Promoting choice and value
**for all gas and electricity customers**

# The Retail Market Review – Final domestic proposals

## Consultation on policy effect and draft licence conditions


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**Overview:**

This document contains Ofgem's final proposals on the Retail Market Review (RMR). It proposes a new set of rules for energy retail markets that will make it radically easier for consumers to make better choices over their electricity and gas supply. If implemented the proposed new rules will enable more consumers to secure a better deal - and in so doing increase the competitive pressure on energy suppliers to deliver good customer service at efficient cost. A competitive retail market is of critical importance in helping to minimise the impacts of cost pressures from rising global energy prices and the need to invest in infrastructure to deliver a low carbon economy.

The proposed new rules strip away unnecessary complexity in tariff choices, arm consumers with better, more relevant information on the available choices and puts in place legally binding fairness obligations. We envisage that our rules will be implemented from the summer, largely in place by the end of the year and fully operational over the next twelve months, recognising suppliers' requirements to amend their systems, products and marketing – and to manage the process of amending the contracts of some customers.

This document includes our consultation on the effect of the final domestic and associated licence condition drafting.

# Context

Ofgem's principal objective is to protect the interests of both existing and future energy consumers. The RMR aims to make the market better at serving the interests of consumers and enable individuals to get a better deal from energy companies.

This document sets out our proposals for domestic consumers in three policy areas, as well as a number of interrelated issues. We summarise their key elements below. Proposals for the non-domestic market were published earlier this month.

In conjunction with this consultation document we are publishing our final Impact Assessment on the proposals and the updated draft legal text for new and amended licence conditions. We also include a summary of responses to our previous consultation.

The RMR has links with our Consumer Vulnerability Strategy[1], Smarter Markets Strategy[2] and our work on liquidity[3]. We are working to ensure our RMR proposals work in a complementary manner to these initiatives.

# Associated documents

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

- The Retail Market Review – Final Impact Assessment for domestic proposals, March 2013, Reference: 41/13.
- The Retail Market Review – Envisaged legal drafting for the Retail Market Review Domestic proposals, March 2013, Reference: 42/13.
- Review of Ofgem's enforcement activities – consultation on strategic vision, objectives and decision makers, March 2013, Reference: 43/13.
- The Retail Market Review – Final non-domestic proposals, March 2013, Reference: 38/13.

[1] For more information see the following link: http://www.ofgem.gov.uk/Sustainability/SocAction/Pages/SocAction.aspx
[2] For more information see the following link: http://www.ofgem.gov.uk/Markets/sm/strategy/Pages/Strategy.aspx
[3] For more information see the following links: http://www.ofgem.gov.uk/Markets/WhlMkts/CompandEff/Pages/CompandEff.aspx and http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Pages/rmr.aspx

- The Retail Market Review – Impact Assessment for the final non-domestic proposals, March 2013, Reference: 38a/13.

- Boag McCann, Ofgem RMR Consultation Visuals, Forthcoming.

- The Retail Market Review – Updated domestic proposals, Reference: 135/12, October 2012.

- Supplementary appendix to: The Retail Market Review – Updated domestic proposals, October 2012, Reference: 135a/12.

- The Retail Market Review – Draft Impact Assessment for the updated domestic proposals, October 2012, Reference: 135b/12.

- Draft domestic licence conditions for the Retail Market Review proposals, October 2012, Reference: 135c/12.

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- The Standardised Element of Standard Tariffs under the Retail Market Review, February 2012, Reference: 11/12.

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- The Retail Market Review: Draft Impact Assessment for Domestic Proposals, Supplementary Appendices, December 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.
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- The Retail Market Review – Findings and Initial Proposals, March 2011, Reference: 34/11.
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- Energy Supply Probe - Initial Findings Report, October 2008, Reference: 140/08.

# Contents

# Executive Summary

**Introduction**

This document sets out Ofgem's final proposals for the Retail Market Review (RMR). It also contains an informal consultation on the effect of our final policy proposals and our envisaged approach to transposing the effect of the proposals into licence conditions. We propose to introduce a package of new rules for energy suppliers to make it radically easier for consumers to make better choices over their electricity and gas supply. This will help more consumers to secure a better deal - and in so doing increase the competitive pressure on energy suppliers to deliver good customer service at efficient cost.

In preparing these new rules we have consulted extensively with stakeholders, and analysed both the market and how consumers engage in that market. This evidence base and consultation process has, in our view, firmly established that retail energy markets can be made much more accessible for consumers while also retaining the scope and incentives for suppliers to innovate and compete. The role we see for the proposed new rules is based in part on the experience of how energy suppliers have responded to less prescriptive, more voluntary arrangements introduced as part of the 2008 Energy Supply Probe.

**What we propose**

*Stripping away tariff complexity*

We propose to limit each supplier to offering no more than four core tariffs at any point in time. Each core tariff may offer a choice over payment method, online account management, and dual fuel – with these choices (and the associated discounts or surcharges) presented in a standard, easy-to-compare way. Further, tariffs will continue to be permitted to vary by region. Complex tariffs which increase or reduce the price per unit as consumption increases will no longer be allowed.

We are also proposing to introduce rules to ensure that all fixed term offers are "no surprises, no lock-ins". Fixed term will mean fixed (or pre-defined) prices for a given period of time. At the end of the fixed term, the consumer will roll on to the cheapest evergreen tariff unless they make an active choice to do otherwise. We are also proposing to tighten up the rules on how discounts and bundles are treated and presented, to make them easier to understand, value and compare.

We are proposing to introduce complementary rules to help consumers who might already be disengaged. If a consumer is on an evergreen tariff that is no longer available and can save money by moving to a similar "live" tariff, then the supplier will need to make this happen.

These rules are needed because there are currently too many tariffs in the market and many tariffs are unnecessarily complex. This does not constitute effective choice for consumers – and it is turning many customers off. Markets do not function well when consumers are disengaged because the threat of losing a customer is diminished. The credible threat of consumers "voting with their feet" is critically important in keeping the pressure on energy suppliers to provide good customer service at efficient price, and to keep improving over time. It is also a key factor in allowing new, better energy suppliers to enter the market.

We are not proposing to take these steps lightly, and are mindful of the potential risk of regulation stifling innovation. However, our proposed new rules continue to provide ample opportunities for suppliers to compete with one another on price, quality of service and product design – including through partnership with other retail brands and through collective switching (where our rules provide additional flexibility). But this will be in an environment that is easier for consumers to understand the differences on offer. We expect this to expand the number of consumers willing to choose their energy supply tariff, and to improve the quality of the decisions they make when they do.

Through these proposals we are directly addressing the most immediate concerns with how our retail energy markets are operating. But our proposed new rules also take account of and support potential future developments in time-of-use tariffs (enabled by smart meters) and collective switching. Improving the base level of consumer trust and engagement is an important pre-condition for such developments.

*Arming consumers with better, more relevant information*

Consumers also need useful tools to help them navigate the market, and relevant prompts on what the benefits of engaging in the market might be. Our decision to initiate the RMR was in part informed by evidence from our market monitoring and our enforcement of the existing rules that many larger suppliers were not always acting in the spirit of the Probe rules. While improvements have been made more recently, we have concluded that it is appropriate to formalise minimum acceptable standards through regulation.

We are therefore proposing to create new rules to (a) create standard ways of communicating key messages and prompts, and (b) make the routine letters and statements provided by energy suppliers more user-friendly. Specifically:

- A new metric, the Tariff Comparison Rate (TCR) to help at a glance comparisons.
- A standard format Tariff Information Label for all tariffs.
- A standard way of setting out Personal Projections of tariff costs.
- Regular prompts from your supplier on what the cheapest tariff is for you based on your current preferences, and across the supplier's range of tariffs as a whole.

- Requiring specific personalised information needed to assess tariff options on routine communications[4].
- A degree of standardisation in the layout of the Bill, Annual Statement, Price Increase Notification and End of Fixed Term Notice to ensure that key messages are prominent and useful information is hard to miss.

If implemented, we expect these measures to improve awareness among consumers that they do have a choice, and what exercising choice might mean for them. In this way we expect more of these consumers to be prompted to seek out a better deal and making better quality decisions. We would also expect these measures to improve awareness of energy costs and the differences between energy suppliers – because comparisons will be easier to make, and more visible publicly.

*Greater confidence that your energy supplier will treat you fairly*

Consumers will engage more actively if they trust the industry, and the individual companies within it. Levels of trust among consumers in energy companies are low. In part this might reflect wider economic and social factors, such as the underlying increases in energy supply cost, the state of the economy and experience from other sectors such as banking where large scale compensation continues to be paid back to consumers because of past untrustworthy behaviour.

However, current levels of trust also reflect in part the actions of energy suppliers. The number of enforcement cases progressed by Ofgem, and the nature of sanctions being imposed, is one illustration. The public marketing of some of the larger suppliers, recognising past mistakes, is another illustration. Low trust is a particularly significant problem because it can lead to generalised disengagement – “they are all the same”, “better the devil you know” are sentiments that came up regularly in our consumer research.

We have concluded that regulation has a role to play in providing confidence to consumers that they will be treated fairly. Further, we see this as important in helping to improve the level and quality of engagement. It will also have a direct positive impact on the consumer experience regardless of whether consumers engage actively or not.

Specifically, we are proposing to introduce new rules to oblige all energy suppliers to treat their customers fairly. If implemented, this will require each supplier to develop management and business systems and processes to embed the Standards of Conduct in all aspects of their engagement with their consumers. This does not extend to the level of pricing or charging.

[4] This includes the Bill, Annual Statement, Price Increase notification Letter and End of Fixed Term Notice.

**Next steps**

Subject to the results of this consultation process, these proposals will be given effect through changes to conditions in the licences under which supply businesses must operate. A full set of proposed legal text to give effect to our conclusions has been published alongside this document. Following a period of consultation and our review of any responses, we envisage consulting formally on making the necessary changes to licences. We anticipate this formal stage of the process will be concluded by the end of May, and we will make our decision in June. In the event we decide to modify the licence to give effect to our proposals, we are proposing that our package will take effect from August 2013 on a phased basis.

The proposed new rules, if implemented, will be given operational effect by energy suppliers. In some areas, consumers will see the effects immediately. In other areas, there will be a short lead time while suppliers develop and design their new tariff offerings, making the system changes to support the new forms of communication, and manage the process of amending some customer contracts and moving some customers to new tariffs. We anticipate that key rules that address the number and complexity of tariffs will be in place by the end of 2013 and the remainder complete by the end of March 2014.

Licensees and certain other stakeholders have a right to appeal the proposed changes to licences to the Competition Commission, which may, if it considers it appropriate, suspend the change until it has considered the appeal, which will inevitably impact on the timescales indicated above.

These proposed new rules represent a radical overhaul of how energy retail markets will operate. We are committed to monitoring how well the market serves consumers, and in particular the impact of our new rules. If implemented, we will review the package in full no later than 2017 – and may well examine specific issues earlier as new information and evidence emerges, including through our work on promoting smarter markets.

In our October 2012 document we proposed to explore options for trialling a scheme designed to provide the most vulnerable and sticky consumers with personalised information on the cheapest tariff across the market. Earlier this month, we wrote to suppliers to ask them to attend a working group to explore the issues associated with the Market Cheapest Deal initiative and other options for providing “at a glance” tariff information to consumers. This working group is due to take place before the end of April 2013.

# 1. Introduction

1.1. This document sets out Ofgem's final proposals for the Retail Market Review (RMR). It also contains an informal consultation on the effect of our final policy proposals and our envisaged approach to transposing the effect of the proposals into licence conditions

1.2. This chapter sets out the background to this document, the reasons why we are proposing to intervene in the market[5], and what we expect these interventions will achieve. We explain how our RMR project relates to other work Ofgem is doing and set out the next steps and the implementation timetable for the project.

## This document

1.3. The introduction to this document sets out at, a high level, the reasons why we are proposing to intervene in the market, and our proposed process for doing so. A comprehensive description of the reasons for our intervention including evidence from our consumer research and the issues we see in the market is set out in our October 2012 updated proposals consultation.

1.4. The main body of this document groups the package of proposals into three main sections:

- Simpler tariff choices.
- Clearer information.
- Fairer treatment.

1.5. For each proposal, we set out what we are proposing to do, the motivation for coming to this conclusion (including how we have incorporated stakeholder views), and how we intend to action the proposals. The detail will focus on the changes themselves, and summarise more briefly the motivation, as we detailed this in our October 2012 consultation. Full details of our proposals are provided in chapters 2, 3 and 4. These chapters are designed to help respondents understand in detail what suppliers will need to do to comply with our proposals. Their effects are described in our impact assessment. The precise way in which we envisage they will be introduced into the licence is set out in our full draft legal text.

[5] In this consultation document and associated documentation we use the terms "market" and "markets" as shorthand for referring to different segments of the energy sector. For the avoidance of doubt these terms are not intended to describe or otherwise suggest the approach that may be taken by Ofgem for the purposes of market definition in competition law investigations.

1.6. Alongside this document we are publishing:

- The Retail Market Review- Final Impact Assessment for domestic proposals, (Reference: 41/13).

- The Retail Market Review - Envisaged legal drafting for RMR domestic proposals, (Reference: 42/13).

## Background

1.7. Our principal objective is to protect the interests of present and future consumers. In addition, the EU Third Package recognises the importance of a fully functioning market for consumers. Through our regular monitoring of the retail energy market we have identified a number of areas of the market that need to function more effectively. The final proposals set out in this document are aimed at making competition work more effectively so that the benefits can be realised by consumers. They are in line with our principal objective, and uphold our EU duties.

1.8. In late 2010, we launched the RMR due to concerns that the market was not working effectively for consumers. The RMR recognises that whilst we had seen some improvements in the market in certain areas since the 2008 Energy Supply Probe ('the Probe'), many of the problems with consumer engagement remained. Since then we have been working on a range of proposals to place specific and binding requirements on suppliers to address our concerns.

1.9. The overall objective of the RMR is to make the market simpler, clearer and fairer for consumers. This makes it easier for consumers to get on a better deal for them and improves effective consumer engagement so as to increase competitive pressure on suppliers' pricing and other practices. Within this we aim to improve the choices that individual consumers make, widen the pool of customers who have the confidence to engage in the market and address the specific needs of the most disengaged consumers. In this way we aim to reduce the scale and instance of individual consumer harm resulting from insufficient or ineffective engagement.

1.10. This document sets out our final proposals for the domestic elements[6] of the RMR. It provides a detailed description of the measures we are proposing, supporting by detailed draft legal text, to deal with the problems we have identified in the market, and create a simpler, clearer and fairer retail energy market.

1.11. Over the course of the RMR project, we have published four formal public consultations and a number of updates and held a significant number of seminars,

[6] Please note that some of the proposed new or amended definitions for licence conditions (in standard condition 1) will also apply to non-domestic suppliers and our proposed clarificatory changes to standard licence condition 7 (deemed contracts) will also apply to non-domestic suppliers. In the event that we proceed with our envisaged statutory consultation, we will be consulting with both domestic and non-domestic suppliers.

workshops and bilateral meetings with members of the industry, consumer groups and other interested stakeholders. Through the process we have built a detailed evidence-based picture of how energy retail markets operate and how effectively consumers engage in them. This is the evidence base on which our final proposals are built.

## How retail markets have developed

1.12. It is now 15 years since GB domestic gas and electricity markets were opened up to retail competition and 11 years since price controls were removed. At privatisation, fourteen regional monopoly suppliers were created. Five of the large suppliers, EDF Energy, E.ON, RWE npower, ScottishPower and Scottish and Southern Energy have evolved through consolidations and acquisitions from these fourteen original suppliers. Whilst customers all have a choice of supplier, the majority remain with the supplier they had before market opening. This very static picture is, in our view, contributing to the market not working well for consumers.

1.13. In our published documents we have unpacked and analysed the problems in the market that give us cause for concern and tested our analysis rigorously with stakeholders through consultation. Each subsequent document has confirmed our initial findings and provided further weight and granularity to the problems we have found. In essence, we have concluded that it is unnecessarily difficult for many consumers to engage effectively in the market. Further, that this in combination with other market features (such as the large customer base inherited by the incumbent suppliers and their vertical integration) is delivering systematically poor outcomes for many consumers.

1.14. Our October 2012 updated proposals document[7] provided a detailed description of this analysis and the effects the problems in the market have on competition and consumers. The full detail is not repeated in this document; the following sections summarise these findings.

### Barriers to effective consumer engagement

1.15. In October we stated there were three key barriers to effective consumer engagement. These were:

- A large number of tariffs, many of which have complex structures and discount arrangements. This makes the prospect of engaging in the market unattractive for many consumers, and means it is often difficult for consumers who do engage to choose the best deal for their circumstances.
- Gaps and lack of clarity in the information given by suppliers to consumers which means they are not prompted to engage or given the full set of information they need to assess options in the market.

