

(e) the rights to end the Contract (including any obligation to pay a Termination Fee) or the circumstances in which a Deemed Contract will end,

and any other term that may reasonably be considered to significantly affect the evaluation by the Customer of the Contract under which [electricity/gas] may be supplied to his premises;

Charges for the Supply of [Gas/Electricity] means, as between the licensee and a Customer, charges made by the licensee in respect of the supply of [electricity/gas] to that Customer's premises, including (but not limited to) any Unit Rate or Unit Rates, the Standing Charge and any charges made for the provision of an [Electricity Meter/Gas Meter]';

Domestic Supply Contracts mean more than one Domestic Supply Contract;

Tariff Information Label means the document which must be prepared by the licensee in accordance with Standard Condition 22C and any directions issued by the Authority pursuant to that condition;

Holding Company means a holding company within the meaning of sections

~~736, 736A and 736B of the Companies Act 1985~~1159 and 1160 of the Companies Act 2006;

Non-Standard Domestic Supply Contract means a Domestic Supply Contract with a fixed term period;

Non-Standard Domestic Supply Contracts means a more than one Non-Standard Domestic Supply Contract;

Price Comparison Guide/Indicator means the information which the licensee, its and staff and any Representative must provided in accordance with Standard Condition 22C and any directions issued by the Authority pursuant to that condition;

Standing Charge means the amount or amounts determined by the Authority pursuant to paragraph [3] of standard condition 22A or, where paragraph [3] of standard condition 22A has stopped having effect, the amount or amounts determined by the licensee;

Standard Domestic Supply Contract means a Domestic Supply Contract which is for a period of an indefinite length, including a Domestic Supply Contract which is for a period of an indefinite length which forms part of a Non-Standard Domestic Supply Contract;

Standard Domestic Supply Contracts means more than one Standard Domestic Supply Contract;

Subsidiary means a subsidiary within the meaning of sections ~~736,~~

~~736A and 736B of the Companies Act 1985~~ 1159 and 1160 of the Companies Act 2006;

Unit Rate means the actual charge made in respect of each unit of [electricity/gas] consumed;

Unit Rates means more than one Unit rate;

10. Amendments to SLC 7

7.6A A Deemed Contract must not:

(a) provide for any fixed term period;

(b) provide for any Termination Fee; or

(c) subject to sub-paragraph [5(d) elec]/ 5(b) gas], require a Customer to give any form of notice before they are able to change supplier.

7.6B In relation to any Customer which is subject to a Deemed Contract, the licensee must not, and must ensure that its staff and any Representative does not, inform that Customer that they are:

(a) required to pay a Termination Fee,

(b) subject to a fixed term period, or

(c) subject to sub-paragraph [5(d) elec]/ 5(b) gas], are required to give any form of notice before they are able to change supplier.

Terms of Deemed Contracts

7.11 The licensee must ensure that each Deemed Contract contains terms and conditions which reflect the provisions of Standard Condition 7.

7.12 The licensee must not enforce or take advantage of any term of Deemed Contract if:

(a) the inclusion of that term is incompatible with Standard Condition 7; or

(b) the enforcement or the taking advantage of that term would be so incompatible.

11. Amendments to SLC 22

Licensee's obligations

22.1 If the licensee supplies electricity to Domestic Premises, it must do so under a Domestic Supply Contract or a Deemed Contract.

22.2 Subject to paragraph 2A, w~~W~~ithin a reasonable period of time after receiving a request from a Domestic Customer for a supply of [electricity/gas] to Domestic Premises, the licensee must offer to enter into a Domestic Supply Contract with that customer.

22.2A The licensee must offer all Domestic Customers the choice of either a Standard Domestic Supply Contract or a Non-Standard Domestic Supply Contract[85].

22.3 If the Domestic Customer accepts the terms of the Domestic Supply Contract offered to him under paragraph 22.2, the licensee must supply [electricity/gas] in accordance with that contract.

[85] Subject to consultation, it is envisaged that text will be included to make different provision for domestic consumers with extremely high consumption levels.

12. Amendments to SLC 23

Notification of Principal Terms

23.1 Before it enters into a Domestic Supply Contract with a Domestic Customer (or, where applicable, before any mutual variation of a Domestic Supply Contract is agreed with a Domestic Customer), the licensee must take (and ensure that its staff and any Representative take) all reasonable steps to ~~bring the~~ communicate the Principal Terms of the Domestic Supply Contract ~~that contract~~ and the information included on the Tariff Information Label (in respect of any Domestic Supply Contract offered to that customer) to ~~the attention of~~ that customer and ensure that the Principal Terms are communicated (or, where they are provided in Writing, drafted) in plain and intelligible language.

Notification before Domestic Supply Contract ends

23.2 On or about 30 Working Days before a Domestic Supply Contract is due to end, the licensee must inform the Domestic Customer (who is party to that contract) in Writing of the Principal Terms of the Deemed Contract that will apply after the Domestic Supply Contract ends if he does not enter into a new Domestic Supply Contract.

