

## High Level Response - Summary

The ERA has been at the forefront of developing reform which enhances effective customer engagement and leads to more effective competition. Indeed, since Ofgem's consultation on *Findings and initial proposals* closed last year, the ERA has been working with suppliers and consumer groups to produce a standardised "key facts" template that will help customers compare tariffs. The next stage of this project is to undertake consumer research to ascertain which categories of information should be included, the order, and the type of language that might be used.

The ERA provides further views on the information and strengthening of probe remedies below. It would have been helpful that, for such a significant set of changes as this, the ERA had been offered the opportunity to comment on a quantified impact assessment of the proposal. However, in the absence of such an impact assessment, we would like to raise what we consider to be key questions about the broader RMR piece, which we would very much like to discuss with Ofgem:

- What are the best ways of promoting consumer trust?
- What does success look like, and what does Ofgem believe the future holds?
- Are there tensions between RMR and smarter markets, and how will they be resolved?
- How will the reforms and the rationale behind them be communicated to consumers?

### 1. Promoting consumer trust

A number of Ofgem's proposals under the RMR, including the Core Proposals, the SOC's and the strengthening of Probe remedies, are intended to help promote greater levels of trust in the energy industry. This increased trust is not just seen as an end in itself; it is hoped to encourage greater levels of consumer engagement, thereby promoting competition.

ERA members are taking a number of voluntary steps to so increase trust in the industry, a point which we hope that Ofgem appreciates. Given the widespread agreement on the need to promote greater levels of trust in the energy industry, the key question becomes "what is the best way(s) of doing so"? In order to answer this question, policymakers would need to correctly identify the cause(s) of distrust; for the choice of remedy to be right, the diagnosis must be sound.

As to whether the Ofgem's diagnosis is sound, its own ambiguity is instructive: it states that "research conducted since March support our findings about the link between perceptions of supplier behaviour and consumer engagement"<sup>1</sup>. Ofgem thus implies that customers might not distrust suppliers because of their *actual* behaviour, but rather because of their *perceived* behaviour. If it is because of *perceived* behaviour, then what is causing that perception?

The ERA is not meaning to imply that suppliers' behaviour has not caused problems with consumer engagement and trust. We also agree in principle with making tariffs easier to understand and compare. Rather, we are trying to highlight that more needs to be done to improve understanding of why we are where we are when it comes to consumer trust, and that there are many actors with roles to play in promoting the trust agenda.

### 2. What does success look like?

Ofgem's proposals are aimed at helping customers make better decisions and encouraging greater customer engagement, thereby promoting competition. However, we are unsure how Ofgem intends to gauge whether its proposals will have the intended effect. In this regard, we would very much welcome the Authority's vision for the future, and what objective measures it intends to use to benchmark success. In absence of such clarity, we are concerned about the increased likelihood of unintended consequences, particularly given the breadth and depth of the reforms.

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<sup>1</sup> Ofgem, RMR, para 4.3 p 52

The need to resolve tensions between RMR and the rollout of smart meters is a case in point. We understand and respect Ofgem's rationale that "Consumer engagement is key to realising the benefits of smart metering; improving customer experience now will facilitate such future engagement."<sup>2</sup> However, there is potentially a risk of over-simplifying and deterring consumers from taking up innovative time-of-use tariffs because they are reluctant to be tied into something they have not tried before. We would welcome Ofgem's views on how significant it considers these risks to be, and at the very least believe that a "roadmap" from RMR to smarter markets is required.

### **3. Managing consumers' reactions to the reforms**

Ofgem is right to recognise that 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"<sup>3</sup>, and is also right to say that "great care will be needed in communicating"<sup>4</sup> the reforms.

The ERA believes that the potential for customer backlash against the prohibition on a variety of popular discounts, affinity deals and other benefits with evergreen tariffs should not be underestimated. With this in mind, we would welcome further detail and discussion on how Ofgem intends to communicate its reforms to customers and take responsibility for the impact that they have, and over what timescales. This would not be a simple process so development would need to start early.

## **ERA comments on information remedies**

### **1. The Tariff Information Label**

In principle, the ERA supports the proposal to develop a common way of presenting key features of tariffs to allow consumers to easily compare them and make the best decision. Indeed, since before Ofgem's latest RMR proposals, the ERA has been working with suppliers and consumer groups including Consumer Focus, Citizens Advice and Which? to produce a "key facts" template, which is a similar concept to the Tariff Information Label.

The aim of the "key facts" piece is to come up with common categories of information and standardised terminology to describe each tariff. In this respect, we agree with Ofgem that it is important to highlight non-price features. Suppliers could then display this where appropriate (such as on their websites) to assist customers who are exploring their options before committing to a particular tariff.

At the last project meeting, stakeholders discussed and agreed which general categories of information should be considered for inclusion. This straw-man is included in appendix 1 below. As a next stage, the ERA intends to carry out consumer research to see which categories of 'key fact' should be included, the order, and the terminology that should be used.