[7] Please see the following link:
http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=300&refer=Markets/RetMkts/rmr

- Lack of trust and poor supplier conduct which further reduce the confidence of some customers to engage in the market and has contributed to the permanent disengagement of others.

1.16. Together, these factors limit the ability of consumers to find a good deal and in turn limit the competitive pressure on energy suppliers to offer good customer service at efficient cost (and to innovate and improve over time).

*Complex tariffs*

1.17. Our analysis shows that there is an extremely large number of tariffs in the market – around 900[8] based on information provided by suppliers in August 2012 using our previous definition of a 'core tariff' (due to changes to our definition of a core tariff this would now be around 500) - many with complex features including multi-tier rates, complex discounts including percentages and percentages combined with caps which differ across tariffs and across suppliers and complex bundled offerings. Such complexity makes like-for-like comparisons very difficult. From our consumer research we know that complex tariffs limit effective engagement by:

- Putting off many consumers from searching for better tariffs in the first place.
- It leads some consumers to abandon their search for a better tariff.
- It may result in an increased frequency of poor switching decisions.
- Contributes to a lack of trust in suppliers and the industry.

1.18. The above factors paint a picture of engagement being unnecessarily time consuming, difficult and prone to error. Therefore, for many consumers, if they lack a clear incentive and trigger to engage (e.g. because of poor or unclear information about how they could personally benefit from engagement) and also face additional barriers associated with complexity, their likely default behaviour is to take no action.[9] New developments in economics tend to reinforce the notion that these factors can have a very powerful and negative impact on how markets operate for a service such as electricity or gas supply, where the barriers or perceived risks do not need to be very high to deter engagement.[10]

*Inadequate information*

1.19. As we set out in October 2012, for consumers to be engaged in the market, they need to be **aware** that they could find a better tariff if they went to the market,

[8] Source: Ofgem analysis of supplier tariff permutations as at 28 August 2012 using information available from our information request to suppliers. Total includes both large and small suppliers (including white labels), all meter types and payment methods. Numbers are based on the London region. In keeping with our tariff cap rules, the figure of 500 relates only to gas and electricity tariffs, and does not double-count where a tariff is available both online and offline.
[9] Ipsos MORI, Ofgem Consumer First Panel Year 4: Findings from first workshops (held in October and November 2011) January 2012.
[10] Ofgem, What can behavioural economics say about GB energy consumers? March 2011 http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/Behavioural_Economics_GBenergy.pdf

be able to **access** market information and **assess** alternative offers before they **act** to switch to the best deal for them (or decide they are on the optimum deal already). This suggests clear prompts to engage and easy access to key pieces of information are likely to be key enablers of engagement. In the energy market, many consumers rarely receive prompts to engage, especially if they are on an evergreen tariff. Even when consumers are informed of price rises - which potentially presents a key trigger to engagement - the supplier does not always provide information on what the price increase will mean for them in terms of their annual bill.

1.20. Whilst the Probe remedies improved the information given to consumers, our analysis and consultation with stakeholders has established that more can and should be done to make information easier to understand and act on. Our most recent review of suppliers' regular communications found information needed to make an accurate decision is often found to be incomplete, confusing or difficult to understand. Further, findings from the Consumer First Panel[11] in 2012[12] suggest that information from suppliers has the potential to act as a 'trigger' for engagement. If these kinds of communications are not easily understood then they present a missed opportunity for prompting engagement.

1.21. Evidence from consumer research and testing confirms that many consumers think there is scope for key communications from suppliers to be improved: they want information to be short, succinct, easy to navigate, to avoid technical language and jargon, and to be personalised to them.[13] The fact that suppliers are generally not meeting these requirements currently, either as a result of existing regulatory requirements or through voluntary behaviour because of competitive pressure, suggests that further regulatory action may be warranted.

*Lack of trust and poor supplier conduct*

1.22. Even if consumers are given the right information to engage and the market is simpler and clearer, if there is the perception that it is not fair, consumers may choose not to engage in the first place. Our research shows that some consumers believe that there is little to differentiate suppliers and that they are all engaged in 'excess profit' making.[14] Some consumers also do not believe suppliers take sufficient care to understand their particular circumstances or concerns, that the information they are provided can be trusted and that they may be misled into making poor decisions. A 2009 survey commissioned for Consumer Focus showed that consumers have the least confidence in gas and electricity companies across all the market sectors surveyed[15]. Recently, we have seen a number of suppliers

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[11] Ofgem's Consumer First Panel comprises around 100 consumers who are broadly representative of the British population. Panellists generally meet three or four times each year to explore a range of issues regarding Ofgem policy. Panel participants change every year.

[12] Ipsos MORI, Consumer engagement with the energy market, information needs and perceptions of Ofgem, Findings from the Ofgem Consumer First Panel Year 4: second workshops (held in March 2012), October 2012.

[13] SPA Future Thinking, Price Increase Notification Letters, Summary Box on Bills, Tariff Information Labels and Annual Statements, Report of consumer testing to support template development, forthcoming.

[14] Insight Exchange, Consumer research and collaborative engagement on the proposed Standards of Conduct – Domestic Customers, October 2012.

[15] Ipsos MORI, Report on the 2009 Consumer Conditions Survey Market research survey conducted for

looking to rebuild consumers' trust and this is a welcome step. However, research conducted last year to inform our updated proposals shows that it will take time to rebuild this trust and that a lack of trust is still having an impact on consumer engagement.

**Impact on competition**

1.23. The barriers to effective engagement discussed above have detrimental impacts on competition. We see a large majority of 'sticky' customers, some of whom have disengaged completely from the market, which means that the incumbent suppliers still retain a high proportion of the customers which they inherited at privatisation. Even those that may have switched in the past are disinclined to do so again. This means that:

- The incumbent suppliers have relatively stable market shares which exacerbates the poor liquidity in the wholesale market and undermines the ability of new entrants to compete.
- Incumbent suppliers are able to segment their customer base and respond to competition by recovering costs and margins from sticky customers.

1.24. Thus while churn or switching rates may be equivalent to those seen in other markets, and may appear comparatively healthy compared to switching in other energy markets, the levels of engagement we experience at the moment are not sufficient to support effective competition.

1.25. In the October 2012 updated proposals document, we provide our analysis and evidence to support these views. The following section summarises the evidence we have taken into account.

*A large 'sticky' customer base*

1.26. Our 2012 customer engagement tracking survey showed that nearly two thirds of consumers (63 per cent of gas customers, and 65 per cent of electricity customers) claim they have never switched. We acknowledge that people's ability to recollect past events is imperfect, and our analysis of trends over time suggests the tendency to under-report previous switching behaviour is increasing.[16] Therefore the actual proportion of those who have 'never switched' is almost certainly smaller than this. Nevertheless it does suggest that a majority of consumers perceive themselves to be largely inactive in the market.

1.27. In summary, for a number of consumers engaging with the energy market appears to be of little interest or relevance. This is despite energy bills having

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Consumer Focus, March/April 2009.
[16] Ipsos MORI, Customer Engagement with the Energy Market - Tracking Survey 2012, October 2012.

increased significantly over the last few years and the availability of savings if consumers switch suppliers.

1.28. We know from our analysis that in-area customers – those who are still with the ex-regional monopoly supplier - are particularly sticky, particularly in the gas market. This has the effect of affording the incumbents a significant advantage over new entrant competitors, and reduces the disciplining effect an active customer base can have on the supplier's pricing and behaviour.

*Stable market shares and liquidity*

1.29. The opening of the energy retail market to competition gave significant market share to six large incumbents, which when combined account for more than 98 per cent of the market. All of the incumbent suppliers have a legacy customer base created by transitioning from monopoly provision of energy to competitive provision. Whilst switching and churn statistics imply that market share can be won and lost, our analysis on the number of customer accounts shows that the net effect of this does not amount to any material change in suppliers' market share. Indeed, there has been relatively little change in market share of the large energy suppliers over the last three years. However, in the past year we have seen some notable growth in the market share of independent suppliers.

1.30. The stable market shares of the suppliers, taken with their vertically integrated structure, may also impact upon trading in the wholesale market. Because the suppliers know they can meet some of their energy needs from their own generation businesses, their incentives to trade may be reduced to some extent. This is one of the reasons for lower liquidity in the wholesale market.

1.31. The wholesale market is a key driver of competition in the retail market. In order to compete effectively, suppliers need access to a range of wholesale market products to enable them to minimise their energy costs and offer competitive prices to consumers. We are concerned that poor liquidity in the wholesale electricity market means that it is not currently providing the products that suppliers need, resulting in a barrier to entry and growth in the retail market. This is particularly problematic for independent suppliers as they have specific requirements.

*Market segmentation*

1.32. The presence of a large number of sticky consumers in incumbent suppliers' customer bases decreases the level of competition. While it limits the scope for independent suppliers to attract new customers, it also allows the incumbent suppliers to segment their customer base. In this way they can make higher margins from sticky customers. Further, the overall commercial discipline to provide good customer service is diluted. The evidence we have gathered during our RMR analysis shows that the large suppliers do earn a higher margin from sticky customers than active customers.

1.33. The ability to leverage customers' stickiness, combined with large stable market shares, confers a significant competitive advantage to the incumbents over other suppliers. This results in consumer harm by insulating incumbent suppliers from the pressure of competition from non-incumbent suppliers.

**Outcomes for consumer**

1.34. Insufficient competition means the market does not work as well as it could to serve consumer interests. In the sections below we describe the market features that contribute to reducing consumer engagement and limit the effectiveness of competition. In the October 2012 updated proposals document, we provide our analysis and evidence to support these views.

*Similar business strategies*

1.35. We have seen evidence of companies reducing the risk from competition through adopting similar pricing and hedging strategies, adding to consumers' perception that suppliers are 'all the same'. Many features of the energy retail markets could give rise to a higher risk of market outcomes that are highly responsive to other companies' actions. This is likely to lead to consumer harm by weakening the intensity of competition among suppliers and exacerbating consumers' feeling of helplessness cited in our research as prices often change at broadly the same time and by similar amounts.

*Low priority on meeting consumer needs*

1.36. In a well functioning market, the threat of losing market share drives suppliers to consider what their customers want both in terms of products and services. We have seen little evidence that customers' actions are disciplining the activities of suppliers, and instead witness a number of misselling investigations, consumers complaining they do not trust their suppliers, concerns about confusing information being sent to them and little regard for the voluntary Standards of Conduct implemented during the Probe.

1.37. We acknowledge suppliers are now showing efforts to improve their behaviour towards their consumers and looking to rebuild trust, including through putting an end to doorstep selling, but we believe more needs to be done.

*Constraint on controllable costs*

1.38. As we set out in October 2012, we have no evidence to suggest that suppliers have become more efficient over time or are seeking actively to minimise the procurement costs of wholesale energy, nor that they are under intense competitive pressure to pass any cost reductions onto consumers quickly.

## What success looks like

1.39. Throughout our process we have clearly set out that the objective of the RMR is to increase effective consumer engagement so that it places a competitive restraint on suppliers' pricing and behaviours. We have been asked to be clearer on what this would mean in practice and the outcomes we would expect to see. In summary we would consider the RMR a success if it achieved the following:

- Consumers become more energy literate, choose to engage more frequently and see the market as a safe place to participate knowing that suppliers have to treat them fairly. Similarly they know their rights and their options at the end of a fixed term contract.

- When consumers decide to switch or not it is on the basis that they understand their options and are confident they made the right choice. High switching statistics alone are not an indicator of high consumer engagement. The quality of the switch is just as important if not more so.

- The market is easier to navigate, less complex and offerings are more easily compared.

- As a consequence of the above the number of sticky consumers reduces, and the ability of incumbent suppliers to leverage their legacy customer base reduces. This also reduces barriers to entry and expansion currently experienced by independent suppliers, further enhancing competition.

- As a consequence of the above, suppliers will be exposed to greater responsiveness in their customer base, such that pricing and service decisions are disciplined by an active set of customers. More active competition between suppliers would exist, with less evidence of leader-follower behaviour.

- Suppliers look to become more efficient and reduce controllable costs. Cost savings are quickly passed onto consumers for fear of the supplier losing market share to its rivals.

- The right balance is achieved between allowing innovation and preventing further tariff proliferation and market complexity.

- Barriers to wider roll out of collective switching schemes are reduced or removed and our rules serve to protect consumers engaged in them.

- All consumers benefit from the effects of greater competition in the market. (Through our Market Cheapest Deal working group we are committing to explore options to provide greater support for consumers who are less able to directly benefit from enhanced market competition because they are unable to engage.)

1.40. We will be actively monitoring the performance of the RMR proposals using a range of indicators. If it appears that our remedies are not having the desired effect we are not ruling out further intervention.

## Monitoring our proposals and the 2017 Market Review

1.41. If, following consultation, the RMR package is introduced, we would monitor its direct impact on consumer engagement on an ongoing basis and track the impact that this engagement has on competition in the market. This will enable us to monitor how suppliers and consumers respond to our RMR remedies. In our October 2012 consultation, we proposed a wide range of market indicators we would use in our monitoring. These indicators are designed to cover a wide range of indicators of the effectiveness of competition, and the level and quality of consumer engagement. Over the next few months we will be conducting further work to establish the base level of indicators before our proposals take effect.

1.42. In line with best regulatory practice, we are committed to conducting and publishing a more comprehensive review of the effects of our proposals at an appropriate time. If our reforms come into effect from the summer, and assuming there is no clear reason to delay, we will review the package in full no later than 2017. We will conduct this review earlier if we consider our reforms are not having the expected effect. Importantly, this review will also enable us to consider whether amendments to the arrangements are needed to ensure consumers benefit from the government’s smart meter programme.

## Related initiatives

**Market Cheapest Deal**

1.43. The October 2012 consultation document set out our early thinking on the Market Cheapest Deal (MCD) proposal - a measure to prompt more “sticky” and vulnerable consumers to engage with the domestic energy market. The RMR package as a whole is designed to promote consumer engagement. However, evidence suggests that some very sticky or vulnerable consumers may require further prompts or assistance to help them engage.

1.44. The MCD proposal involves communicating the cheapest deal available in the market to consumers who may be least able or likely to engage - in effect helping to understand the potential savings available to them by switching tariff and/or supplier. This communication could act as a further prompt or trigger for these consumers. By helping currently disengaged individual consumers, the MCD would also enhance the competitive functioning of the retail gas and electricity markets.

1.45. Many responses to our October consultation expressed concerns about the MCD proposal, both in terms of the policy itself and the practical implementation challenges of delivering it. On the other hand, many stakeholders agreed with our view that more might be needed to engage the stickiest and most vulnerable groups, beyond the measures we have proposed to make the market simpler, clearer and fairer.

1.46. We have considered this feedback and note there may be a range of ways in which such consumers can be encouraged to participate in the market. We would like to further explore these broad options as part of our policy thinking. Therefore, we intend to set up a working group before the end of April to explore a range of possible solutions, including MCD, which may lead to the trialling of certain options to determine their effect. We have already written to the companies to seek confirmation of their involvement.

1.47. We envisage that the working group will address both the practical challenges highlighted in consultation responses and whether other options might better meet the objective of "at a glance" comparisons. It will consider, among other things, how to appropriately target the right customers, the exact content of the MCD message and the choice of delivery routes and messaging, including the option of involving trusted independent consumer bodies.

**Collective switching, TPIs, Confidence Code**

1.48. Our overall aim of improving consumer engagement in the energy market will also be supported by improving consumer access to, and confidence in, the intermediaries that help customers to switch. Our research and findings more generally from the Big Switch[17] suggest that many consumers need to be given assistance in comparing deals and switching tariffs if they are to be encouraged to engage. As we proposed in our October 2012 consultation, we are making a commitment to launch a parallel piece of work to help facilitate collective switching, to adopt the Confidence Code (which governs the switching sites who sign up to it) from Consumer Focus and to ensure that consumers have access to, and can have confidence in, Third Party Intermediaries (TPIs). We are due to publish an issues paper on the regulatory framework and the activities of TPIs before the end of June 2013.

1.49. The issues paper will consider current issues such as Ofgem's stewardship of the Confidence Code, and future issues such as the potential for new types of intermediation services associated with smart meter or smart grid deployment. We will also use the document to consider the specific issue of whether current regulation provides an appropriate framework for collective switching services.

**Consumer vulnerability strategy**

1.50. We are currently developing a new Consumer Vulnerability Strategy[18] to bring together Ofgem's work on understanding and addressing consumer vulnerability in the energy market. Our previous Social Action Strategy had been in place for a

[17] The Big Switch was a collective switching initiative in May 2012. Similar initiatives have subsequently taken place.
[18] Please see: http://www.ofgem.gov.uk/Sustainability/SocAction/Pages/SocAction.aspx

number of years and in that time, our understanding of vulnerable consumers, their needs in the energy market and the risks that they may encounter has evolved substantially. We consulted on the Strategy at the end of last year. It proposed a fresh perspective on vulnerability that takes into account current thinking and developments in this area and recognises the challenges that vulnerable consumers may face in engaging with the energy market. We set out a number of principles on the nature of vulnerability that will guide our further thinking.