Notification of increase in Charges for the Supply of [Electricity/Gas] and other unilateral variations

23.3 If, in accordance with the terms of a Domestic Supply Contract with a Domestic Customer, the licensee ~~unilaterally varies a term of the contract~~:

(a) ~~to~~ increases the Charges for the Supply of [Electricity/Gas] to a Domestic Premises; or

(b) unilaterally varies any other term of the contract in any other way that is to the ~~significant~~ disadvantage of the customer,

the licensee must give Notice of that increase in the Charges for the Supply of [Electricity/Gas] or other unilateral variation to the customer in accordance with paragraph 23.4.

23.4 Without prejudice to paragraph 11, t~~T~~he Notice referred to in paragraph 23.3 must:

(a) be given at least 30 days in advance of the date on which the increase in the Charges for the Supply of [Electricity/Gas] or other unilateral variation has effect;

(aa) not be provided in conjunction with any other information, including (but not limited to) a Bill, statement of account or marketing material;

(ab) without prejudice to information about the identity of the licensee, only include the information mentioned in sub-paragraphs 4(ac) to 4(h);

(ac) contain a prominent title which clearly highlights that the Notice relates to an increase in Charges for the Supply of [Electricity/Gas] and/or other unilateral variations to other terms of a Domestic Supply Contract;

(ad) inform the Domestic Customer of each specific increase in the Charges for the Supply of [Electricity/Gas] or other unilateral variation that applies to them;

(ae) where the licensee is increasing the Charges for the Supply of [Gas/Electricity], provide the Domestic Customer with a comparison of their current Charges for the Supply of [Gas/Electricity] and the new Charges for the Supply of [Gas/Electricity];

(af) where the licensee is increasing the Charges for the Supply of [Gas/Electricity] and those charges apply periodically in any way, provide the Domestic Customer with a comparison of their estimated:

(i) average monthly costs using their current Charges for the Supply of [Gas/Electricity] and the new Charges for the Supply of [Gas/Electricity]; and

(ii) annual costs using their current Charges for the Supply of [Gas/Electricity] and the new Charges for the Supply of [Gas/Electricity];

(ag) where the licensee is unilaterally varying any other term of a Domestic Supply Contract, provide the Domestic Customer with a comparison of the term that currently applies and the new term;

(ah) inform the Domestic Customer of the date the increase in the Charges for the Supply of [Electricity/Gas] or other unilateral variation has effect;

(ai) inform the Domestic Customer of the main reasons for the increase in the Charges for the Supply of [Electricity/Gas] or other unilateral variation to terms;

(aj) present any information about the Charges for the Supply of [Gas/Electricity] in a manner that is inclusive of value added tax;

(ak) include a statement to the effect that the Domestic Customer may wish to consider changing their [Electricity/Gas] Supplier;

(b) inform the Domestic Customer that he may end the Domestic Supply Contract if the increase in the Charges for the Supply of [Electricity/Gas] or other unilateral variation is unacceptable to him by changing his Electricity Supplier or entering into a new contract with his Electricity Supplier;

(c) inform the Domestic Customer where he may obtain impartial advice and information about changing his Electricity Supplier;

(d) inform the Domestic Customer that where he has any Outstanding Charges, his Electricity Supplier may be able to prevent a Proposed Supply Transfer; ~~and~~

(e) explain the effect of paragraph 23.6 in terms of how the customer may be able to take steps to avoid the increase in the Charges for the Supply of [Electricity/Gas] or other unilateral variation~~.~~;

(f) where the Domestic Supply Contract provides for a Termination Fee, explain the effect of sub-paragraph 3(c) of Standard Condition 24;

(g)where the licensee is increasing the Charges for the Supply of [Gas/Electricity], inform the Domestic Customer of the following information:

(i) the name used by the licensee to signify the Charges for the Supply of [Gas/Electricity] that apply to the Domestic Customer by virtue of their Domestic Supply Contract;

(ii) where the Charges for the Supply of [Gas/Electricity] relate to a particular region, the region that applies to the Domestic Customer;

(ii)the method of payment that applies to the Domestic Customer; and

(h) include any Consumer Information specified in directions which, following consultation, the Authority may issue and may from time to time revise.

23.5 The licensee must present the information required in paragraph 23.4 in a form that is clear and easy to understand and must place the information required in sub-paragraphs 23.4 (ad), (ah), (ak), (b), ~~and~~ (c), (d) and (f) in a prominent position on the Notice.