Given the momentum behind this initiative, and the strong similarities between the proposals, we would suggest that Ofgem should join the wider group. We would hope that the project would culminate in a voluntary agreement so that changes to licence conditions are not necessary. To help achieve this, we would invite suppliers who are not ERA members to participate. We recognise that monitoring would be required post-implementation. To facilitate this, we would suggest regular meetings of stakeholders to review progress.

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<sup>2</sup> Ofgem, RMR, para 3.17, p. 34

<sup>3</sup> Ofgem, RMR, para 2.59, p. 23

<sup>4</sup> Ibid

## **2. Strengthening Probe remedies – greater prescription on bills, annual statements and price rise notifications**

The ERA supports initiatives to improve the quality of information suppliers provide to consumers, and enable consumers to make well-informed decisions regarding their choice of energy tariff. However, we also defend the ability of our members to differentiate themselves from each other, and other suppliers, in order to help promote competition.

Taking these principles into account, we believe that a project to develop standardised language and information on bills, annual statements and price rise notifications would be best led by industry, with input from Ofgem and other stakeholders. This would enable contributions from a wide range of consumer communication experts, which might otherwise be lacking in a framework of regulatory prescription. The ERA also favours voluntary initiatives rather than regulatory requirements, since the latter could inhibit change, innovation and adaptation to customers' preferences in a dynamic marketplace. In particular, our members have concerns that the proposed ban on combining the mailing of annual statements with other documents will increase costs without necessarily delivering any customer benefit.

Regarding the regulatory requirements on energy bills, the ERA has been in discussions with DECC, Consumer Focus and Which? about reviewing them, with a view to exploring whether any of the current information could be safely removed. This is an area where we would like to work jointly with Ofgem and consumer groups to ensure any proposed changes to energy bills can be implemented at the same time as the wider changes to bills and annual statements.

Regarding price rise notifications, the ERA supports Ofgem's aim to ensure that customers pay sufficient attention to them, and that the information contained therein should be clear and easily understood. However, we do not agree that including marketing material with the notice should be prohibited. This is because we believe that customers value the provision of more detailed information about what they can do next, or advice about how to reduce their energy costs at a time of rising bills, as is consistent with good customer service and the wider goal of reducing carbon emissions.

### **Conclusion**

As stated above, the ERA is already at the forefront of creating the foundations for enhanced consumer trust and engagement in the energy market, thereby leading to more effective competition.

In this regard, we recognise that a balance needs to be struck between simplicity and choice, and prescription and flexibility.

We very much hope that the comments contained in the three elements of the ERA response assists Ofgem in getting that balance right, and making adjustments where necessary.

In addition, we hope that our observations encourage Ofgem to look deeper into the assumptions underpinning their proposals, and to provide a more defined vision of what success might look like.

## Appendix 1

### The key facts straw-man

Key Fact	Options				
Tariff name					
Average annual bill	£X for a low user		£X for a medium user		£X for a high-user
Give me an estimate					
Discounts and extras	<Supplier discretion>				
Tariff type	VARIABLE – unit prices can go up or down	TRACKER – unit prices are linked to the reference stated below, and can go up or down	CAPPED – unit prices can vary, but cannot go above the level defined below	FIXED PRICE – unit prices stay the same	FIXED BILL – you pay the same each month however much energy you use
Tracker reference	Prices are guaranteed to be <cheaper/a minimum of X% cheaper> than <name variable product>				
Ways you can pay	Direct Debit		Cash, cheque, credit or debit card	Pre-pay	
Account management options	Online, <frequency> billing		Offline, <frequency> paper billing		
Contract end date	None		<Insert date>		
What happens at the end of the contract?	n/a		<Relevant supplier> will notify you <X days> before the end of the term. If you take no action you will automatically be moved onto <product name>, which is a <tariff type> tariff with a<fixed/ongoing> term and <a termination/no termination> charge		
Early cancellation fee?)	None		£<insert number>, but this will not apply in some circumstances, such as if prices go up		
Standing charge	No. This means that the bill is zero if you use no energy. However, you may pay a higher unit rate for the energy you do use.		Yes. £<insert number> per year. This is charged at <Xp> per day for <X region>, but varies by region		
Unit price(s)	Xp/kWh	Daytime (peak) rate: Xp/kWh  7-hour overnight rate: Wp/kWh	Yp/kWh for first <X number> of kWh per year and Zp/kWh thereafter	Daytime (peak) rate: Yp/kWh for first <X number> of kWh per year and Zp/kWh thereafter  7-hour overnight rate: Wp/kWh	
IGT customers	Extra charge of <insert charge>		No extra charge		
Applicable meter-types					
Taking meter readings	Customer must read the meter every <X months> as a condition of the deal			Encouraged but not mandatory	
Other restrictions					