1.51. We plan to publish our final Consumer Vulnerability Strategy in May. This document will also set out our work plan for the coming year. As part of the Strategy we plan to establish a Consumer Vulnerability Network to gather insight from, and discuss energy matters with, a broad range of organisations who work with consumers at a grass roots level. Under the Strategy we also plan to conduct a review of the Priority Services Register. Building on the RMR, we will explore the role of third party advice in helping to empower and assist consumers in vulnerable situations.

**Liquidity**

1.52. In order to facilitate competition in the retail market, energy wholesale markets must work effectively. Ofgem's liquidity project aims to address concerns that the wholesale electricity market is not functioning effectively at present and is therefore inhibiting competition in the retail market.

1.53. In our December 2012 consultation document, we set out our proposals for a 'Secure and Promote' (S&P) licence condition. S&P would seek to secure market-led developments to date and push for further improvements where necessary. Our consultation on S&P closed on 15 February 2013. We are now considering the feedback we received from stakeholders during the consultation and refining our proposals. GEMA intends to make a decision on whether to intervene, and the shape of any intervention, ahead of Summer 2013. If we do proceed with intervention, we would aim to modify licence conditions by the end of 2013.

**Smarter markets**

1.54. It is government policy that gas and electricity smart meters will be rolled out to all consumers in Great Britain by the end of 2019. This roll-out can transform the consumer experience of retail energy markets. Consumers will have ready access to data on their consumption that can help them to make informed choices about how they buy and use energy. Smart metering can also enable improvements to customer service, facilitate new entry and provide opportunities for innovation in business models and products.

1.55. Positive engagement from consumers will be critical to realising the benefits of smart metering. However, our analysis shows that many consumers find today's market difficult to navigate and some are disengaged altogether. Our RMR proposals focus on addressing existing issues. By building trust and engagement today, our proposals will lay the foundation for a market with widespread deployment of smart metering.

1.56. Over time, arrangements designed to help consumers engage in today's market may need to adapt to the opportunities and risks that the roll-out presents. Through the Smarter Markets Programme, Ofgem is helping to use the opportunity that smart metering presents to make retail energy markets work better for consumers.[19] As part of this Programme, we are progressing a project to put in place regulatory arrangements that empower and protect consumers to participate effectively in smarter retail energy markets. As a first step, we plan to publish in Q3 2013 a consultation document setting out our views on how the current arrangements may need to change in a smart world and how potential changes can be progressed.

**Energy Bill**

1.57. On 29th November 2012, the Secretary of State for Energy and Climate Change confirmed the Introduction of the Energy Bill to the House of Commons alongside the Annual Energy Statement. Amongst other proposals, the Energy Bill (as amended) includes provisions that enable the Government to: set a limit on the number of energy tariffs offered to domestic consumers; require the automatic move of customers from poor value closed tariffs to cheaper deals and require the provision of information by suppliers to consumers on the best alternative deals available to them. It also proposes to clarify, through amendments to the Gas Act 1986 and Electricity Act 1989, that we could use our existing powers to apply for TPI activities to be licensed (e.g. the activities of energy switching websites).

## Our process and proposed implementation

1.58. Ofgem operates within a statutory framework that requires us to consult fully with stakeholders ahead of implementing changes to licences and market arrangements. The process of consultation and engagement with stakeholders is an important step in ensuring that any measures are effective and fit for purpose. Although it is important that these reforms are implemented at the earliest opportunity, it is also important to allow full time for consultation. However, companies have already made important improvements in the way they treat customers in response to our previous proposals, and there is no reason why they cannot make further improvements consistent with our proposals before any licence conditions become effective.

1.59. The RMR was launched in November 2010 following persistent concerns that the market was not working effectively, and suppliers were failing to apply the Probe remedies. Starting with the most recent, the detailed consultation process we have adopted is as below.

- October 2012 – *The Retail Market Review – Updated domestic proposals*. This consultation document set out our updated proposals, draft impact

[19] For more information see the following link: http://www.ofgem.gov.uk/MARKETS/SM/STRATEGY/Documents1/Promoting%20smarter%20energy%20markets%20-%20a%20work%20programme.pdf

assessment, draft legal text and further consumer research and analysis. Consultation period of 56 days.

- May 2012 – *Ofgem's retail market review - update and next steps*. This letter updated stakeholders on the process of Ofgem's Retail Market Review and our intended future process.

- February 2012 – *The Standardised Element of Standard Tariffs under the Retail Market Review*. This consultation document set out methodological options for a regulated standing charge. Consultation period of 56 days.

- December 2011 – *The Retail Market Review: Domestic Proposals*. This consultation document set out our further proposals, and additional consumer research. Consultation period of 84 days.

- June 2011 – *Ofgem's Retail Market Review – update and next steps (non-liquidity proposals)*. This update letter set out that we would be taking our proposals through further consumer research and a further consultation would take place before the end of the year.

- March 2011 – *The Retail Market Review- Findings and Initial Proposals.* This document set out the assessment we had made of the features of the retail energy market and proposed remedies. Consultation period of 72 days.

- November 2010 – the RMR investigation was announced.

1.60. In addition to the above formal consultation steps and published updates on our process we have also held a considerable number of bilateral meetings with large and small suppliers, consumer groups and other interested stakeholders. We have also held a number of seminars and industry working groups where we have presented our views and sought feedback. Following responses to our updated proposals, both in writing and from the stakeholder events we have held, we have made a number of amendments to our final proposals as set out in this document. The detail of these amendments is set out in the relevant policy chapters.

1.61. Whilst we have already consulted on most of the draft licence text to give effect to our proposals in our October 2012 updated proposals document, we consider it is appropriate to consult again on the effect of our policy proposals and our full licence text before we publish our statutory consultation. There are some areas where we have amended our policy and others where we are providing further details. This will enable affected parties a further opportunity to understand the detailed mechanics of our proposals and to identify issues which we may need to address.

**Proposed implementation**

1.62. We aim for our reforms to come into legal effect in the supply licence from summer 2013, subject to responses to this document and the outcome of a statutory consultation in May 2013. We propose to require suppliers to introduce some of these measures on 'day one', with time given for them to make the back office system changes necessary for other measures. Our proposal is that all measures should be in place by the end of March 2014, with an intermediate phase for a number of our measures coming into effect by 31 December 2013.

1.63. In addition to our licence amendments we are also proposing to issue guidance in certain areas. This is set out in the relevant policy chapters.

1.64. The timeline for making our decisions on the final proposals contained in this document is set out below:

- **23 April 2013** - this consultation closes.
- **Early May** - following an appropriate period to consider consultation responses we envisage issuing a statutory licence consultation.
- **Late May/early June** – the envisaged statutory licence consultation closes.
- **Mid June** – following consideration of responses, we will make our decision whether or not to modify the supply licences.
- **Early/Mid August** – if we decide to modify the supply licences and publish our decision, relevant parties may decide to appeal our decision to the Competition Commission[20] and the earliest our proposals could take effect would be 56 days from the day after our decision is published.

1.65. If we decide to modify the supply licences the proposed implementation timeline is set out in table 1 below:

[20] If the Authority decides to implement the reforms, licence holders, trade bodies representing licence holders and Consumer Focus will have 20 working days to decide (from the first working day after the Authority's decision is published) if they want to appeal against the reforms to the Competition Commission.

**Table 1 - Implementation timetable**

| | Proposal |
|---|---|
| **Day 1** | **Definitions**:<br>- Introduction and amendment of definitions, with the exception of the definition of termination fee |
| | **Consumer protection provisions related with tariffs**:<br>- Notice: 28 days notice to terminate evergreen contract<br>- Deemed contract: Suppliers cannot have or claim to have termination fees<br>- Provision of Principal Terms<br>- Supporting provisions in relation to guidance, consumers rights, and derogations |
| | **Price increase and adverse unilateral variations**:<br>- Requirement to notify price increases and changes to the disadvantage of the customer<br>- Exception to the requirement to notify for trackers and staggered pricing tariffs |
| | **Switching**:<br>- Licence condition amended to make it easier to avoid unilateral variation (no need to inform supplier about intention to switch, no termination fee) |
| | **Supplier and tariff switching protection windows** |
| | **Mutual variation**:<br>- New rules to agree mutual variation, including requirement to notify customers, and need for customer's express agreement |
| | **Auto-rollover**:<br>- Prohibition to auto-rollover customers at the end of a fixed term contract |
| | **Switching window**:<br>- Requirement to notify customers at the end of fixed term contracts |
| | **Supplier and tariff switching protection windows** |
| | **Fixed term - Default to evergreen**:<br>- At the end of a fixed term contract suppliers will have to default customers to an evergreen contract (cheapest evergreen by 31 March 2014) |
| | **Prohibition on new dead tariffs** |
| | **Temporary provisions applied to White Labels** |
| | **Standards of Conduct** |
| **31 December 2013** | **Tariff Cap** |
| | **Standardise tariff structures** |
| | **Rules on bundles, discounts, reward points** |
| | **TCR** |
| | **TIL + No marketing rule** |
| **31 March 2014** | **Personal Projection** |
| | **Information remedies**<br>- Cheapest tariff messaging<br>- Bill, Annual Statement, Price Increase Notification, End of Fixed Term Notice |

| | |
|---|---|
| | **Price increase and adverse unilateral variations:**<br>- Content requirements<br>- Prohibition of unilateral variations in fixed term contracts |
| | **Fixed term - Auto-rollover and Switching Window**:<br>- Notice content requirements<br>- Default to cheapest evergreen |
| | **Ban on expensive dead tariffs**<br>- Notice content requirements<br>- Migrate customers from expensive dead tariffs to cheapest evergreen |
| **31 July 2014** | **End of the temporary provisions applied to White Labels** |
| **31 March 2015** | **Dead tariffs annual check** |

1.66. In the event that an appeal is brought to the Competition Commission, the above timeline may be impacted[21].

[21] In the event that relevant parties applied for Ofgem's decision to be suspended and that application was successful or in the event that an appeal against Ofgem's decision was successful.

# 2. Simpler tariff choices

**Chapter Summary**

This chapter sets out our proposals for a simpler energy market. We first explain why we consider it is important to promote simplicity in the energy market, and provide an overview of how we intend to achieve it. We then set out in more detail our proposals and their effect. These include limiting the number of tariffs, standardising tariff structures, simplifying discounts, bundles and reward points offers, improving the rules around fixed term offers, migrating customers, and our proposals for collective switching and white labels.

## Introduction

2.1. The first component of the package of new rules we are putting in place is designed to make energy tariff choices simpler. We have designed them to remove unnecessary complexity while retaining both the scope and the incentives for competing suppliers to offer choice - including over time in new, more sophisticated tariffs enabled by the rollout of smart meters.

2.2. This chapter has two sections. The first section provides an overview of our final proposals for making tariff choices for domestic electricity and gas consumers simpler. It explains the underlying motivation, and summarises the specific new rules we are putting in place and the supporting reasoning. The second section unpacks the new rules and explains in more detail why we consider them necessary and proportionate.

## Our Final Proposals - overview

**Motivation**

2.3. A simple energy market is characterised by the ability to be aware of choices, access information, to assess it and to act on it. Where energy consumers are able to do this, by choosing the options that best serve their interests, they are engaging effectively with the energy market. At the same time, consumers are ensuring that suppliers make available the choices that they value at the lowest cost possible, therefore contributing to a fully effective and competitive energy market.

2.4. Since the Probe in 2008, however, Ofgem has been concerned that the market is neither simple nor working in the best interests of consumers. Many consumers tell us they are confused by the large number of complex tariffs which can deter them from engaging in the market and makes it harder for them to choose the best tariff.

2.5. Making energy markets simpler is therefore a priority for the RMR. Simpler energy markets are a key milestone to enable effective consumer engagement. Effective engagement in the energy market in its turn is fundamental if competition is to work well and produce the best outcomes for consumers and suppliers over time. Improved engagement and robust competition will help to protect the interests of current and future energy consumers.

2.6. This is more relevant in the current period where investment in energy generation, targets to reduce carbon emissions and the rise in global fuel prices place upward pressures on energy prices and consumer bills. Making energy markets simpler and promoting engagement now will also help consumers realise future benefits, such as those offered by smart metering in the future, allowing households to better manage their energy consumption and their bills.

2.7. Despite voluntary standards of conduct introduced through the Probe which included an 'expectation that suppliers take all reasonable steps to not offer products that are unnecessarily complex and confusing' we did not see a reduction in the number or complexity of tariffs in the market. While some suppliers have taken steps over the last year to reduce tariff numbers and to simplify their structures, more needs to be done to address this key barrier to engagement.

**Action**

2.8. Our proposals aim to make the market simpler and facilitate consumers' ability to be aware, access, assess and act on information by:

- Introducing a maximum limit on the number of tariffs that suppliers will be able to offer at any point in time.
- Simplifying tariff structures to ensure that that all tariffs have a simple two part structure (no multi-tier tariffs).[22]
- Simplifying how discounts, bundles and reward points are offered and presented.
- Improving existing and introducing new consumer protection safeguards for both evergreen and fixed term offers.
- Migrating customers from tariffs that new customers can no longer access to open tariffs, where this would be beneficial to the customer.
- Facilitating collective switching schemes that meet consumer interests and the aims of the RMR,[23] and allowing 'white labels' time to absorb and adapt to our proposals.

2.9. **We are proposing to limit to four the number of core tariffs that a supplier can offer, per meter type or mode, at any point in time**. Each core

[22] Time of use tariffs will be permitted as long as there is only one unit rate applicable for any particular time period.
[23] The scope of the consumer protection provisions related with collective switching are limited within the RMR. We have a parallel project in relation to third party intermediaries where we are considering the wider consumer interests and consumer protection issues.

tariff may offer a choice over payment method, online account management discount (online discount),[24] and dual fuel discount. Suppliers will also be able to offer bundles and reward points as options to customers without increasing the number of core tariffs. Tariffs will be permitted to vary by region, but there can be no other criteria indicating how consumers may or may not access any core tariff.

2.10. **We propose to have tariffs with a simple two-part structure, i.e. a standing charge (which can be zero) and a unit rate**. Suppliers will no longer be allowed to offer complex tariffs which vary the standing charge or unit rate for different levels of consumption. Suppliers will need to reflect in the standing charge or the unit rate any charges that are related to energy supply. We are also proposing to specify the list of surcharges that do not have to be incorporated in a unit rate or standing charge. We propose that these surcharges will also have to have a simple structure.

2.11. **We are proposing rules to make discounts, bundles and reward points simpler to understand**. Dual fuel discounts and online discounts will have to be presented in £/year, and they will have to have the same terms and conditions across the tariffs and regions where they apply. Discounts and reward points will need to accumulate at a constant rate per unit of time or level of consumption. Suppliers will still be able to offer bundles or reward points, either linked to a specific core tariff (where the bundles and/or reward points will have to be distinct), or as an option to all core tariffs. Offers will not be able to include upfront or loyalty-based cash discounts.

2.12. **We are proposing to reinforce consumer protection safeguards for customers on both evergreen and fixed term tariffs**. For both types of tariffs we are making it easier for customers to switch supplier or change tariff without being affected by a price increase or other adverse unilateral variations. Suppliers will have to notify customers about any change to their tariff that may be to their disadvantage. We are also proposing new rules for mutual variations, including a requirement to notify customers in advance. In addition, we are introducing rules on fixed term offers to ensure that fixed term means fixed (or pre-defined) prices, except where the prices follow a fully transparent and widely available index.[25] We are also making it easier for customers to receive the protections included in licence conditions when they decide to switch tariff or supplier. At the end of the fixed term, customers can no longer be rolled over to another fixed term offer, and by default it will be rolled over to the cheapest evergreen of the same type.

2.13. **Under our proposed rules, customers on expensive tariffs that are no longer available to prospective customers ('dead tariffs') will be moved to the cheapest open tariff**. Suppliers will no longer be able to create new dead tariffs. Where existing dead tariffs are not compliant with our new rules, suppliers

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[24] For the purposes of this chapter, online discount is a discount provided for tariffs with online account management, and which must incorporate paperless billing. For clarity, this is different from tariffs that are only available for consumer sign-up online.

[25] We will consider potential derogations to enable the prices to change in a fixed term offer, but only in exceptional circumstances and on a case by case basis.

will have to make them compliant in advance of comparing them with the cheapest open evergreen tariff. They will also have to check every year whether the dead tariffs remain cheaper, and move customers where this is not the case. Suppliers will have to notify customers where their dead tariff is being changed or they are being moved to another tariff.

2.14. **We propose to facilitate collective switching processes in a way that will still protect consumers and achieve the RMR objectives**.[26] **We are also proposing to give existing white labels 12 months before our rules fully apply**. Suppliers will be able to use any fixed term tariffs, in addition to their four core tariffs, in collective switching processes, provided these are not run by a licensed supplier or an affiliate, are transparent, well publicised and open to any licensed supplier to participate. Under the initial 12 months of RMR implementation, existing white labels will be exempted from some of our rules (e.g. tariff cap).