23.6 The licensee must treat the increase in the Charges for the Supply of [Electricity/Gas] or other unilateral variation as ineffective and neither enforce nor take advantage of it where –

(a) the Domestic Customer notifies the licensee after he becomes aware (by any means) of the variation on or before the date on which the increase in the Charges for the Supply of [Electricity/Gas] or other unilateral variation has effect that he is ending the Domestic Supply Contract by changing his [Electricity/Gas] Supplier and/or by entering into a new Domestic Supply Contract with the licensee; and

(b) no later than 30 ~~15~~ Working Days after the Domestic Customer has notified the licensee in accordance with sub-paragraph 23.6(a), the licensee [receives Notice under the Master Registration Agreement that another Electricity Supplier / received Notice under the Network Code by way of the Relevant Gas Shipper that another Gas Supplier] will begin to supply the Domestic Customer's Domestic Premises within a reasonable period of time after the date on which that Notice has been given; or

(c) where:

(i) the conditions in sub-paragraphs 23.6(a) and (b) are met; and

(ii) the Domestic Customer has paid any Outstanding Charges within 30 Working Days after the Domestic Customer receives Notice that the licensee intends to prevent the Domestic Customer's Proposed Supplier Transfer~~.~~; or

(d) where:

(i) the condition in sub-paragraph 23.6(a) is met; and

(ii) the Domestic Customer enters into a new Domestic Supply Contract with the licensee (or makes an offer to enter into a new Domestic Supply Contract which is accepted by the licensee), no later than 30 Working Days after the date on which the Domestic Customer notified the licensee in accordance with sub-paragraph 23.6(a).

Exceptions to compliance with condition

23.7 The licensee is not required to comply with paragraph 23.3 to such extent as the Authority may direct.

23.8 In respect of an increase in Charges for the Supply of [Electricity/Gas], the licensee is not required to comply with paragraph 23.3 if:

(a) all of the following requirements are satisfied:

(i) the Domestic Supply Contract provides that variations to the Charges for the Supply of [Electricity/Gas] will occur automatically only in a manner which is fully linked to fluctuations in a published and transparent stock exchange quotation or index or a financial market rate that the licensee does not control; and

(ii) the licensee has complied with paragraph 23.1; and

(iii) the method by which the Charges for the Supply of [Electricity/Gas] fluctuate automatically is set out in the Domestic Supply Contract in a prominent position and in plain and intelligible language; and/or

(b) all of the following requirements are satisfied:

(i) the Domestic Supply Contract expressly sets out in advance the precise variation or variations to the Charges for the Supply of [Electricity/Gas] which are scheduled to occur automatically by a precise amount (or precise amounts) and on a precise date (or precise dates) which is not subject to the licensee's discretion; and

(ii) the licensee has complied with paragraph 23.1; and

(iii) the precise variations to the Charges for the Supply of [Electricity/Gas] are set out in the Domestic Supply Contract in a prominent position and in plain and intelligible language.

Terms of Domestic Supply Contracts

23.9 The licensee must ensure that each Domestic Supply Contract contains terms and conditions which reflect the provisions of Standard Condition 23.

23.10 The licensee must not enforce or take advantage of any term of Domestic Supply Contract if:

(a) the inclusion of that term is incompatible with Standard Condition 23; or

(b) the enforcement or the taking advantage of that term would be so incompatible.

Directions and Guidance

23.11 The licensee must comply with any directions specifying requirements relating to any Relevant Matters for SLC 23 which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

23.12 The licensee must have regard to any guidance on the interpretation of Standard Condition 23 which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

Definitions for condition

23.13 In this condition:

"Consumer Information" means any information which relates to:

(a) encouraging a Domestic Customer to consider:

(i) changing their Electricity Supplier and/or

(ii) entering into a new contract with their Electricity Supplier; and

(b) the licensee's obligations under any condition of this licence; and

(c) explaining how the licensee has carried out any calculations for the purposes of a SLC 23 Notice; and

"Relevant Matters for SLC 23" means any requirements as to:

(a) the content, format and/or display of any information which must be included in a SLC 23 Notice (including any instructions as to how that information must be prepared); and

(b) the methodology by which any calculations in relation to any information which must be included in a SLC 23 Notice must be carried out by the licensee (including, but not limited to, any calculations relating to the [gas/electricity]consumption of a Domestic Customer and the monthly and annual costs of a Domestic Customer); and

"SLC 23 Notice" means a Notice referred to in paragraphs 3 and 4 of this condition.

13. Template directions for SLC 23

The Company Secretary

Name and registered address of licence holder

[GAS/ELECTRICITY] SUPPLY LICENCE

STANDARD CONDITION 23. Notification of increase in Charges for the Supply of [Electricity/Gas] and other unilateral variations

Notice of directions issued by the Gas and Electricity Markets Authority pursuant to Standard Condition 23

WHEREAS:

1. Each of the companies to whom this Notice is addressed (‘the licensee’) holds [an electricity supply licence granted, or treated as granted, pursuant to section 6(1)(d) of the Electricity Act 1989 (‘the licence’) and/or a gas supply licence granted, or treated as granted, pursuant to section 7A(1) of the Gas Act 1986 (‘the licence’)].

2. The Gas and Electricity Markets Authority (‘the Authority’) has the power pursuant to Standard Condition 23 (‘SLC 23’) of the licence to specify requirements relating to a SLC 23 Notice.

