

Simpler energy tariffs

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Ofgem’s tariff reform proposals are designed to make it easier for household energy consumers to compare prices and choose a better deal. We aim to do this in a way that promotes competition between suppliers and supports innovation and choice.

Ofgem’s role

Ofgem’s role is to promote competition in the energy sector and protect the interests of all future and existing energy customers. In March 2011 we identified that competition was being stifled by a combination of complex tariffs, poor supplier behaviour and a lack of transparency.

In October 2011 Ofgem put forward its preferred model for addressing tariff complexity in addition to its other retail reforms such as breaking the stranglehold of the Big Six energy suppliers in the wholesale electricity market. More information on these can be found in the factsheet: “Retail markets: review and remedies.”

Issue

Many consumers see the energy market as complex and hard to navigate. Only a small number actively seek out better deals and welcome having choice.

Our consumer research suggests the majority of consumers are not actively engaged in the energy market and therefore may be paying more than they need to for gas and electricity.

To help them get a fairer deal we aim to address the complexity of the market by

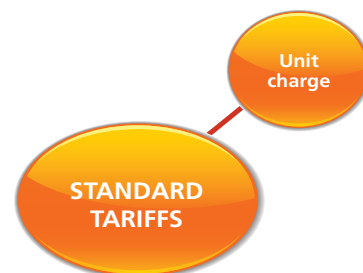
- reducing the number of standard tariffs,
- introducing a single unit price so consumers can choose the cheapest standard tariff more easily, and
- ensuring suppliers make information for consumers a lot clearer and easy to understand.

Based on evidence from our research among consumers, Ofgem and most consumer groups believe that tariffs need to be simpler to help consumers to compare and switch.

Information you currently need to work out the cheapest standard or evergreen tariff



UNDER NEW PROPOSALS



*note: this diagram represents standard/evergreen offers only, it does not include fixed term or other tariff options that may be available in the current market or under new proposals.

Our proposals

In October 2011 Ofgem decided on a proposed model to simplify tariffs:

Standard tariffs – are defined as any tariff that doesn't have a fixed end date. The supplier normally has the right to alter the price – although we have now ensured that suppliers write to consumers at least 30 days before their prices rise. We propose:

- Each supplier can only have one standard tariff per payment method, per fuel. The three payment methods are direct debit, pre-payment meter, and standard credit, such as credit cards, cheques etc.
- Consumers will get a simple unit price and a fixed standing charge set by Ofgem – enabling them to choose the cheapest standard tariff more easily.

These changes will offer more transparent and comparable information about energy prices. They will address the confusion about the number of tariffs and enable people to tell at a glance whether they can save money by switching supplier or moving to a new deal. It represents major reform as increased transparency will help all customers.

More innovative tariffs – We propose that all other tariffs must have a specified end with a specified end date and fixed terms and conditions. We propose:

- No restrictions on the number, type, structure or duration of fixed term contracts, including exit penalties.
- Terms and conditions, including the price, are set at the start of the contract and cannot change for the duration of the fixed term contract. (Although price would not be fixed for tracker-type tariffs).
- Automatic roll-over at the end of the contract will be banned. So, customers who do not sign up to a new deal when their fixed term contract ends will default to the standard tariff. They will also be free to switch.
- Strict rules on clear information and ensuring the customer understands the terms.

Fixed term tariffs would also enable suppliers to continue to innovate and give their customers genuine choice.

Making comparisons and choices

We propose:

- Displaying all energy prices in pounds and pence, for example '£/month' as well as 'p/kWh'. Our consumer research tells us that consumers can relate better to information presented this way. It will be the equivalent of an 'APR' comparison for gas and electricity.
- Suppliers will have to publish the price of all their tariffs in the same way so consumers can compare between standard and fixed term tariffs.

This will ensure greater transparency so that customers can compare standard tariffs with more innovative fixed term tariffs.

Next Steps

Ofgem will publish detailed proposals in November for consultation, including proposals for reform in the non-domestic energy market. Following a review of the consultation responses, Ofgem aims to publish its final proposals and to consult on changes to suppliers' licence conditions next summer with a view to a final decision being taken in autumn. This means that some of our proposals could be implemented by winter 2012 providing the industry get fully behind our reforms.

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