2.15. The new rules on tariff choices will be implemented through standard conditions of the electricity supply licence and gas supply licence. The proposed drafting to give effect to the new rules is provided by:

- New SLC 22B, to give effect to the limit on the number of core tariffs, rules on discounts, bundles and reward points.
- New SLC 22A, to give effect to the structure of tariffs.
- New SLC 22C, SLC 23A and SLC 24, to give effect to the fixed term rules.
- Amendments to SLC 23, to give effect to the fixed term rules.
- New SLC 22D, to give effect to the rules on dead tariffs.
- New SLC 31D, to give effect to the temporary provisions applied to white labels.
- Amendments to SLC 1 and SLC 7,[27] whose effects cut across all of our tariff proposals.

**Reasoning**

2.16. Our proposals aim to reduce market complexity and remove a key barrier to consumer engagement. The key reasons why the energy market is perceived to be complex are:

- **High number of tariffs**. A consistent message from our consumer research over recent years is that people find and/or perceive the number of tariffs to be too high to allow them to properly assess their options.
- **Complex structure of tariffs**. We have heard directly from consumers that a lack of standardisation in the presentation of tariffs and tariff

[26] Collective switching is where consumers group together, typically facilitated by an independent organisation which negotiates with multiple suppliers to secure a deal on their energy supply

[27] Please note that some of the proposed new or amended definitions for licence conditions (in standard condition 1) will also apply to non-domestic suppliers. In addition, our proposed clarifying changes to standard licence condition 7 (deemed contracts) will also apply to non-domestic suppliers. In the event that we proceed with our envisaged statutory consultation, we will be consulting with both domestic and non-domestic suppliers.

information is a cause for confusion. Consumers are unable to establish whether they are comparing 'like with like', and are generally confused by the range of technical terms used.[28]

- **High number of components of energy tariffs**. Over the course of several years of Consumer First Panel discussions, many Panellists have said that they are confused by the number of components of energy tariffs such as standing charges, tiers, unit rates, discounts, cash back, termination fees, loyalty bonuses and bundled products.
- **Lack of predictability**. As energy is not seen as a purchase from which consumers can easily 'opt out', many experience a sense of powerlessness at being subject to price rises, while not feeling they can easily 'shop around' to help reduce their costs.

2.17. In addition, behavioural economics suggests that consumers have a tendency to exhibit a 'status quo bias', loss aversion and that they value their leisure time to a high degree.[29] If consumers face additional barriers associated with complexity, their likely default behaviour is to take no action.[30] Because of these consumer biases, the OFT[31] states that firms may have an incentive to increase search or switching costs, in order to deter consumers from engaging in the market.

2.18. The evidence suggests complex tariffs limit consumers' effective engagement in the energy market in the following ways:

- It puts off many consumers from searching for better tariffs in the first place, especially if they doubt that switching will achieve a financial saving that outweighs the search costs involved.[32]
- It leads some consumers to abandon their search if they do decide to shop around.[33]
- It may result in more poor switching decisions by consumers (lack of confidence that savings can be made through switching).[34]
- It contributes to a lack of trust in suppliers and the industry. Many consumers feel that suppliers are deliberately making it difficult to assess

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[28] Ipsos MORI, Consumer engagement with the energy market, information needs and perceptions of Ofgem, Findings from the Ofgem Consumer First Panel Year 4: second workshops (held in March 2012), October 2012.
[29] Ofgem, What can behavioural economics say about GB energy consumers? March 2011 http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/Behavioural_Economics_GBenergy.pdf
[30] Ipsos MORI, Ofgem Consumer First Panel Year 4: Findings from first workshops (held in October and November 2011) January 2012.
[31] OFT —What does behavioural economics mean for competition policy?, p 15-16, 2010.
[32] Ipsos MORI, Consumer engagement with the energy market, information needs and perceptions of Ofgem, Findings from the Ofgem Consumer First Panel Year 4: second workshops (held in March 2012), October 2012.
[33] Ibid.
[34] Ipsos MORI, Customer Engagement with the Energy Market - Tracking Survey 2012, October 2012. Also see Ibid and Consumer First Panel Year 4 Findings from the first workshops held in October and November 2011.

different tariff options.[35] This reinforces a widely held perception that energy suppliers are guilty of 'excess profit' making.[36]

2.19. Our proposals aim to tackle consumers behaviour biases and each of the causes of market complexity set out above:

- Our analysis shows that currently, any individual customer looking to compare the market would be faced with 117 core tariff choices from the incumbent suppliers, including White Labels but excluding small suppliers, if they paid by direct debit. Our proposal would reduce this number to 48, a reduction of around 59 per cent (see figure 1 below).[37]
- Our proposal to have a simple two part tariff and to have a standard approach to surcharges will help remove the complex structure of tariffs. This will ban multi-tier rate tariffs and mitigate the confusion this complexity creates in consumers in relation to energy tariffs. Consumers are expected to benefit from these simpler structures and consistent approach, as this will help them understand their tariffs and better assess the alternatives.
- In addition to the standardisation of surcharges, our proposed simplification rules for discounts, bundles and reward points will limit the number of components linked to energy tariffs, and ensure that they are expressed in a standard and consistent way.
- Our proposals to improve consumer protection safeguards both in evergreen and fixed term offers, together with our proposals on collective switching, should help provide predictability and improve trust in, and understanding of, the energy market in general, and in particular the fixed term market. Our proposal should reduce barriers for consumers accessing fixed price products.

[35] Insight Exchange, Consumer research and collaborative engagement on the proposed Standards of Conduct – Domestic Customers, October 2012.

[36] Ibid and also http://www.ofgem.gov.uk/Sustainability/Cp/CF/Documents1/Ofgem%20Consumer%20First%20Panel%20Year%204.pdf

[37] Source: Ofgem analysis of supplier tariff permutations as at 28 August 2012 using information available from our information request to suppliers. Under our proposed rules, dual fuel and online discounts, if offered across all tariffs, would not count towards the tariff cap. When analysing suppliers' tariff numbers we assume compliance with these rules. Therefore the above figures relate to gas and electricity tariffs only, and do not double-count where a tariff is available both online and offline. The figures above relate to non-time of use tariffs available in the London region only.

**Figure 1 - Effects of our proposals in the number of core tariffs available**

| Fuel | Core tariffs | | Online/Offline | | Variation by payment type* | |
|---|---|---|---|---|---|---|
| **Electricity** | 4 | **Each of the 'core' offers available both online and offline.** | 8 | **Equal and cost-reflective adjustments to core tariff's charges reflecting payment type.** | 24 | **Plus dual fuel discounts, and bundles offered across all tariffs** |
| **Gas** | 4 | | 8 | | 24 | |
| **Total** | 8 | | 16 | | 48 | |

2.20. While arguably price comparison and switching sites have the potential to help consumers navigate through the complexity available in the market, these are difficult tools to use for consumers who are not computer literate, or do not have internet access. We also recognise that there have been moves from some suppliers to simplify their tariff offerings. Nevertheless we still see a number of features which make it difficult for consumers to assess how much they would pay under a particular tariff, or make choices unnecessarily complex.

2.21. Given that most of these issues have already been identified in the Probe, we consider that more needs to be done to simplify the market and promote consumer engagement. While we welcome suppliers' recent voluntary efforts in this area, the nature of the issues and the length of time that these have been around suggests that a more restrictive and binding approach is necessary. In addition, we consider that the benefits may be higher if the simplification of the energy market is achieved with a standard and consistent approach across the industry. We are ideally placed to provide this consistency.

## Our Final Proposals – in detail

2.22. This section sets out in more detail the new rules that we are proposing to put in place to make tariff choices simpler for domestic gas and electricity customers. For each area of new rules, it describes them and highlights changes for our previous proposals – and sets out how they will be given operational effect. It also explains why, based on the evidence, we have concluded that these particular rules are both necessary and proportionate.

**Limiting tariff numbers**

*What*

2.23. We are proposing to introduce new rules to limit the number of substantively different tariff choices each supplier can offer at any point in time:[38]

- A supplier may offer no more than four core electricity tariffs and four core gas tariffs.[39] This limit applies to all single rate meters (credit or prepayment).[40] In addition, a supplier may offer no more than four core time-of-use (ToU) tariffs for each meter that can support such tariffs.
- This means that suppliers may offer no more than four core ToU tariffs for each of these specific meter types or modes:[41]
  - Two rate meters/mode (for electricity only, e.g. E7 tariffs).[42]
  - Three rate meters/mode (for electricity only, e.g. E10 tariffs and variants).
  - Dynamic Teleswitching (DTS – for electricity only).
  - Any other meter/mode for both gas and electricity (four additional core ToU tariffs to be used for any other meter types/modes not considered above, including smart meters).
- Each tariff may include choices over: (a) dual fuel, (b) payment method, and (c) online account management (including paperless billing).
- Suppliers may choose which payment methods they offer along with each of their core tariffs.[43]
- Core tariffs have to be available to all customers within the region where the tariff is offered.[44]

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[38] This applies collectively across all licensed domestic suppliers within a single corporate group, if the corporate group has more than one licensed domestic supplier. Suppliers will be required to have one distinct tariff name per core tariff (though additional text can be included to refer to branding).
[39] At any particular location, and any particular point in time. Each tariff might vary regionally to reflect, for example, network charges that vary by region. For clarity, the location could also mean specific premises. We consider however that there are significant gains in terms of simplicity in having standardised regions. We expect therefore that linking tariffs to individual premises would be used as an exception only, and that suppliers will use standardised regions wherever possible.
[40] A tariff is to be defined as the complete set of terms and conditions that apply (or are linked to) to a specific contract for energy supply. A core tariff is to be defined as a standing charge and unit rate, and an associated sub-set of terms and conditions. This sub-set of terms and conditions does not include features related with payment methods, dual fuel and online discounts, a list of specified surcharges, optional bundles and optional reward points.
[41] Where a meter is able to work in more than one mode, the customer could receive any tariff for the supported modes, but not more than four options per mode. For example, a customer with a smart meter which can operate in any of the above-listed modes would be able to access any tariff associated with those modes, as well as up to four 'smart' TOU tariffs where these are offered by the supplier.
[42] For clarity, and as an example, customer with an E7 meter would have a choice of up to four 'E7' tariffs for their region which may or may not be the same as the suppliers' 4 core tariffs for standard credit meters.
[43] But must still comply with existing rules in SLC 27 which require them to offer a wide choice of payment methods.
[44] The exception is fixed term tariffs created within a collective switching process. These tariffs should be available only to customers participating in the collective switching process.

2.24. We are also proposing to introduce a list of surcharges that will not have to be incorporated in a unit rate or standing charge (e.g. one-off charges such as disconnection fees or late payment fees).[45, 46] As mentioned above, a surcharge must be expressed in the same monetary terms as the standing charge or unit rate, or in the most relevant alternative (for example, per transaction or per event). The method of calculation for any given surcharge cannot vary by tariff or by geography.[47]

2.25. The choices over dual fuel discount, online discount and payment method, as well as additional features in relation to surcharges, bundles and reward points will not count as additional core tariffs if the associated terms and conditions meet specific criteria:

- Any differences in the cost of providing different payment methods are made through adjustments either to the standing charge or unit rate. Any adjustment made to account for differences in the cost of providing a specific payment method must be the same for all of a supplier's tariffs where that payment method is offered, and must also be the same across all regions. Adjustments cannot be made in other ways (e.g. as a discount) and cannot be presented as a percentage of the total bill, unit rate or standing charge.
- The supplier may choose which surcharges it wants to apply, and to which tariffs these will apply, as long as the surcharges are allowed to different tariffs. All specified surcharges must be the same across all regions.
- The dual fuel discount, online discount, optional bundles and optional reward points must be the same across all of a supplier's tariffs and be the same across all regions.[48]
- All tied bundles and tied reward points must be the same across all GB regions.[49]

2.26. Figure 2 below summarises these permissible core tariff options.

[45] We will have a backstop power to add additional charges to the list of surcharges.
[46] This list of surcharges are one off charges (where legally permitted): relating to statutory disconnection and rights of entry powers; charges relating to the installation, replacement or moving the moving the position of a meter (but not charges for the provision/rental of a meter which will have to be incorporated in a unit rate or standing charge); termination fees; fees or charges related to the late payment of bills, connection charges; charges for replacement PPM cards or for additional copies of documentation; and any charges expressly required by legislation or licence conditions.
[47] The same requirement applies to our proposed rules on discounts (other than dual fuel and online, which have to be expressed in £/year) and bundles. Suppliers will not be required to express surcharges, bundles and/or discounts in £/year or p/kWh where i) a consumer has requested the information in another format and/or ii) it may be misleading to do so in the context in which it is presented.
[48] In this document, when we make a reference to any feature that has to be the same across all regions and all tariffs, we mean that (i) the supplier has a choice whether to offer that feature or not; (ii) where it chooses to offer a specific feature, it has to provide it across all core tariffs and all regions.
[49] Where it is not possible to have any of the above having the same terms and conditions across all regions, the supplier will be required to set out a charging methodology that would apply across GB regions. This could mean, for example, that instead of setting out the value of a specific charge, the supplier could set out what is the cost per unit of time of providing that surcharge (e.g. £/hour).

**Figure 2 – The tariff cap**

<table>
<tr><th rowspan="2">Type of tariff</th><th rowspan="2">Fuel</th><th rowspan="2">Meter types / modes</th><th colspan="2">Same features across regions</th></tr>
<tr><th>Features applied the same way for supplier selected tariffs</th><th>Features applied the same way across all tariffs</th></tr>
<tr><td>Non-ToU</td><td>4 x electricity<br>4 x gas</td><td>Single rate (credit or prepayment – gas and electricity)</td><td rowspan="5">Payment methods<br>Specified surcharges<br>Tied bundles<br>Tied reward points</td><td rowspan="5">Dual fuel discount<br>Online discount<br>Optional bundles<br>Optional reward points</td></tr>
<tr><td rowspan="4">ToU</td><td rowspan="4">4 x electricity<br>4 x gas</td><td>Two rate electricity (e.g. E7 tariffs)</td></tr>
<tr><td>Three rate electricity (e.g. E10 tariffs and variants)</td></tr>
<tr><td>DTS electricity</td></tr>
<tr><td>Any other meter type / mode (gas and electricity)</td></tr>
</table>

2.27. A supplier may also apply to Ofgem for a derogation to test and trial new innovative tariffs without being deemed to have introduced a tariff, if certain conditions are met. The envisaged conditions and criteria relate to the extent to which the proposed tariff is genuinely novel or innovative, the degree of marketing and promotion which will take place, the number of customers it is made available to, the extent to which it is limited geographically and the period of time is it open to new customers. Suppliers will have to make clear to customers what will happen once the trial comes to an end. These tariffs should have a degree of differentiation from existing tariffs, and suppliers will have to make that clear when submitting their case for any trial to Ofgem.

2.28. In certain circumstances provisions in legislation "deem" a tariff to be in place, for example when someone first moves into a house which was previously supplied by that supplier and starts to consume gas/electricity. A deemed contract will not be considered as one of the four tariffs if its terms and conditions are the same as one of its currently available evergreen tariffs (excluding any differences which are expressly required by licence conditions or legislation).

*Why*

2.29. Many consumers find it difficult to make sense of their options in the energy market. We said in our October 2012 consultation that there were approximately 900 open tariffs – which, based on our revised definition of a core tariff, would now be around 500 open tariffs.[50] These comprised a wide range of payment methods, meter types and discounts that suppliers offer. Whilst generally consumers value choice, many perceive there are too many tariffs and that they can be complex and off-putting.

2.30. Respondents to our October 2012 consultation recognised that there are too many tariffs in the market. The majority agreed that overwhelming choice was not in the interests of consumers and did not help to increase consumer engagement in the market.

Materiality of the problem

2.31. Behavioural economics shows us that many consumers will switch off from making decisions if they believe there are too many options or the options are too complex.[51] Unless consumers understand their options, and are able to assess the respective benefits relatively easily, they will be less likely to engage and less able to make an informed choice regarding to which option they should switch.

2.32. Large numbers of tariffs also allow suppliers to segment the market. Not only does this mean that some consumers may pay significantly more than others, but it also further weakens competitive pressures by giving an advantage to the previous incumbent suppliers (since they have a significant number of sticky customers) over smaller suppliers and new entrants. The result is that the previous incumbent suppliers can more easily pass through cost increases to consumers and therefore these suppliers have less of an incentive to reduce their controllable costs.

[50] Source: Ofgem analysis of supplier tariff permutations as at 28 August 2012 using information available from our information request to suppliers. Total includes both large and small suppliers (including white labels), all meter types and payment methods. Numbers are based on the London region. In keeping with our tariff cap rules, the figure of 500 relates only to gas and electricity tariffs, and does not double-count where a tariff is available both online and offline.

[51] Source: Ofgem, March 2011. What can behavioural economics say about GB energy consumers?