3. In accordance with SLC 23 of the licence, on [date] the Authority consulted with the licensee and has carefully considered the responses to that consultation.

NOW THEREFORE:-

4. The Authority hereby directs that the licence must comply with the requirements set out in the Schedule.

5. The directions shall take effect on and from the date specified below and shall continue until revoked or amended by the Authority following consultation with the licensee in accordance SLC 23.

Dated the ---20[12]

[Name and title]

SCHEDULE

Directions issued by the Authority pursuant SLC 23

[to be completed: standardised templates for price increase notifications[86] (including any Consumer Information) and instructions for their completion]

[to be completed: any requirements relating to calculations of a customer's consumption and costs]

[to be completed: definitions used in the directions notice and schedule]

[86] For further information relating to Ofgem's proposals for standardised information on price increase notifications please see chapter 3 of the consultation document and appendix 8 of the draft Impact Assessment.

14. Amendments to SLC 24

Termination Fees

[…]

24.3 The licensee may include a term in a Domestic Supply Contract requiring a Domestic Customer to pay a Termination Fee to end that contract except in any of the following circumstances:

(a) the contract is of an indefinite length;

(b) without prejudice to sub-paragraph (a), the contract allows for both a fixed term period and a period of indefinite length and it is brought to an end during the period of indefinite length; or

(c) the licensee is required to give~~s~~ Notice of an increase in the Charges for the Supply of [Electricity/Gas] or any other unilateral variation ~~of a term of the contract~~ in accordance with paragraph 3 of standard condition 23 (Notification of Domestic Supply Contract terms) and sub-paragraph 6(a) of that condition binds the licensee.

Length of notice period for termination

24.6 The licensee must ensure that any notice period for termination of any Standard Domestic Supply Contract is no longer than 28 days.

24.7 Paragraph [24.6] is without prejudice to the licensee's ability to enter into a Non-Standard Domestic Supply Contract for a fixed term period which is longer than 28 days.

Termination of Standard Domestic Supply Contracts

24.8 In relation to any Standard Domestic Supply Contract, the licensee must ensure that the Domestic Customer is entitled to give notice to terminate the Standard Domestic Supply Contract at any time.

Termination of Non-Standard Domestic Supply Contracts

24.9 In relation to each Non-Standard Domestic Supply Contract, the licensee must ensure that:

> (a) a Domestic Customer is entitled to take steps to facilitate changing to any other [Gas/Electricity Supplier] (but not complete the process of changing supplier) any time without having to pay a Termination Fee;
>
> (b) unless the Domestic Customer has already entered into a new Non-Standard Domestic Supply Contract with the licensee or paragraph 5 of Standard Condition 22B applies, a Domestic Customer is entitled to switch to any other [Gas/Electricity Supplier] at any time during the Switching Window without having to pay a Termination Fee;
>
> (c) a Domestic Customer is not required to give any form of notice to terminate a Non-Standard Domestic Supply Contract or to switch supplier;

(d) unless the Domestic Customer has entered into a new Non-Standard Domestic Supply Contract with the licensee or paragraph 5 of Standard Condition 22B applies, after the fixed term period of a Non-Standard Domestic Supply Contract has expired, a Domestic Customer will continue to be subject to the same Charges for the Supply of [Gas/Electricity] and the same terms and conditions (but not any Termination Fee) that applied to that Non-Standard Domestic Supply Contract until they have changed their supplier, if the following conditions are satisfied:

(i) the Domestic Customer has informed the licensee of their intention to switch supplier on or before the date the fixed term period of the Non-Standard Domestic Supply Contract is due to end; and

(ii) another [Gas/Electricity Supplier] begins to supply that Domestic Customer's premises within 42 days of the date the Domestic Customer informed the licensee of their intention to switch in accordance with sub-paragraph 9(d)(i).

Terms of Domestic Supply Contracts

24.10 The licensee must ensure that each Domestic Supply Contract contains terms and conditions which reflect the provisions of Standard Condition 24.

24.11 The licensee must not enforce or take advantage of any term of Domestic Supply Contract if:

(a) the inclusion of that term is incompatible with Standard Condition 24; or

(b) the enforcement or the taking advantage of that term would be so incompatible

Definitions for condition

24.12 For the purposes of this condition "Switching Window" means the period which begins 42 days before the date the fixed term period of a Non-Standard Domestic Supply Contract is due to end and which ends on the date the fixed term period of a Non-Standard Domestic Supply Contract is due to end.

15. Amendments to SLC 31A[87]

Condition 31A. Information about electricity consumption patterns

31.A.1 The licensee must provide the information contained in –

(a) paragraph 31.A.2 on every Bill or statement of account sent to a Domestic Customer; and

(b) sub-paragraph 31.A.2(b) and (c) where there is an increase to the Charges for the Supply of Electricity, to every Domestic Customer who does not receive a Bill or statement of account at least once in every three months, within 65 Working Days of the date of the Notice of each increase.