*Addressing the problem*

2.33. Capping the number of tariff offers in the market and allowing consumers to choose from fewer tariffs will help consumers to assess their options. It will also send a signal to consumers which should help address some of the lack of trust and confidence, as well as the perception that that the market is too complex.

2.34. In responses to the October 2012 consultation some suppliers requested that the tariff cap be increased to six core tariffs.[52] They argued that this would allow more flexibility to provide innovative tariffs and online discounts.

2.35. We consider that a cap of four core tariffs strikes an appropriate balance between choice and complexity. While this puts a limit on the number of tariffs, it enables suppliers to differentiate their offerings, and allows them to incorporate variations to account for different payment methods, bundles and surcharges, as well as allowing scope for innovation in ToU tariffs.

2.36. Respondents to the October 2012 consultation also supported the proposal to have a consistent approach to surcharges. However, most respondents did not favour a specified list of surcharges, as this could be restrictive, and suggested developing general principles instead.

2.37. We maintain our October 2012 proposal to specify the list of allowed surcharges, and require them to be expressed consistently, either in £/year or p/kWh. This is an important component of our proposals, both to avoid a loophole to the tariff cap, and to increase tariffs transparency and simplicity across the energy market.

2.38. Further to the feedback received from stakeholders, we are proposing three amendments to our original proposal on surcharges:

- We will add to the list a category to capture surcharges that may be required by regulation or legislation.
- Suppliers will be able to express surcharges differently, where it would be misleading to present them in £/year or p/kWh.
- Where the nature of the surcharge would justify it, the level of the surcharge can be expressed in the most relevant alternative (for example, per transaction or per event).

2.39. We expect that these changes will provide more flexibility to suppliers in defining their surcharges. The list of specified surcharges will include some surcharges of a generic nature. We therefore consider that our proposal is proportionate and strikes a good balance between the flexibility to set and price surcharges, and the consistency required across the industry to make tariffs clearer and simpler.

[52] Though other suppliers indicated that the tariff cap of four core tariffs was too high.

2.40. We have also considered the feedback from interested parties on other aspects of our original proposals. As a consequence, suppliers can now offer online discounts and will be able to apply to offer trial tariffs without them counting towards the tariff cap.

2.41. We recognise that suppliers have made efforts to reduce the number of tariffs that they offer and we provided a summary of these efforts in our October 2012 document. The action we are proposing to reduce tariff numbers is in line with this broader industry direction of travel. The limit of four core tariffs is similar to some of the voluntary measures that suppliers have adopted. While we welcome the industry self-regulation in this area, we consider that we are ideally placed to set a level playing field among all market players. It was not clear that all suppliers would abide by the same standards, and our proposals make sure that a consistent approach is used by all suppliers.

2.42. Some stakeholders were concerned with the impact of our proposals on green tariffs. However, our rules permit green tariffs. A supplier can choose to allocate one or more of the four core tariffs to a green offering. It is up to the supplier to decide how they present such a tariff, including whether they use the existing accreditation scheme.

2.43. We are not, however, allowing a supplier to offer within each core tariff the option of paying a surcharge to "green up" the tariff. Suppliers also are not permitted to use bundles to "green up" their tariff when the bundle includes elements that relate to energy supply.[53] Ofgem is currently conducting a review of the Green Energy Supplier Certification Scheme Guidelines[54]. We will therefore consider how to factor any implications from this work into our policy on green tariffs at an appropriate point in time.

2.44. In coming to our proposals we have considered a range of options, some of which were outlined in the October 2012 Draft Impact Assessment (IA) and others which we considered in the intervening period.[55] In our updated IA, which includes the pros and cons of each of these options, we provide further detail as to why we think our proposal best achieves the simplification needed in the market.[56]

*Implementation*

2.45. The proposed new rules on tariff choices will be implemented through standard conditions of the electricity supply licence and gas supply licence. The envisaged drafting to give effect to the new rules is provided in amendments to SLC 1 and in new SLC 22B.

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[53] This includes the 'volume test' element of current certified green tariffs.
[54] Please see: http://www.ofgem.gov.uk/Sustainability/Environment/Policy/Documents1/Green%20Energy%20Supply%20Scheme%20review%20–%20open%20letter.pdf
[55] Available at: http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Pages/rmr.aspx.
[56] Our updated IA is published in conjunction with this document, and is available at: http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Pages/rmr.aspx.

2.46. We propose these new rules become effective by 31 December 2013. By this date, suppliers should have no more than four open core tariffs per meter type/mode. The rules on limiting tariff numbers are closely linked to the rules on tariff structures, surcharges, discounts, bundles and reward points and we are also proposing that implementation of these rules also takes effect by the 31 December 2013.

2.47. We set out below (see 'Ban on dead tariffs and migration to other tariffs') the options suppliers have available to migrate customers from existing tariffs into the new core tariffs. For the avoidance of doubt, suppliers will not be able to create new dead tariffs when introducing the four core tariffs.

### Standard tariff structures and additional consumer protections

*What*

2.48. We propose to introduce rules to standardise tariff structures, in order to make tariffs simpler and easier to understand. We are also clarifying the rules in respect of any additional surcharges that a supplier might seek to levy, for example to reposition a meter.

2.49. We are proposing to introduce the following rules in respect of how tariffs are structured, in order to reduce a further layer of unnecessary complexity. Each tariff:

- Must be presented in the form of a standing charge (which may have a value of zero) and unit rate.
- May have a standing charge or unit rate that varies (in a pre-defined way) by time of year, week or day.
- May have a standing charge or unit rate that varies (in a pre-defined way) in line with an independent published index, such as the Retail Price Index (RPI), or rate (such as the Bank of England Base Rate).
- May not have a unit rate which depends on the amount of electricity or gas consumed (e.g. a "rising block" tariff – where the first block of consumption is charged at a lower unit rate than subsequent blocks of consumption).

2.50. Suppliers will need to reflect in the standing charge or the unit rate any charges or costs that are related to energy supply,[57] except charges or costs included in a specified list.[58]

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[57] This would expressly include (but not be limited to) charges or costs for billing, meter reading and data processing, the provision or rental of a meter, transmission and distribution of electricity, transportation and shipping of gas, and any form of electricity generation.
[58] This list is intentionally slightly different to the list of surcharges for the purposes of the tariff cap rules. This list covers one off charges (where legally permitted): relating to statutory disconnection and rights of entry powers; charges relating to the installation, replacement or moving the moving the position of a meter (but not charges for the provision/rental of a meter which will have to be incorporated in a unit rate

Reinforcement of consumer protections

2.51. Our proposals for standard tariff structures also include rules to simplify and clarify, from the customer perspective, how changes are made to a tariff:

- We are amending existing rules in SLC 23 to make it easier for customers to switch supplier or change tariff without being affected by a price increase or other adverse unilateral variations.[59] To avoid the price increase or other adverse unilateral variations:
  - Customers will no longer need to notify their current supplier about their intention to switch.
  - The deadline for the new supplier to notify the old supplier (using industry code processes), will be increased from 15 to 20 working days, and will now apply from the date that the price increase or the date of the adverse unilateral variation is schedule to take effect.[60]
  - Customers enter into a new contract with the same supplier and that new contract comes into effect no later than 20 working days from the date that the price increase or the adverse unilateral variation is schedule to take effect.
- We are also proposing to amend existing rules to clarify that suppliers are required to notify customers of any price increases, and/or any unilateral variations to terms and conditions which are to the disadvantage of the customer.[61] This amendment removes the existing requirement that variations would have to be to the 'significant' disadvantage of the customer.[62]
- We are proposing new rules governing suppliers' ability to agree mutual variations to terms and conditions (note that these are different from the rules applying to price increase notifications). The supplier will only be allowed to agree a mutual variation where:
  - It does not extend a fixed term period.
  - Consumers are notified in writing about the proposed mutual variations, between 30 and 37 calendar days in advance, and are

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or standing charge); termination fees; fees or charges related to the late payment of bills; connection charges; charges for replacement PPM cards or for additional copies of documentation; charges arising from telephone calls (which we understand will soon be regulated following the transposition of the Consumer Rights Directive), and any charges expressly required by legislation or licence conditions.

[59] In addition, the rules in SLC 24 that prohibit a supplier to charge a termination fee will be amended to make clear that (a) customers will not have to notify suppliers of their intention to switch to benefit from the rule; and (b) the rule will apply when the supplier is required to give the customer notice of a price increase or other adverse unilateral variation (rather than where the supplier has actually given such notice).

[60] If the notification is conducted within this period, the customer will not be affected by any changes to the contract until the switch is finalised.

[61] Suppliers will not need to notify customers about price increases for fixed term tariffs where the price is fully linked to a published and transparent index, or tariffs where variations in prices are set out in advance and scheduled to occur automatically by a precise amount and at precise dates (and in both cases suppliers explain in advance and include in the terms and conditions the details of the price mechanisms).

[62] This reinforces consumer protection to ensure that a wider scope of unilateral variations will trigger a notification.

explicitly informed that they are under no obligation to agree to the variation.
    - The customer is provided with key terms and conditions that would apply if the mutual variation is accepted.
    - There is an express agreement to the mutual variation. Such express agreement must be initiated by the customer.
    - As a result of the mutual variation, the tariff will become identical to an open core tariff.
    - The supplier confirms any agreement with the consumer, in writing, within five working days (or as soon as is reasonably practicable thereafter).
- We are also proposing to amend the existing rules in standard condition 23.1 (and definitions) relating to the provision of principal terms to make clear that domestic customers must be provided with information about contractual terms in plain and intelligible language (including before a mutual variation is agreed) covering:[63]
    - Unit rates and standing charges.
    - Pricing mechanisms for trackers and staggered pricing (where permitted).
    - The duration of contracts, including (but not limited to) renewal arrangements and extensions, and the duration of all fixed term periods.

2.52. As part of our rules for simplification of tariffs, we are also proposing that:

- All open core tariffs must be available to new and existing customers (for clarity, this does not require tariffs available in collective switching schemes to be offered outside the scheme).
- Customers cannot be required to give more than 28 calendar days' notice to terminate an evergreen contract.
- Customers are entitled to give notice to terminate an evergreen contract at any time.

*Why*

2.53. The market is currently characterised by a range of complex tariffs. These can have a number of different components, including diverse tariff structures, discounts and surcharges. For example, over a third of the open non-ToU tariffs offered in the market have unit rates that that vary by the level of consumption (i.e. multi-rate tariffs).

Materiality of the problem

2.54. In our October 2012 document, we explored in detail how the complex structure of tariffs adds to consumer confusion. We have heard directly from consumers that a lack of standardisation in how tariffs and tariff information are

[63] By the licensee or any representative.

presented is a cause for confusion as they are unable to establish whether they are comparing 'like with like', and are generally confused by the range of technical terms used.[64]

2.55. We cited in our October 2012 document a range of evidence on the complexity of energy pricing. This included the OFT's 2010 survey on customer attitudes to advertising of prices in different markets,[65] which shows that complex pricing was found most notably in the markets for energy, mobile phone and media packages, with 71 per cent of those considering services in these sectors saying they had seen a price which was 'complicated or difficult to compare with other prices'.

2.56. Of the consumers in the survey who said they had experienced a complex price, 43 per cent said they objected to this occurring in gas or electricity supply. More generally, three quarters (75 per cent) of those who had experience of a complicated price in gas or electricity said they objected to this,[66] and 61 per cent of those who had experienced a complicated price in gas or electricity (excluding 'don't knows') said they found it difficult to choose a supplier. Of those customers that found it difficult to choose an energy supplier, 40 per cent said the market was too confusing and complicated, 37 per cent found it was difficult to choose because suppliers use different terms to describe the same thing, and more than one-fifth considered there were too many options.

Addressing the problem

2.57. Our proposals in this area were well received by different stakeholders, who in response to our October 2012 consultation supported our effort to standardise and simplify tariff structures.[67] They recognised that this would bring benefits to consumers by helping them understand their tariffs and better assess the alternatives.

2.58. While arguably price comparison and switching sites have the potential to help consumers make sense of these alternatives – and increasingly they are one of the most popular ways for more active consumers to research their options and make a switch – we know they are not used or accessible by all consumers.[68] Even some of the more active and engaged consumers find price comparison sites confusing and some are sceptical of their independence.[69] Among those that have ever switched supplier, 27 per cent of gas customers and 25 per cent of electricity customers used

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[64] Ipsos MORI, Consumer engagement with the energy market, information needs and perceptions of Ofgem, Findings from the Ofgem Consumer First Panel Year 4: second workshops (held in March 2012), October 2012.
[65] OFT, Advertising of Prices, December 2010, main report and annex N of the same.
[66] From a base that excluded those consumers who said they had experienced complex pricing.
[67] The exception was the proposal to increase the new supplier notification to the old supplier from 15 to 20 working days, where the customer chooses to switch supplier. We discuss this issue in the section on fixed term offers below.
[68] Ipsos MORI, Customer Engagement with the Energy Market - Tracking Survey 2012, October 2012. This research shows that comparison websites are used most by those on direct debit, socio-economic groups A and B, the 35-64 age group and, naturally, those with internet access.
[69] Ipsos MORI, Consumer First Panel Year 4: Findings from first workshops (held in October and November 2011), January 2012.

the internet to make their last switch.[70,71] Moreover, around 5 million homes in GB do not have internet access.[72]

*Implementation*

2.59. The proposed new rules on tariff structure and surcharges will be implemented through standard conditions of the electricity supply licence and gas supply licence. The envisaged drafting to give effect to the new rules is provided in amendments to SLC 1 and SLC 23.1, and new SLC 22A, SLC 22B, and SLC 23A.

2.60. We propose for the new rules on tariff structure (SLC 22A) to become effective by 31 December 2013. This aligns the implementation of these rules with the implementation of our proposal on limiting tariff numbers.

2.61. We propose that all the rules covered in this section in relation to reinforcement of consumer protections become effective from day one of implementation.[73] This includes:

- Rules to make it easier for customers to avoid a unilateral variation.
- Amendment to requirements to notify customers of price increases or adverse unilateral variations.
- Rules on mutual variations.
- Provision of principal terms.
- Notice periods for evergreen contracts.

**Discounts, bundles and reward points**

*What*

2.62. We are proposing to introduce new rules to prescribe the form that discounts may take (including in relation to reward points, and to bundles that are discounts),[74] and to clarify when and how energy supply tariffs may be bundled with other offerings, for example boiler maintenance cover.

2.63. Our proposed discount rules will not prevent a supplier from providing bundles and discounts (including bundles that are discounts and reward points) where they are expressly required to do so by licence conditions or legislation.[75] Our rules will

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[70] In this context a 'switch' could mean a change of tariff or payment type.
[71] Ipsos MORI, Customer Engagement with the Energy Market - Tracking Survey 2012, October 2012.
[72] For more information, see: http://www.ons.gov.uk/ons/rel/rdit2/internet-access---households-and-individuals/2012/stb-internet-access--households-and-individuals--2012.html
[73] Day 1 means a date which is 56 days after the date the Authority publishes a final decision to proceed with licence modifications (assuming the Authority ultimately decides to make such a decision following statutory consultation).
[74] For example, a supermarket voucher or goods and services (not related to energy supply) provided at a discount or for free are bundles that would also be a discount.
[75] Though these offers would likely still be subject to our proposed presentation rules and the rules to be

also allow suppliers to compensate customers who have been adversely affected by a specific issue or event related with customer service, complaint handling or redress arrangements.

Discounts

2.64. A discount exists where an electricity or gas supply customer receives (or has the option to receive) something for free or at a reduced rate because of their electricity or gas supply contract. The thing being reduced might be electricity or gas – or might be another product or service. Our proposed rules stipulate:

- A discount may not vary by region.[76]
- A discount must be continuously applied (i.e. must accumulate at the same rate over time, or in line with energy consumed) – and must be expressed in the same monetary terms as either the standing charge or unit rate.[77]
- Suppliers will be able to offer a dual fuel discount – i.e. a discount offered to customers who contract for both electricity and gas from the same supplier (or two or more suppliers from the same group) – and/or an online discount – i.e. a discount for online account management, provided it includes paperless billing – without increasing the number of core tariffs. These discounts will have to be a monetary amount, expressed in £/year, and the level of the discount or any other terms and conditions may not vary across tariffs or regions.
- Suppliers will also be able to offer other discounts where (i) they are not a monetary amount or currency, and (ii) they are not capable of being applied to the standing charge, unit rate or energy bill (for the avoidance of doubt this means that we are proposing to ban cash and similar types of discounts). These discounts must be expressed in either £/year or p/kWh.[78,79]

2.65. Suppliers will not have to comply with the condition to apply discounts continuously where:

- The discount is provided upfront (i.e. before supply effectively starting).
- The discount is not cash in any currency.

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the same across regions and tariffs, for example. An example of something expressly required would be likely to included smart metering related equipment.

[76] See footnote 47 above.