31.A.2 The information provided for in paragraph 31.A.1 is –

(a) subject to paragraph 31.A.3, a comparison of the Domestic Customer's electricity consumption for the period covered by the Bill or statement of account, with the Domestic Customer's electricity consumption for the corresponding period in the previous year (for the purposes of this condition, the "corresponding period");

(b) the Domestic Customer's Exact Tariff Name;

(c) except where a Domestic Customer has held their Domestic Supply Contract for less than 12 months –

> (i) the quantity of electricity supplied to the Domestic Customer's Domestic Premises during the previous 12 months; ~~and~~
>
> (ii) an ~~illustrative projection~~ estimate of the total annual cost in pounds sterling of the quantity of electricity supplied to the Domestic Customer's Domestic Premises ~~for the forthcoming 12 months assuming those premises are supplied with the same~~ based on the quantity of electricity supplied to those premises ~~as~~ during the previous 12 months~~.~~; and

(d) any information specified in directions which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

31.A.3 The requirement in sub-paragraph 31.A.2(a) only applies if the licensee has been contracted to supply electricity to the same Domestic Customer at the same Domestic Premises throughout the period:

(a) commencing with the start of the corresponding period; and

(b) ending with the end of the period to which the Bill or statement of account relates.

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[87] Whilst these draft amendments relate to the electricity version of SLC 31A it is envisaged that equivalent amendments would be made to the gas version.

31.A.4 The licensee must provide ~~the following information~~ to every Domestic Customer at least once in every 12 ~~month period~~ Month Period at the Relevant Time a Written document (hereafter referred to as an “Annual Statement”) which has the title “[Your Annual Energy Statement/Summary]” and which only contains the following information –

(a) the Domestic Customer’s Exact Tariff Name;

(b) except where the Domestic Customer has held their Domestic Supply Contract for less than 12 months –

(i) the quantity of electricity supplied to the Domestic Customer’s Domestic Premises during the previous 12 months;

(ii) an ~~illustrative projection~~ estimate of the total annual cost in pounds sterling of the quantity of electricity supplied to the Domestic Customer’s Domestic Premises ~~for the forthcoming 12 months assuming those premises are supplied with the same~~ based on the quantity of electricity supplied to those premises ~~as~~ during the previous 12 months;

(c) details of any premium or discount that applies to each specific ~~the~~ Domestic Customer’s tariff as compared to the Electricity Supplier’s standard tariff where payment is by direct debit;

(d) details of the Relevant Principal Terms of the Domestic Customer’s Domestic Supply Contract;

(e) a reminder in a prominent position that the Domestic Customer may wish to consider chang~~e~~ing their Electricity Supplier; ~~and~~

(f) information about where the Domestic Customer may obtain impartial advice and information about changing their Electricity Supplier~~.~~;

(g) the Tariff Information Label in respect of the Domestic Supply Contract or Deemed; Contract that applies to the Domestic Customer;

(h) the Tariff Information Label in respect of other Domestic Supply Contracts offered by the licensee that are specified in directions which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

(i) any Consumer Information specified in directions which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

31.A.5 The licensee must:

(a) present the information in a form that is clear and easy to understand which does not mislead the Domestic Customer to whom it is directed and is otherwise fair both in terms of its content and in terms of how it is presented;

(aa) ensure that the Annual Statement is separate from any other document (including, but not limited to, a Bill or statement of account) and is provided to the Domestic Customer separately from any other document (including, but not limited to, a Bill or statement of account);

(b) when providing information about the quantity of electricity supplied or to be supplied in accordance with paragraph 31.A.2 or 4~~,~~:

> (i) include details of any time of use tariffs which may apply to the Domestic Supply Contract;
>
> (ii) display the quantity of electricity in kilowatt hours;

(c) make it clear on the Bill, statement of account or Notice whether any estimates of the Domestic Customer's electricity consumption have been used in producing the information; and

(d) when providing an ~~illustrative~~ ~~projection~~ estimate of the total costs under paragraphs 31.A.2 or 4:~~,~~

> (i) set out the Relevant Charges for the Supply of Electricity that have been used~~.~~;
>
> (ii) explain how the estimate of the total annual costs has been calculated and set out the calculation used; and
>
> (iii) if the Domestic Customer has a Standard Domestic Supply Contract, include a statement to the effect that the Charges for the Supply of Electricity may be increased by the licensee in the future;

(e) calculate each estimate of the total annual costs under paragraphs 31.A.2 or 4 using the Relevant Charges for the Supply of Electricity;

(f) when providing details of any premium or discount in accordance with sub-paragraph 4 to a Domestic Customer that has held their Domestic Supply Contract for at least 12 months, provide and display that information as the annual amount in pounds sterling calculated on the basis of the quantity of electricity supplied to the Domestic Customer's Domestic Premises during the previous 12 months and the Charges for the Supply of Electricity which applied during that previous 12 months; and

(g)when providing details of the Relevant Principal Terms in accordance with sub-paragraph 4, all the Relevant Principal Terms must be provided together in the same part of the Annual Statement under the heading ["Key Contractual Terms"].

31.A.6 The licensee must send the first Annual Statement on or before 31 December

2010 to every existing Domestic Customer who has held their Domestic Supply Contract with the licensee for at least 12 months on 1 April 2010.

Terms of Domestic Supply Contracts

31.A.7 The licensee must ensure that each Domestic Supply Contract and Deemed Contract contains terms and conditions which reflect the provisions of Standard Condition 31A.

Directions and Guidance

31.A.8 The licensee must comply with any directions relating to Relevant Matters for SLC 31A which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

31.A.9 The licensee must have regard to any guidance on the interpretation of Standard Condition 31A which, following consultation (which may be conducted before this condition takes effect), the Authority may issue and may from time to time revise.

Definitions for condition

31.A.~~7~~10 For the purposes of this condition:

"12 Month Period" means 12 months from the date the licensee began to supply the Domestic Customer and each further consecutive period of 12 months after that period of 12 months.

"**Annual Statement**" means the document described in ~~information to be provided by the licensee to a Domestic Customer in accordance with~~ standard condition 31A.4.

"**Consumer Information**" means any information which relates to:

(a) encouraging a Domestic Customer to consider:

(i) changing their Electricity Supplier and/or

(ii) entering into a new contract with their Electricity Supplier; and

(b) the licensee's obligations under any condition of this licence;

"**Exact Tariff Name**" means the full and exact name of the tariff that is used to calculate Charges for the Supply of Electricity under the relevant Domestic

Supply Contract.

"**Relevant Charges for the Supply of Electricity**" means:

(a) where the licensee has publicly announced an increase or decrease in the Charges for the Supply of Electricity, the Charges for the Supply of Electricity that will apply to the specific Domestic Customer after that increase or decrease is scheduled to take effect; or

(b) in any other case, the Charges for the Supply of Electricity that currently apply to the specific Domestic Customer.

"Relevant Matters for SLC 31A" means any requirements as to:

(a) the content, format and/or display of any information (including any instructions as to how that information must be prepared) which must be included in a in a Bill, Annual Statement or statement of account by virtue of this condition or any directions issued pursuant to this condition; and

(b) the methodology by which any calculations in relation to any information which must be included in a Bill, Annual Statement or statement of account by virtue of this condition must be carried out by the licensee; and

"**Relevant Principal Terms**" means, in respect of any form of Contract or Deemed Contract, the terms that relate to:

(a) Charges for the Supply of Electricity;

(aa) where the licensee is relying on sub-paragraph 10(a) of Standard Condition 22B or sub-paragraph 8(a) of Standard Condition 23, the method by which Charges for the Supply of [Electricity/Gas] fluctuate automatically;

(ab) where the licensee is relying on sub-paragraph 10(b) of Standard Condition 22B or sub-paragraph 8(b) of Standard Condition 23, the precise variations to the Charges for the Supply of [Electricity/Gas];

(b) The duration of the Contract or Deemed Contract (including any arrangements for renewing or extending the duration of the Contract or any fixed term periods);

(c) The rights to end the Contract (including any obligation to pay a Termination Fee) or the circumstance in which a Deemed Contract will end; and

(d) Any other terms that may reasonably be considered to significantly affect the evaluation by the Customer whether to change their Electricity Supplier.

"**Relevant Time**" means during the last month of each 12 Month Period.

16. Template directions for SLC 31A

The Company Secretary

Name and registered address of licence holder

[GAS/ELECTRICITY] SUPPLY LICENCE

STANDARD CONDITION 31A. Information about electricity consumption patterns

Notice of directions issued by the Gas and Electricity Markets Authority pursuant to Standard Condition 31A

WHEREAS:

1. Each of the companies to whom this Notice is addressed ('the licensee') holds [an electricity supply licence granted, or treated as granted, pursuant to section 6(1)(d) of the Electricity Act 1989 ('the licence') and/or a gas supply licence granted, or treated as granted, pursuant to section 7A(1) of the Gas Act 1986 ('the licence')].

2. The Gas and Electricity Markets Authority ('the Authority') has the power pursuant to Standard Condition 31A ('SLC 31A') of the licence to specify requirements in respect of information included in a Bill, Annual Statement or statement of account.

3. In accordance with SLC 31A of the licence, on [date] the Authority consulted with the licensee and has carefully considered the responses to that consultation.

NOW THEREFORE:-

4. The Authority hereby directs that the licence must comply with the requirements set out in the Schedule.

5. The directions shall take effect on and from the date specified below and shall continue until revoked or amended by the Authority following consultation with the licensee in accordance SLC 31A.