[77] A discount may not, therefore, be used to introduce any form of duration into an otherwise open-ended contract. For example, £50 discount if you stay with the supplier for 12 months.

[78] Suppliers will not be required to express surcharges, bundles and/or discounts in £/year or p/kWh where i) a consumer has requested the information in another format and/or ii) it may be misleading to do so in the context in which it is presented.

[79] The effect of this rule is also that suppliers will have to set out at the outset the value of any discount included with a tariff (this includes any bundle which is also a discount).

- The discount excludes anything that could be included in (or applied to) the standing charge, unit rate or energy bill.[80]
- The customer does not have to pay anything to get the discount and does not have to pay the discount back.
- The discount is provided in advance of the supplier starting to supply the customer's premises.

2.66. We are also proposing to extend the definition of termination fees to include loyalty discounts or any other discount offered in staggered periods of time.[81]

**Figure 3 – Examples of discounts and effects of our rules**

| Name | Description | Effect of our rules |
|---|---|---|
| Loyalty – applied after one year | The discount is applied at the end of the year if the consumer remains with the supplier for one year | Not allowed **–** Discount is not applied continuously |
| Loyalty – applied on daily basis | A cash discount is applied at a fixed rate for every day that consumer stays with supplier | Not allowed **–** Discount is capable of being applied to the standing charge or unit rate |
| Cash-back – upfront | A monetary sum is paid before the supply of energy begins | Not allowed **–** Discount is cash |
| Cash-back – after 3 months | A monetary sum is paid 3 months after the supply of energy begins | Not allowed **–** Discount is capable of being applied to the standing charge or unit rate and is cash |
| Prompt pay | A discount is applied if a bill is paid by a certain date | Not allowed **–** Discount is not applied continuously |
| Supermarket voucher | A voucher is provided before the supply of energy begins | Allowed – Provided it cannot be redeemed for cash |

Bundles

2.67. A bundle exists where another product or service is provided as part of the electricity or gas supply contract. Our proposed rules stipulate:

- Bundled products or services must be expressed either in £/year or p/kWh.[82]
- Bundles cannot vary by region. In addition, optional bundles cannot vary by core tariff.[83]

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[80] This rule means that any monetary discount is banned, e.g. cash-back. The rationale for this rule is avoiding time-inconsistent decision making. Consumers typically tend to over-estimate the present value of money, which may lead them to enter into contracts that overall are more expensive.
[81] Loyalty discounts may no longer be offered as they currently are. Extending the definition of termination fees to cover loyalty discounts would effectively ban these discounts from the evergreen market. The rule to apply discounts continuously means that a loyalty discount – i.e. a discount offered to reward the customer after a period of loyalty – can no longer be offered altogether (to facilitate this we are also proposing to amend the rules on termination fees in SLC 24 to make clear that the discount rules take precedence).
[82] See footnote 47 above.

- Mandatory (tied) bundles must be linked to a specific core tariff and be distinct from any other optional or mandatory bundle. A particular core tariff cannot have more than one mandatory bundle.[84]
- Mandatory bundles do not increase the number of core tariffs. For example, a tariff which comes with a tied boiler maintenance cover will count only as one tariff for the purpose of the tariff cap.
- Bundles which are discounts (e.g. where the bundled service is provided for free) will have to be applied continuously. All other bundle rules will apply.
- Bundles cannot be (and cannot be redeemed for) cash in any currency.
- Bundles cannot be redeemed against or applied to the standing charge, unit rate, or energy bill.

**Figure 4 – Examples of bundles and effects of our rules**

| Name | Description | Effect of our rules |
|---|---|---|
| **Boilers** | | |
| 1. Energy contract and boiler | The boiler is sold **only** with the energy contract | Allowed – Possibly both as a tied or optional bundle. |
| 2. Energy contract and/or boiler – **different price (1)** | The boiler is sold with the energy contract. Boiler can also be sold separately, but at a different price to the energy contract price. | Allowed **–** Boiler sold with energy contract is a bundle, and is also a bundle discount. Allowed if it is provided before supply starts, or if it is provided continuously. |
| 3. Energy contract and/or boiler – **different price (2)** | The boiler is sold with the energy contract and the discount is applied to the bill. Boiler can also be sold separately, but at a different price to the energy contract price. | Not allowed – The discount can be applied to the standing charge and/or unit rate. |
| 4. Energy contract and/or boiler – **same price** | The boiler can be sold with or independently of the energy contract. In both cases, the boiler is the same price. When sold together they are paid through the energy bill as a separate line item to the bill | Allowed **–** Boiler sold with energy contract can be a tied or optional bundle. |
| 5. Energy contract and/or boiler – **standing charge** | The boiler can be sold with or independently of the energy contract. In both cases, the boiler is the same price. When sold together they are paid through the energy bill as a mark-up to the standing charge | Allowed – Boiler sold with energy contract would be a tied or optional bundle. |
| 6. Energy contract and/or boiler – | The boiler can be sold with or independently of the energy | Allowed – Boiler would not be considered a bundle product |

[83] Suppliers will not be required to have bundles of the same value across all regions where that is not possible due to the nature of the bundled service. In these cases the supplier will be required to set out and apply the same charging methodology across all GB regions.
[84] The mandatory bundle may be composed by more than one feature, but it must have a single price for the set of features that it includes.

| Name | Description | Effect of our rules |
|---|---|---|
| **separate payment arrangements** | contract. In both cases, the boiler is the same price. When sold together they are paid for by different arrangements | or service under our rules only if not provided by the supplier. |
| **Other potential bundles** | | |
| 7. Concert tickets | Concert ticket vouchers are provided with the energy contract. Tickets can be purchased up to voucher value | Allowed only if provided before energy supply starts, or otherwise is applied continuously. |
| 8. Vehicle breakdown cover | Vehicle breakdown cover is provided with the energy contract. | Allowed only if provided before energy supply starts. |

Reward points

2.68. Reward points are a system that provides points to customers linked to their energy supply. These points can ultimately be redeemed in exchange for a discount or a range of goods and services. Our proposed rules stipulate:

- Reward points must be applied continuously.[85]
- Reward points cannot vary by region.
- Reward points must be expressed in terms of points.
- Reward points are not (and cannot be redeemed for) cash in any currency.
- Reward points cannot be redeemed against or applied to the standing charge, unit rate, or energy bill.
- Reward points which are applied across all tariffs and all regions equally and are an optional feature for the consumer, do not increase the number of tariffs for the purpose of the tariff cap.
- Mandatory (tied) reward points schemes must be linked to a specific core tariff and be distinct from any other optional or mandatory reward points scheme. A particular core tariff cannot have more than one mandatory bundle.[86]
- Mandatory reward points which are linked to a specific core tariff, do not vary by region and are distinct from other reward points schemes, do not increase the number of tariffs for the purpose of the tariff cap.

2.69. Suppliers will not have to comply with the condition to apply reward points continuously where:

- The reward points are provided upfront.
- The customer does not have to pay anything to get the reward points and does not have to pay them back.

[85] Points have to be awarded at the same rate per day or per unit of energy consumed (kWh).
[86] The mandatory bundle may be composed by more than one feature, but it must have a single price for the set of features that it includes.

- The reward points scheme is provided in advance of the supplier starting to supply the customer's premises.

*Why*

2.70. The current market is characterised by tariffs with numerous discounts and bundled offers.[87] These include discounts expressed as percentages of the total bill, percentage discounts combined with an absolute cap, and discount structures which vary across tariff type. The consumer has to take this range of discounts into account when choosing between tariffs.

Materiality of the problem

2.71. Our evidence on tariff complexity, outlined in the previous section on standard tariff structures and surcharges, applies equally to discounts and bundled offers. Whilst consumers value the discounts and bundles offered in conjunction with the energy supply, they are confused by the plethora of options with which they are faced.

2.72. Over the course of several years of Consumer First Panel discussions, many Panellists who have attempted to engage in the market have said that they are confused by the number of components of energy tariffs such as standing charges, tiers, unit rates, discounts, cash back, termination fees, loyalty bonuses and bundled products. Similarly, in our qualitative research on tariff comparability models in October 2011 we found that in general consumers thought it should be easier to compare tariffs and identify the most suitable tariff for their circumstances.[88]

Addressing the problem

2.73. Our proposals for discounts, bundles and reward points are designed to:

- Improve clarity and simplicity of tariff offerings, and consequently consumers' understanding of their choices and options.
- Remove ambiguity and potential for offerings being misleading.
- Reinforce consumer protection.
- Strike an appropriate balance between the number of choices made available to consumers, and the simplicity that would enable making informed decisions.

2.74. Respondents to the October 2012 consultation expressed some concern about our proposed rules for discounts. They argued that online discounts should be allowed to apply to all the core tariffs. They also indicated that suppliers should be

[87] The accompanying IA includes further details on discounts and bundled offers.
[88] Tariff Comparability Models, Volume 1 and 2 - Consumer qualitative research findings, Creative Research, October 2011.

able to provide loyalty discounts, and that the prompt payment discounts should be allowed.

2.75. Similar concerns were raised in relation to reward points and bundles. While stakeholders recognise the benefits of having a consistent approach and of simplifying discounts and bundled offerings (e.g. by requiring them to be expressed in a standard and consistent way), they argue that these features are an effective way to engage customers and promote specific behaviours.

2.76. We recognise that suppliers may offer particular types of discounts to provide an incentive for consumers to engage, and, in some instances, to adopt cost-saving behaviours. We consider that the online discount has these characteristics and is an option that both suppliers and customers would like to retain. As stated previously, we are therefore amending our proposals to enable suppliers to offer online discounts as one of the options available to customers. We do not consider that this will significantly increase complexity in customers' choices.[89]

2.77. We are proposing to keep our rules to standardise discounts (and also bundles and reward points offerings), by requiring them to be expressed in a consistent way and to be applied continuously. The latter in particular is important to minimise the potential for any offerings being misleading, and to protect customers from potential lock-in effects.[90]

2.78. While our proposals still enable suppliers to offer other discounts, they will not be able to offer certain types of discounts as they are offered today. Examples include cash-back, prompt pay and loyalty discounts. We consider that this strikes an appropriate balance between simplicity and the complexity that would result from an increased number of tariff permutations.

2.79. We have concerns about cash-back, and other monetary discounts, as behavioural economics suggests that consumer may make inconsistent decisions depending on the moment in time where they may receive monetary rewards. For example, the fact that they receive a monetary amount upfront may make them sign-up to a contract that, over its term, may be a worst deal than other alternatives where the up-front monetary amount is not available.

2.80. The effect in relation to prompt pay discounts is less significant, as suppliers may still be able to include a late payment fee with the tariff. Loyalty discounts (and more generally any discount that does not accumulate at the same rate over time, or in line with energy consumed), as discussed may have detrimental effects in terms of consumer protection and clarity of information. Our proposals provide scope for

[89] The three key choices that consumers will have to make are therefore payment method, dual fuel discount, and online discount, by opposition to our original proposals where only the two initial options were available.

[90] For example, where a discount is only paid after a certain period of time, prospective customers will incorporate the value of the discount into their decision making, but may however never receive it (in the event of leaving the contract earlier). This type of discounts may also have a lock in effect by retaining the customer in a tariff until the date the discount is due (which is similar to a termination fee).

suppliers to promote specific types of behaviours while limiting potential downsides for consumers (e.g. while the offer is different, suppliers may provide the current loyalty discounts but applied continuously, which potentially would promote a similar type of behaviour from customers).

*Implementation*

2.81. The proposed new rules on discounts, bundles and reward points will be implemented through standard conditions of the electricity supply licence and gas supply licence. The envisaged drafting to give effect to the new rules is provided in amendments to SLC 1 and SLC 24, and in new standard licence condition SLC 22B.

2.82. We propose for the new rules on discounts, bundles and reward points to become effective by 31 December 2013. These rules are closely linked with the rules on limiting the tariff numbers, tariff structure and surcharges. We therefore propose to align the implementation of all these rules.

**Fixed term tariffs**

*What*

2.83. We are proposing to introduce new rules to clarify certain requirements for tariffs that have a set duration (fixed term).[91] This will ensure that fixed term tariffs are easier to understand and less risky for consumers. These proposals remain largely unchanged from our October 2012 proposals:

- A supplier may not vary the terms of the contract (including the level of standing charge or unit rate, or means by which the unit rate or standing charge is calculated) during the fixed term without the consumer's consent.[92] The exceptions are, in addition to a mutual variation (to terms other than the contract duration), variations to supply charges which occur automatically,[93] and variations to supply charges set out in advance.[94]
- A supplier will be prohibited from automatically rolling over a customer from one fixed-term contract to another fixed term contract – including by unilaterally extending the term of the existing contract.[95] Suppliers will not

[91] In respect of any terms and conditions that apply to fixed term offers.
[92] By increasing the supply charges (or reducing the amount of a discount) or by unilaterally varying any other terms and condition in a way that is to the disadvantage of the domestic customer.
[93] This would be permitted where (i) variations to supply charges are 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 supplier fully explains the price increase mechanism to the consumer in advance (we are proposing to amend rules relate to principal terms to facilitate this).
[94] Where variations to supply charges (i) are scheduled to occur automatically by a precise amount (or amounts) and on a precise date (or dates) and (ii) the supplier explains these details in advance (we are proposing to amend rules relate to principal terms to facilitate this).
[95] The supplier will be still be able to rollover the customer onto a further fixed term period if (i) they provide customers with certain information prescribed by Ofgem (see section 3 on Clearer Information for further details); (ii) customers agree to be rolled over in writing during the rollover switching window; (iii) the length of the new fixed term period is no longer than the length of the previous fixed term period; and

be able to charge a termination fee if they do not comply with the automatic rollover requirements.

- In the absence of action from the consumer, suppliers will be required to move customers coming to the end of a fixed term period by default to the cheapest evergreen tariff of the same type.[96]
- A supplier will be required to apply a switching window starting with a notification letter, containing information prescribed by Ofgem,[97] sent no sooner than 49 calendar days and no later than 42 calendar days before the end of the fixed term period.[98] During this window:
  - Customers cannot be charged a termination fee if they choose to switch.
  - Suppliers cannot require customers to provide any form of notice to terminate the fixed term contract.[99]
- If a customer chooses to switch tariffs with the same supplier or to another supplier, the supplier must apply the same charges and terms and conditions (other than a termination fee) to that customer until the switch is completed. For this to apply,
  - Where the customer switches supplier, the new supplier must notify the old supplier (using industry code processes), within 20 working days from the end of the fixed term period, that they will begin to supply the consumer within a reasonable period of time (this still applies if the supplier objects on debt grounds, and the consumer has paid the debt within 30 business days from the date they were notified of the objection).
  - Where the customer switches tariff within the same supplier, the new contract with the same supplier must come into effect no later than 20 working days from the end of the fixed term period.

2.84. We are also proposing to make clear that:

- Where a supplier offers a fixed term tariff for a particular meter type/mode they must also offer at least one evergreen tariff for that meter mode.[100]

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(iv) the terms that apply to the new fixed term period are the same as the terms of an open core tariff. Supplier will be prohibited from charging a termination fee if they do not comply with the rollover rules.

[96] The default tariff should be for the same meter type (or in the case of smart meters the meter mode) and payment method. Further, a consumer on an offline tariff must be defaulted to an offline tariff, and an online consumer to an online tariff.

[97] See section 3 on Clearer Information for further details.

[98] Where a tariff has precise variations to supply charges which are set out in advance (staggered pricing) and therefore more than one fixed term period, suppliers will be required to apply the relevant fixed term rules in respect of the last fixed term period that applies to the staggered pricing, e.g. they will (i) be required to apply the switching window (and give the requisite notifications), (ii) be required to default the customer and (iii) be able to rollover the customer only at the end of the last fixed term period (provided that they comply with the other rules set out above for fixed terms offers in each of those situations).

[99] We also proposed to make clear that suppliers cannot charge a termination fee where a customer takes steps to switch supplier (e.g. by entering into a contract with another supplier) but does not actually switch supplier before the switching window.

[100] This will ensure suppliers comply with our rules on fixed term auto-rollovers.

- A deemed contract may not be (nor may suppliers claim that they are) of fixed duration, have a termination charge, or require a customer to provide notice it they want to move to a different tariff.[101]

*Why*

2.85. Consumers should be able to understand the principal terms of tariffs within the fixed term market and not feel helpless in view of price increases or automatic contract rollovers. The evidence set out in the accompanying IA shows that the current market is not aligned with this principle. The complexity and risk of taking on a fixed term product also means that only more engaged consumers are likely to take these products. This exacerbates the overall segmentation of the market.