Dated the --20[12]

[Name and title]

SCHEDULE

Directions issued by the Authority pursuant SLC 31A

[to be completed: standardised templates for information which must be included in Bill and Annual Statements (including any Consumer Information) and instructions for their completion[88]]

[to be completed: any requirements relating to calculations]

[to be completed: definitions used in the directions notice and schedule]

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[88] For further information relating to Ofgem's proposals for standardised information on Bills and Annual Statements please see chapter 3 of the consultation document and appendix 8 of the draft Impact Assessment. It is envisaged that examples of standardised components for Bills and Annual Statements will be published in the near future along with related consumer research.

Appendix 5 - Glossary

A

Annual Statement

A written document that suppliers must provide to each customer, each year. The Annual Statement contains a range of key tariff information, including tariff name, consumption over the previous 12 months, estimate of annual cost for the next 12 months and details of any premium or discount that applies to the tariff.

Automatic contract rollover ('auto-rollover')

Where a supplier extends the duration of an existing Fixed Term Offer or applies a new Fixed Term Period.

Annual Bill

The amount that a customer would have to pay for gas and/or electricity over one whole year.

B

Barrier to entry

A factor that may limit a firm's ability to enter the market.

Barrier to expansion

A factor that may limit a firm's ability to increase in size.

Big 6

The name collectively given to the six companies that hold supply licences and supply most of the energy to domestic households in the GB market. They are: Centrica plc (three retail brands, British Gas, Scottish Gas and Nwy Prydain in England, Scotland and Wales respectively), E.ON UK, Scottish and Southern Energy (SSE), RWE npower, EDF Energy and ScottishPower.

C

Carbon Emissions Reduction Target (CERT)

A government policy that requires all domestic energy suppliers with a customer base in excess of 50,000 customers to make savings in the amount of CO_2 emitted by householders. Suppliers meet this target by promoting the uptake of low carbon energy solutions to household energy consumers, thereby assisting them to reduce the carbon footprint of their homes.

Community Energy Saving Programme (CESP)

A government policy that targets households across Great Britain, in areas of low income, to improve energy efficiency standards and reduce fuel bills. Suppliers provide funding for the programme.

Code of Practice

A set of guidelines and principles to be followed by members of some profession, trade, or group. In this case, energy suppliers.

Cooling-off period

Usually refers to a period of time after the consumer has entered into a contract or signed up to a tariff during which they can reverse their decision without incurring any cancellation fees.

Cross subsidise

The part financing of one product or activity by another.

D

Deemed Contract

A contract deemed to be in place pursuant to paragraph 8 of schedule 2B to the Gas Act 1986 and/or paragraph 3 of schedule 6 to the Electricity Act 1989, e.g. where a customer takes a supply of electricity and/or gas otherwise than under a contract that has been expressly entered into with a supplier.

Department for Business Innovation and Skills (BIS)

A UK government department created in June 2009 by the merger of the Department for Innovation, Universities and Skills (DIUS) and the Department for Business Enterprise and Regulatory Reform (BERR). Responsible for policy in areas such as business regulation and support, consumer affairs, trade, training, regional development and further and higher education.

Department for Energy and Climate Change (DECC)

The UK government department responsible for policy and regulations in the fields of energy and climate change.

Direct debit (DD)

A method of payment where a fixed or variable amount is taken from a bank account each month, quarter or year.

Distribution Use of System (DUoS) charges

The charges paid by electricity suppliers to distribution companies for use of the electricity distribution system.

Distributor Network Operators (DNO)

DNOs came into existence on 1 October 2001 when the ex-Public Electricity Suppliers were separated into supply and distribution businesses. There are 14 DNOs covering discrete geographical regions of Britain. They take electricity off the high voltage transmission system and distribute this over low voltage networks to industrial complexes, offices and homes. DNOs must hold a licence and comply with all distribution licence conditions for networks which they own and operate within their own distribution services area. DNOs are obliged to provide electricity meters at the request of a supplier.

Distribution system

A local network that connects electricity/gas from the transmission system to end consumers at lower voltage/lower pressure.

Domestic customer

A customer that uses energy for non-commercial purposes.

Domestic energy suppliers

Companies who sell energy to and bill domestic customers in Great Britain.

Dual Fuel (DF)

A type of energy contract where a customer takes gas and electricity from the same supplier.

Dynamic Teleswitching (DTS)
A particular type of electricity meter where the tariffs have a control unit that allows the supplier (or distribution company) to switch the metered supply remotely by radio teleswitch. The Radio Teleswitching Access Provider controls the radio switches, and therefore heating load, following instructions from the supplier.

E

Economies of scale

Where the average costs of producing a good or providing a service falls as output increases.

Economy 7 / Economy 10

A type of tariff that has different unit rates for consumption during the day and during the night. The number following ‘Economy’ refers to the number of hours for which night-time rates are available.

Energy Company Obligation (ECO)

A forthcoming government policy that will replace CERT and CESP. Suppliers would provide funding for this policy.

Ex-PES

The previous Public Electricity Supplier (PES) for one of the 14 electricity regions in England, Wales and Scotland. From privatisation in 1990 until 1998 the ex-PES had a monopoly of electricity supply and distribution in their designated areas. Local distribution is still a monopoly regulated by Ofgem, however, competition has been introduced in supply, and so these 14 suppliers (consolidated now into five) are known as ex-PES suppliers. The 14 regions are detailed below, together with the name of today's ex-PES company for each region.

Region	Supplier Group
London	EDF Energy
Seeboard	
SWEB	
East Midlands	E.ON UK
Eastern	
Norweb	
Midlands	RWE npower
Northern	
Yorkshire	
Scottish Hydro	SSE
Southern	
Swalec	
Manweb	Scottish Power
Scottish Power	

F

Financial Services Authority (FSA)

The FSA regulates the financial services industry. It is an independent nongovernmental body, given statutory powers by the Financial Services and Markets Act 2000. It is a company limited by guarantee and financed by the financial services industry.

Fixed price tariff

A tariff that guarantees that the price paid per unit of gas or electricity used will not change for a given period of time.

Fixed duration tariff

A product which provides specified features for a predetermined period of time.

Fuel poverty

Those households who need to spend more than 10 per cent of their annual income on fuel to maintain an adequately heated home are considered to be in fuel poverty.

G

Green tariffs

An energy tariff which is marketed as having environmental credentials.

H

Hedging

Deals based on the future price of a good or service instead of dealings based on the daily price of a good or service. This enables those purchasing a good or service to reduce the risk of short term price movements.

I

In-area customers

Customers of an electricity supplier who are located within the supplier's original ex-PES region.

K

kWh

Kilowatt-hour is a unit used to measure energy consumption in both electricity and gas.

M

Market Share

The proportion of total customers (usually as proxied by the number of meter points) within a market that are registered to a particular supply group.

Market Liquidity

The ease with which new entrants or small suppliers are able to secure wholesale gas and electricity supplies, for on-sale to retail customers.

Mutual variation

An amendment to the terms and conditions (including price) of a consumer's energy supply contract agreed with the consumer. The consumer would have the right not to accept the proposed variation. The variation can only be implemented by the supplier if the consumer gives their express consent.

MWh

A megawatt hour. Equal to 1000 kWh.

N

New entrant

An entrant that does not have an incumbent customer base.

O

Office of Fair Trading (OFT)

Enforces consumer protection law and competition law, reviews proposed mergers and conducts market studies.

Out-of-area customers

Customers of an electricity supplier who are located outside of the supplier's original ex-PES region.

P

Price Increase Notification Letter

If a supplier increases the price of a tariff, then under Ofgem's licence obligations it must notify the consumer at least 30 days in advance of the date on which the price increase takes effect.

S

Self regulation

Industry regulation without Ofgem's binding licence conditions. However, if self regulation is not operating as Ofgem would hope, licence conditions may be introduced.

Smart meter

A generic term for innovative forms of metering that provide increased levels of functionality above that of a basic meter. It usually includes at a minimum the ability to read the meter remotely via a communication channel.

Small suppliers

Suppliers which operate in the domestic gas and electricity market but do not hold significant market share. This can refer to all suppliers other than the Big 6.

Standards of Conduct (SOC)

A written policy and procedure that outlines broad standards of integrity and business ethics.

Standard contract

A supply contract of indefinite duration which may be terminated by the customer by giving notice in accordance with the contractual terms, e.g. 28 days' notice.

Supply Licence Conditions (SLCs)

The legally binding conditions that gas and electricity suppliers must meet to supply to domestic and non-domestic customers, in accordance with the Gas Act (1986) and Electricity Act (1989).

Switching

The process of changing gas or electricity supplier, or changing to a new tariff with the same supplier.

T

Termination (exit) fees

The contractually agreed price a customer must pay (where part of their contract) if they terminate their contract before the agreed contract end date.

Third Package

The term "Third Package" refers to a package of EU legislation on European electricity and gas markets that entered into force on the 3rd September 2009. The purpose of the Third Package is to further liberalise European energy markets. DECC is primarily responsible for its transposition in Great Britain and must do this by the 3rd March 2011

Transmission Network Use of System (TNUoS) charges

The charges paid by electricity suppliers to the System Operator for use of the transmission system. The System Operator is National Grid Electricity Transmission plc.

Transmission system

The system that transfers electricity/gas at high voltage/pressure around the UK before distribution to end consumers. For electricity this will be the overhead lines, underground cable and substations. For gas this is the high pressure pipes and compressor stations.

V

Variation

An amendment to the terms and conditions (including price) of a consumer’s energy supply contract.

W

Warm Home Discount

The Warm Home Discount scheme mandates domestic energy suppliers to provide approximately £1.13 billion of direct and indirect support arrangements to fuel poor customers over four years from April 2011.

Appendix 6 - Feedback questionnaire

6.1 Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

6.2 Please send your comments to:

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