2.86. We set out in our October 2012 proposals the common practices that suppliers use with regards to auto-rollovers. There is evidence that these practices are undermining consumer engagement in the market and include:[102]

- 'Opt-out' approaches to auto-rollovers which risk consumers being placed on to unsuitable fixed term offers. Since these fixed term offers have termination fees consumers can become effectively 'locked-in' to them. These practices also allow suppliers to offer initial attractive deals to consumers, with the expectation to rollover these consumers on to contracts with less favourable terms.
- Inconsistencies in the notice periods that suppliers provide to consumers to assess their options and switch supplier should they decide to.
- Lack of clarity around the principal terms and conditions a consumer can expect at the end of their contract. They are unclear in suppliers' marketing materials, the contract's terms and conditions and/or communications at the point of sale.
- Variance in suppliers' practices across the industry. The lack of homogeneity among the fixed term tariff practices contributes to the complexity of the retail energy market.

Materiality of the problem

2.87. Our research has shown that consumers often feel helpless in view of price increases and other adverse unilateral variations, and may not fully understand the extent to which a fixed term product could help mitigate such variations.[103,104] Our research found that consumers generally assume that fixed term tariffs are also fixed

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[101] Please note that this proposed clarifying change to standard licence condition 7 (deemed contracts) will also apply to non-domestic suppliers. In the event that we proceed with our envisaged statutory consultation, we will be consulting with both domestic and non-domestic suppliers.
[102] As set out in our Consultation on practices concerning Fixed Term Offers, January 2011, Reference (09/11):
http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=110&refer=Markets/RetMkts/Compet
[103] Consumer First Panel Year 4, February 2012:
http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=53&refer=Sustainability/Cp/CF
[104] Ipsos MORI, Customer Engagement with the Energy Market - Tracking Survey 2012, October 2012.

price, and therefore may misunderstand the terms of their contract and how these could vary.[105] Some consumers also had concerns about being 'locked in' to contracts and facing termination fees. These factors adversely affect trust, comparability and engagement in the market.

2.88. In addition, we are concerned that many tracker tariffs in the current market are not in alignment with general consumer protection legislation, and may not comply with the provisions set out in SLC 23 regarding notification of price increases and other adverse unilateral variations.[106]

Addressing the problem

2.89. Our analysis and proposed solutions to these issues in the fixed term market have been informed primarily by responses to our December 2011 and October 2012 consultations. Suppliers and other groups, including consumer organisations, continue to be in favour of the policy intent.

2.90. Some stakeholders, while overall supportive of our proposals, disagreed with specific features of the rules. Some suppliers were concerned about having a specific date to provide the end of fixed term notification to customers. While we recognise the benefits of providing some flexibility here, we are concerned that providing customers with longer notice periods may reduce their responsiveness and fail in prompting them to act. On balance, we have decided to amend our proposals, and propose to provide a window of 7 days for the end of fixed term notice being sent.[107]

2.91. One issue where there was disagreement was the proposal to increase the notification window for price protection purposes from 15 to 20 working days, where a customer switches tariff or supplier.

2.92. We consider however that our proposal is not a significant change to the current regulatory framework.[108] Currently, if certain conditions are met by consumers, suppliers are already required to provide a price protection period (for

[105] Tariff Comparability Qualitative Research, December 2011: http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=72&refer=Markets/RetMkts/rmr. Also see Ipsos Mori, Consumers‟ views of price comparison guides and tariff structures, 7 September 2012.

[106] I.e. the provisions of the E.g. 2009 Gas and Electricity Directives which require consumers to be notified (and rights to exit contract without penalty) in respect of "any increase in charges", and the Unfair Terms in Consumer Contracts Regulations 1999 in respect of exemptions to the list of terms which may be regarded as unfair for certain types of tracker pricing mechanisms and staggered pricing (see the OFT's guidance on "Unfair contract terms guidance (OFT311)").

[107] This is the same notification window that we are proposing for moving customers from dead tariffs. For consistency, we are also amending SLC 23.2 to include the same amendment (the process to move customers from a tariff that is being terminated should be similar to the process of moving customer from dead tariffs. Ensuring that there is a standard and consistent process for both cases, to the extent that this is possible, may therefore lead to higher predictability to customers and less costs to suppliers.

[108] For the avoidance of doubt, under the current regulatory framework, the requirement for a new supplier to notify a current supplier via industry code process (within 15 working days) does not provide a time limited window for the duration of the period by which customers may be eligible to continue to be subject to pre-variation prices or terms (the duration is as long as it takes for change of supplier process to be completed).

the length of time it takes to switch supplier) where they make a unilateral variation to the terms and conditions of an energy supply contract (where, under current rules, the variation increases supply charges or is to the significant disadvantage of the customer).[109] The incremental change of five days to the notification window (rather than the existing price protection period which has no time limited window) should improve consumer protection without adding significant impacts on suppliers.

2.93. Another area where respondents were less supportive of the proposals was the 30 calendar days' notice period for mutual variations.[110] Some suppliers were concerned that the new rules proposed for mutual variations would not enable them to comply with SLC 27.[111] We consider that, in order to comply with the SLC 27 rules on adjusting direct debits, suppliers would already need to have contractual terms that allow them to unilaterally vary the amounts of direct debits. Therefore, we would not expect suppliers to need to rely on mutual variations to change direct debit amounts. In addition, where a unilateral variation to direct debit amount is fully in line with a suppliers SLC 27 obligations, we consider that this would not amount to a variation which is to the significant disadvantage (or "disadvantage" under our proposed changes) for the purposes of the notification requirements of SLC 23.[112]

2.94. In our October 2012 consultation, we recognised that exceptional circumstances may arise where it would be in the interests of consumers not to apply our proposed ban on price increase and adverse unilateral variations to the terms of fixed term offers. This could include, for example, instances where there are significant and unforeseen increases in network costs which are not controllable by suppliers, or where our proposals may limit the introduction of more dynamic ToU arrangements.[113] Our position on this issue is unchanged and we will consider derogations, for exceptional circumstances, on a case by case basis.[114]

2.95. We consider that these proposals provide predictability and additional protection for consumers as well as improving trust in, and understanding of, the fixed term market. Our proposal should reduce barriers for consumers accessing fixed price products, thereby providing greater certainty to those consumers. Our IA indicates that we expect the benefits to outweigh any adverse impact or unintended consequences.

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[109] This would include where customers' contracts expire and they are placed into different terms and conditions.
[110] Which we are now proposing to be a period which is no later than 37 days and no earlier than 30 days.
[111] SLC 27 sets out that a supplier must take all reasonable steps to proactively adjust the fixed amount of direct debit payments in light of the best and most current information available (e.g. consumption).
[112] However, in order to comply with consumer protection law and our proposed standards of conduct we would still expect suppliers to inform customers of such unilateral changes to direct debits.
[113] Such ToU arrangements should still be consistent with the consumer protection requirements of the gas and electricity directives, regarding notification of price increases and other adverse unilateral variations.
[114] For the avoidance of doubt, in the event that a derogation was granted, suppliers would still have to comply with the price increase and unilateral variation notification rules in SLC 23.

*Implementation*

2.96. The proposed new rules on fixed term offers will be implemented through standard conditions of the electricity supply licence and gas supply licence. The envisaged drafting to give effect to the new rules is provided in amendments to SLC 1, SLC 7, SLC 23 and SLC 24, and in new licence conditions SLC 22C and SLC 23A.

2.97. We propose that the following rules become effective from day 1 of implementation:

- Exceptions to the requirement to notify customers of price increases or adverse unilateral variations in the case of acceptable staggered pricing and tracker tariffs.
- Prohibition to auto-rollover customers at the end of a fixed term contract.
- Requirement to notify customers at the end of fixed term contracts about what will happen when the contract expires.
- In the absence of action from customers, requirement to migrate them to an evergreen tariff at the end of a fixed term contract.[115]
- Clarification of the requirements on deemed contracts.

2.98. We propose that the following requirements will be fully implemented by 31 March 2014:

- Content requirements for the unilateral variation notification.[116]
- Prohibition of price increases and/or other adverse unilateral variations to fixed term contracts.[117]
- Content requirements to the auto-rollover and end of fixed term notification.[118]

2.99. On a transitional basis, and until the auto-rollover and unilateral variation rules become fully implemented (by 31 March 2014), we propose that suppliers must provide customers with a notice between 49 and 42 days in advance of the end of fixed term. This should inform customers about the end of the fixed term and what could happen next (including the customer takes no action and is migrated to an evergreen contract).

2.100. The implementation of the auto-rollover rules and the requirement to notify customers at the end of fixed term contracts will be accompanied by a 60 calendar days transitional period. We propose for this transitional period to start on day one of the RMR implementation.[119] For the fixed term contracts coming to an end during

[115] The full requirement under the RMR is to migrate the customer to the cheapest evergreen tariff of the same type. However, this requirement would need the personal projection (due to become implemented by 31 March 2014) to be effective.
[116] See section 3 on Clearer Information for further details.
[117] This applies to variations to terms and conditions that are to the disadvantage of the customer.
[118] Ibid.
[119] The transition period is necessary for the fixed term contracts ending in the days immediately following the implementation of the RMR, given that suppliers will not be able in these situations to provide

this transitional period, suppliers will be required to provide the required information to customers on day one of implementation or as soon as reasonably practicable after that (.

2.101. The envisaged drafting to give effect to the above rules during the transition period between day one of implementation and the date that relevant provisions become effective (by 31 March 2014) is provided in new transitional licence condition SLC 22CA.

**Ban on dead tariffs and migration to other tariffs**

*What*

2.102. We are introducing new rules to define what must happen by default at the end of a fixed term contract, and to define what steps a supplier must take to ensure that consumers are not left on expensive evergreen tariffs that are no longer available to new consumers ('dead tariffs'). This is to ensure that a lack of engagement or attention by a consumer is not unduly penalised.

2.103. Our new rules require that suppliers must migrate a customer to their cheapest comparable evergreen tariff in the following circumstances:

- When a customer reaches the end of a fixed term contract and has not chosen another tariff.
- When a customer is on an evergreen tariff which is no longer open to new customers (a dead tariff), and would save money by moving to the supplier's cheapest open evergreen tariff.

2.104. In relation to dead tariffs, we are proposing that

- Suppliers will not be able to create any new dead tariffs (effective from day one of implementation of the RMR).
- Further to the RMR implementation, suppliers will have an initial window (running from day one of implementation until 31 March 2014) to move customers on existing expensive dead tariffs to the cheapest evergreen open core tariff.[120]
- A supplier must also check at least once a year whether a customer would save money by migrating to a "live" evergreen tariff.
    - This annual check process will start on 31 March 2015.

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customers with a notification 30 days in advance of the end of the fixed term contract.

[120] Suppliers will need to use the personal projection to check whether the dead tariff is less expensive than the cheapest evergreen tariff. We are proposing that the personal projection has to be implemented by 31 March 2014. However, in practice, suppliers will have to have the personal projection in place sooner than that to be able to comply with the requirements on dead tariffs.

  - The supplier will have an annual check window, which starts 30 calendar days before the annual statement being sent to the customer, and finishes 150 days after that date.
- During the initial check and the annual check windows, suppliers will have to use the personal projections to compare the dead tariff against the cheapest evergreen tariff of the same type.[121] If the dead tariff turns out to be more expensive, the supplier will have to transfer the customer to the cheapest evergreen tariff by the end of the window period.
- To move customers from expensive dead tariffs (or to notify them of changes to their dead tariff), suppliers will be required to apply a switching window starting with a notification letter, containing information prescribed by Ofgem,[122] sent no sooner than 49 calendar days and no later than 42 calendar days before the date where the customer is expected to be moved to the open core tariff. During this window suppliers cannot require customers to provide any form of notice to terminate the contract.
- If a customer chooses to switch tariffs with the same supplier or to another supplier, the supplier must apply the same charges and terms and conditions to that customer until the switch is completed.[123]

2.105. During the initial window that suppliers have available to migrate customers from expensive dead tariffs, and before making the comparison between the dead and open evergreen tariffs, a supplier must first make all the dead tariffs compliant with the new rules (e.g. by expressing it as a single unit rate if the dead tariff has multiple unit rates).[124] In this process, the supplier must ensure that the number of dead tariffs is not increased and that the terms and conditions of the dead tariff are as similar as possible to the original terms.[125]

2.106. If, after changing any terms and conditions of a dead tariff to make it compliant with the new rules we are proposing, the revised dead tariff is cheaper than the cheapest evergreen tariff of the same type, the supplier will be able to maintain the customer in that revised tariff. The supplier will still need to notify customers about the changes to their tariff, providing the same switching window described under 2.104 above.

[121] Same meter type, payment method, and type of account management (online vs offline).
[122] See section 3 on Clearer Information for further details.
[123] Where the notification from the new to the old supplier (in the case of a switch of supplier) or the tariff is changed (in the case of a switch of tariff within the same supplier) is no later than 20 working days after the date where the customer is expected to be moved to the open core tariff. These rules are the same rules applied to unilateral variations (see previous section for further detail).
[124] In re-stating the old tariff, we would expect each supplier to make the minimum changes necessary, and not use this as an opportunity to change the terms and conditions more generally.
[125] This process also means that customers on a dead tariff could potentially face two changes to terms and conditions of their tariff: (i) the first to make it compliant with our rules and (ii) the second, if the revised tariff is more expensive, to be moved onto the cheapest evergreen tariff. Suppliers will have flexibility, within the window provided, to manage this process as they wish, and we would expect that they do so in a way that would minimise any detrimental effects to the customer.

Process to migrate customers

2.107. There will be circumstances where suppliers may have to change tariffs or to migrate customers to different tariffs, either because this results from a commercial decision or is a consequence of our rules. This section describes the options available to suppliers to migrate customers.

2.108. For example, in the case of dead tariffs, regardless of the result of the comparison against an open tariff, in most scenarios suppliers will be required to change the terms and conditions of a customer's dead tariff in some way.[126]

2.109. Where the supplier has the contractual right to make unilateral variations to the terms and conditions of the contract, suppliers may use it to either change the dead tariff to make it compliant with our new rules, or to move the customer to an open tariff.

2.110. Where the supplier does not have a contractual right to make unilateral variations to terms and conditions, any change would have to be made through one of the following options:

- Propose the change to the terms and conditions by mutually agreeing the variation with the customer.
- Seek to enter into a new contract with the customer.
- Terminate the contract with the result that the customer will become subject to a deemed contract.

2.111. If the supplier makes the changes to the dead tariff using the third option in paragraph 2.110, we are proposing that the supplier will have to ensure that the deemed contract has the same terms and conditions of the cheapest evergreen tariff.[127]

*Why*

2.112. We are concerned about uncompetitive dead tariffs for three reasons. Firstly, they allow suppliers to segment the market. Secondly, in some cases they are more expensive than the supplier's alternative tariffs. And thirdly, they contribute to consumer confusion. It can be difficult for a consumer to find, and therefore use, the details of their dead tariff as the basis for a switching comparison.

[126] In all except in one scenario, where the dead tariff is already compliant with our proposed rules and is cheaper than the cheapest evergreen tariff of the same type.
[127] Unless, in the case of terms that don't relate to charges, the terms have to be different because of an express prohibition contained in a licence condition (e.g. requirements as to notice periods).

Materiality of the problem

2.113. In our October 2012 Draft IA we said that there were over 650 dead tariffs. This is a significant number in comparison to the 900 open tariffs that were available for sign up at the same time.[128] Our revised definition of a core tariff would reduce these numbers to 360 dead tariffs and 500 open tariffs.

2.114. Our position on the extent of the problem has not changed. We believe that the high number of dead tariffs, coupled with the evidence that overly complex tariff choices is a factor in consumer disengagement, means regulatory intervention is necessary.

Addressing the problem

2.115. Our proposals on dead tariffs target another source of customer confusion and market segmentation and are intended, where possible, to eliminate dead tariffs where they are not in consumers' interests.

2.116. Suppliers and other respondents to our October 2012 consultation broadly welcomed our proposals to ban expensive dead tariffs and prevent dead tariff proliferation. While they concurred that our proposals were in the interests of consumers, they had some concerns about specific tariffs such as social and preserved tariffs.

2.117. These respondents are concerned that customers might be migrated to an open tariff even if it was more expensive than their current deal. While this is not our policy intent, we cannot guarantee that the process of making dead tariffs compliant with our proposed rules will not make dead tariffs more expensive.[129] Nevertheless, we expect that overall customers will be better protected by the new RMR rules (though in particular cases this may necessarily involve some trade-offs between different groups of customers).

*Implementation*

2.118. The proposed new rules on dead tariffs will be implemented through standard conditions of the electricity supply licence and gas supply licence. The proposed drafting to give effect to the new rules is provided in SLC 22D.

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[128] Source: Ofgem analysis of supplier tariff permutations as at 28 August 2012 using information available from our information request to suppliers. Total includes both large and small suppliers (including white labels), all meter types and payment methods. Numbers are based on the London region for the total number of core tariffs, and GB for dead tariffs. In keeping with our tariff cap rules, the figure of 500 relates only to gas and electricity tariffs, and does not double-count where a tariff is available both online and offline

[129] While we request suppliers to make minimal changes to tariffs in this process, which we expect would mean changing prices only to the extent that that is needed to comply with the new rules, there will be some cases where suppliers may need to change prices. Where this is the case, some customers may end up in a more expensive tariff.

2.119. We propose the rule on prohibiting suppliers from creating new dead tariffs to become effective on day one of implementation of the RMR. Customers on expensive dead tariffs should be moved to the cheapest evergreen tariff of the same type by 31 March 2014. Finally, we are proposing that the annual check requirements become effective by 31 March 2015.

**Collective switching and 'white labels'**

*What*

2.120. We are proposing to clarify and improve the rules for certain circumstances where consumers engage with the market through organisations other than licensed energy suppliers. This covers collective switching and white labels.

2.121. Collective switching is where consumers group together, typically facilitated by an independent organisation which negotiates with multiple suppliers, to secure a deal on their energy supply. A 'white label' is where an organisation, e.g. a supermarket, works in partnership with an energy supplier to offer an energy supply tariff under a different brand.

Collective switching

2.122. In October 2012, we proposed that suppliers would have one additional tariff slot to use for collective switching. Our proposed new rules for collective switching allow an energy supplier to offer any number of fixed term tariffs into each collective switching exercise, in addition to any of their open core tariffs, but only if the collective switching process:

- Is organised from time to time by a party that is not a licensed supplier or an affiliate.
- Is a competitive and transparent process, where:
  - The rules are clearly set out and available to any interested party in the beginning of the process.
  - The exercise is open to any licensed supplier.
  - The participation criteria for customers are (i) well publicised at a reasonable period of time before the process begins and (ii) is clear and easy to understand.
  - The outcome is clear and the decision making process leading to a tariff being offered is transparent and published.
- Is one-off in nature, and does not result in additional tariffs being open to anyone other than the original subscribing consumers.
- Has a primary purpose of securing an electricity or gas offer that will attract the collective transfer of customers.
- Has well defined beginning and end dates, where:
  - The target population is identified and communicated at the beginning of the process (this may be through a registration process, but not necessarily so).
  - The process ends with the collective transfer of customers.

- The period between the beginning and the end of the process is no more than 6 months.

2.123. If the collective switching schemes do not have these characteristics, then any tariff offered must be a tariff otherwise permissible under the tariff rules, e.g. one of the four core tariffs.

White labels

2.124. In October 2012, we proposed that a licensed supplier's tariff cap would include tariffs offered by white label providers.[130] We are still proposing this approach. We are however proposing to make this rule effective only from 31 July 2014.[131] During this interim period:

- Existing white labels on or before 1 March 2013 (and which are still in existence after that date) will be exempted from:
  - The tariff cap.
  - Applying the same surcharges, bundles, reward points, dual fuel discount and online discount that the parent supplier offers (and vice-versa).[132]
  - Moving customers to the parent supplier's cheapest evergreen tariff when a fixed term contract comes to an end (and vice-versa).
  - Moving customers from expensive dead tariffs to the parent supplier's cheapest evergreen tariff (and vice-versa).
  - The supplier cheapest tariff messaging narrow definition.[133]
- White label tariffs which existed on or before 1 March 2013 (and which are still in existence after that date) will not be able to increase their number of tariffs as of that date (for clarity, white labels will be able to replace or amend existing open tariffs).[134]
- New white labels created after 1 March 2013 will have no exemptions. This means that they will be able to exist by offering the same tariffs as the affiliate supplier's core tariff where only branding may differ, and/or the licence supplier may wish to use one or more of its core tariff slots for different white label tariffs.

2.125. This will enable white labels and other interested parties to prepare for the impacts of implementing our proposals. It also provides an opportunity for them to put forward a compelling case for a potential derogation. If interested parties consider that the derogations process is not the appropriate solution to deal with our proposals with regards to white labels, we invite them to work with Ofgem during this period to identify and develop alternative routes in this specific area.

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[130] As per our rules on limiting the number of tariffs set out above, white labels would be able to add branding to the name of a core tariff.
[131] This should provide white labels with an exemption from specified rules for a period of approximately 12 months from the date of implementation of the RMR.
[132] However, they must still comply with similar rules in respect of all the white label tariffs that relate to the same white label provider.
[133] See section on Clearer Information for further details.
[134] Their number of tariffs as given by the total number of fixed term and live evergreen tariffs.

Alternatively white label providers may wish to consider obtaining their own supply licence.

*Why*

Collective switching

2.126. We recognise that collective switching has the potential to benefit vulnerable and disengaged consumers that could otherwise be difficult to engage with the energy market, and to deliver more competitive tariffs. In theory, groups of consumers, acting together, can exert more demand-side pressure on suppliers who will offer more attractive deals to capture bulk market share. Collective switching uses local communities and organisations and other trusted intermediaries to facilitate engagement with a greater reach than normal.

2.127. It is important however that suppliers approach collective switching schemes in a consistent way and that consumer protection safeguards are in place. We want to ensure that collective switching works in the best interest of consumers.

2.128. Collective switching is in its infancy in GB, but is well established in Belgium and the Netherlands. In GB it has attracted support from DECC both in terms of published guidance and in funding for collective switching schemes.[135] It also has broad support from various consumer organisations.

2.129. Despite its early stage of development, a wide variety of collective switching schemes have emerged. In a review of eight collective switching exercises, we discovered a range of model types, tariffs, and target groups of consumers. This is not an unwelcome development. But we have concerns about potential poor outcomes for consumers, which may endanger the purposes of the RMR, namely in building consumer trust.

2.130. For example, we were concerned that suppliers could win a collective switching process with an artificially low-price evergreen tariff and then raise its prices shortly after. Whilst some collective switching schemes could design the rules of some of their auctions to prevent this, other less sophisticated schemes may not. Consumers could be left unprotected from this type of supplier strategy. Further, suppliers could create numerous dead tariffs, which would make it more difficult for consumers to switch in future.

2.131. Consumer groups and most former incumbent suppliers support the principle of collective switching and agree it can bring benefits for consumers. However, they did not think our October 2012 proposals were clear enough. There was uncertainty

[135] £5m funding through the Cheaper Energy Together Fund will allow organisations to develop collective switching schemes. This included 22 local authorities in England and 8 Third Sector organisations including Age UK and the Eden Project.

about whether suppliers could use one tariff for only one scheme, or whether they could use it for multiple schemes.

2.132. Some consumer groups and suppliers argued that one tariff was too restrictive (though a minority of small suppliers did not want special status for collective switching tariffs at all). It would not allow them to reflect particular scheme characteristics (number of participants, criteria) in their bid. The competitiveness of the schemes, and the benefits for consumers, may suffer as a result.

2.133. We are amending our approach to provide greater flexibility to collective switching processes. We consider that our current proposal strikes an appropriate balance between supplier freedom and consumer protection. We expect that this will facilitate further emergence and development of collective switching schemes.

2.134. Unlimited fixed term tariffs outside of the tariff cap addresses consumer groups and suppliers' concerns, by allowing suppliers to be flexible about the collective switching processes. But our proposal also aligns the tariffs used for collective switching, and the process itself, with our other rules on tariffs and the overall aims of the RMR. It gives more protection from unexpected changes in prices and avoids the proliferation of additional dead evergreen tariffs.

White labels

2.135. There are two drivers for our proposals on white labels. First, if there can be white label tariffs outside the tariff cap, nothing would prevent suppliers creating unlimited white labels, and therefore unlimited tariffs. This would make the tariff cap ineffective, and jeopardise the RMR aims for improved simplification and clarity.

2.136. Second, our evidence on tariff complexity and limiting the number of tariffs covers white labels. There are too many tariffs in the market and too many confusing choices. Consumers tell us they want fewer options to help them engage. White labels would add to this complexity by increasing the overall number of tariffs.[136]

2.137. Some respondents to our October 2012 proposals did not agree that white labels should be included in the tariff cap. They argued there is a distinction between independent white label suppliers that have own cost base and compete against their licensed supplier, and branded tariffs offered by retailers for example. Others expressed support for branded offers, arguing they are trusted by consumers, provide effective routes to market, and can help engagement. Suppliers made it clear that they would not accommodate white label suppliers within a cap of four tariffs.

2.138. While we are maintaining our original proposal for white labels, we propose to make it effective around 12 months from the date of implementation of the RMR for existing white labels. This longer period is to provide time for existing white label

[136] There are currently four white label suppliers offering 24 core tariffs.

organisations to adapt to the potential impacts of our proposals, and enable them to make the case for possible derogations or to help us further develop our policy proposals. Alternatively white label providers may wish to consider obtaining their own supply licence.

*Implementation*

2.139. The proposed new rules on collective switching and temporary rules/exemptions for white labels will be implemented through standard conditions of the electricity supply licence and gas supply licence. The envisaged drafting to give effect to the new rules is provided in the amendments to SLC 1 and new SLC 22B (for collective switching) and SLC 31D (for white labels).

2.140. We propose our rules on collective switching become effective from day one of the RMR implementation. The temporary rules/exemptions for existing white labels will be provided for a period of approximately 12 months, starting on the first day of implementation of the RMR and ending on 31 July 2014.

**Supporting provisions and derogations**

2.141. We are proposing to introduce a range of specific provisions which aim exclusively to support and increase the effectiveness of our proposed new rules. These 'supporting provisions' will apply across most of our policy proposals to make the market simpler, clearer, and fairer.

2.142. The supporting provisions are:

- Guidance – Suppliers will have to have regard to any guidance published by Ofgem in relation to particular licence conditions. Ofgem will consult with suppliers before issuing (or revising) guidance which is subject to this guidance provision.[137]
- Rights for consumers – Suppliers are required to have terms and conditions in their contracts with customers that reflect the requirements of particular licence conditions.[138]
- Power of derogation – In exceptional circumstances Ofgem may exempt suppliers from all or part of the requirements of particular licence conditions. Ofgem may also use this power to put alternative requirements in place.[139]

[137] This supporting provision will apply to all substantive licence conditions we are proposing to modify or introduce as part of the RMR.
[138] This supporting provision will apply to most substantive licence conditions we are proposing to modify or introduce as part of the RMR (one exception is the proposed standards of conduct).
[139] This supporting proposition will apply to most substantive licence conditions we are proposing to modify or introduce as part of the RMR (one exception is the proposed standards of conduct).

2.143. These supporting proposals will be included in most of the standard conditions of the electricity supply licence and gas supply licence that have been created (or amended) to give effect to the RMR proposals.

*Implementation*

2.144. The envisaged drafting to give effect to the new supporting provisions is included in most of the RMR SLCs. We propose these supporting provisions become effective from day one of the RMR implementation.

*Power of derogation*

2.145. Respondents to the October 2012 consultation raised a number of concerns about specific types of tariffs, and argued that these tariffs should be exempted from some or all of our rules. The type of tariffs put forward to potential exemptions include:

- Preserved tariffs: Tariffs offered to consumers with complex metering/legacy heating systems, and staff discounted tariffs.
- Social tariffs: For example, tariffs offered to those consumers that are over 60, on means tested benefits or have a low income.
- Deemed contracts: Some respondents considered deemed contracts to be a type of preserved, or 'restricted' tariffs.
- White label tariffs: Two white label companies queried our definition of 'white label', and if they should be included in the licensee's tariff cap.
- Innovative tariffs: For example ToU tariffs for smart meters, or tariffs that are tied to particular green technologies and for which consumer demand is largely untested.

2.146. With the exception of the temporary rules/exemption for white labels from some of our proposed rules, we are not proposing to grant automatic derogations. We consider that the RMR proposals represent an effective way of protecting the interests of all energy consumers. On this basis, any derogation, to the extent that they are creating exceptions to the RMR protections, should be analysed on a case by case basis.

2.147. Any derogation request should make a compelling case as to why the derogation would provide benefits over and above the protections conferred by the RMR to all energy consumers. In making the case for potential derogations, we would expect to see evidence of how it meets specific criteria, including (but not limited to):

- How the derogation would be consistent with Ofgem's principal objective and general statutory duties (including better regulation and proportionality).
- Whether there are insurmountable legal constraints to complying with the proposed new rules.

2.148. The assumption behind our approach is that the RMR proposals provide the best outcomes for consumers. However, we appreciate that there may be some exceptional circumstances where this may not be the case. In such circumstances, it will be necessary for any derogation request to prove that there are more benefits of maintaining the current tariff than there are of moving the customers onto the standard RMR rules. This would have to be seen in the context of either our statutory duties or any insurmountable legal constraints.

2.149. For transparency, we propose the following process to deal with potential derogations:

- A supplier (or any other interested party) writes to us asking for a derogation for their tariff. This should include:
  - What derogations are being sought and what alternative rules would apply instead.
  - What period of time would the derogation be for.
  - How the derogation would meet the above criteria in respect of Ofgem's principal objective and general statutory duties (including better regulation and proportionality), and of insurmountable legal hurdles.[140]
- Ofgem assesses how the criteria are met and whether an exemption to all or part of the RMR rules should be provided. At this stage we could ask suppliers for more information, if necessary.
- The draft direction and consultation document are published.
- Responses are considered and then the final decision is published.

2.150. We expect that derogations would be used only in exceptional circumstances. We commit to the process set out above to consider any derogation, and expect that this provides stakeholders with the assurance that we will act in a transparent and open way.

[140] A supplier may be required to provide independent legal advice to support a derogation request on the grounds of insurmountable legal hurdles.

# 3. Clearer information

**Chapter Summary**

This chapter explains our proposals to create new tools to prompt consumers to investigate other tariffs, and help consumers compare tariffs on a consistent basis. Our proposed new rules are designed to ensure all consumers regularly have all the information they need to make quality decisions when their current tariff is changing, or they are exploring alternatives. In addition, to ensure that when this information is provided, it is simple, easy-to-find, and easy-to-understand. We are proposing these new rules because clear and complete information is essential for effective consumer engagement.

## Introduction

3.1. The second component of the package of proposed new rules we are putting in place is a set of measures designed to provide electricity and gas consumers with better, more relevant information about their energy costs and choices.

3.2. The first section of this chapter provides an overview of our final proposals for providing consumers with clearer information. It explains the underlying motivation, and summarises the specific new rules we are proposing to put in place and supporting reasoning. The second section presents the proposed new rules, and why we consider them necessary and proportionate, in more detail.

## Our Final Proposals - overview

**Motivation**

3.3. Clear and relevant information is essential for a consumer to engage with the market. Clearer, simpler information can help consumers to understand that alternative tariffs exist, what their options are, and what they can expect from energy suppliers. It can allow consumers to make comparisons between tariffs, or other energy choices, more easily, and arrive at a well-informed decision. For a consumer to engage effectively in the market, they first need to be *aware* that an alternative tariff exists or that their current tariff is changing. They then need to be able to easily *access* the relevant information they need to *assess* their options, and feel confident to *act* on this assessment.[141]

3.4. Consumers acting on clearer information and making better decisions provides the market with more accurate pricing signals for their products and services. It also increases the competitive pressure between suppliers because better quality

[141] Office of Fair Trading (March 2010), 'What does behavioural economics mean for competition policy?'.

information allows consumers to be more responsive to suppliers' actions. As a result, suppliers are more likely to meet consumer needs due to consumers acting more effectively in their own interests.

3.5. As set out in our October 2012 updated domestic proposals[142], our consumer research has found many consumers are not aware they could save money by changing tariff with their current supplier.[143] Even if they are aware, many are not confident enough to engage with the market, or do not expect the savings to be great enough to warrant the perceived hassle of changing tariff or supplier.[144]

3.6. Those consumers who have considered switching find it difficult to assess their options when they attempt to switch, and many are not confident they have made the right decision.[145] For example, consumers often face complex pricing structures if they want to compare tariffs accurately.  Also, there is no guarantee that where an annual cost estimate is provided directly by one supplier it is comparable to another supplier's estimate. Tariffs often have other non-price features, for example, the type of tariff, the tariff length or additional services, which can be difficult to find and compare.

3.7. To some extent switching sites can help consumers make consistent comparisons. However, not all households have internet access[146], and our 2012 research shows less than a third (31 per cent for gas; 29 per cent for electricity) of consumers who have ever switched did so via an online channel the last time they switched.[147]

3.8. To compare tariffs directly through a supplier or a third party, a consumer will need to find information on their current tariff. They will also need to know their consumption over the last 12 months or their estimated annual costs.  This information is not always easy to find and understand. We have monitored suppliers' practices for regular communications to their customers.[148] Our reviews have still found instances where important information needed to understand the purpose of a document, or assess alternative options, is often too complex, is unclear and in some cases, not provided.

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[142] Retail Market Review: Updated Domestic Proposals, Oct 2012.
[143] SPA Future Thinking (October 2012) 'Options for cheapest tariff messaging on customer communications; report of qualitative research', and, Ipsos Mori (2012) 'Customer Engagement with the Energy Market Tracking Survey'
[144] Ipsos MORI (2012) 'Ofgem Consumer First Panel Year 4; Findings from first workshops (held in October and November 2011)'
[145] Ibid
[146] Around 20 per cent of households did not have internet access in Great Britain in  2012, Office For National Statistics, 'Internet Access – Households and Individuals', 2012.
[147] Ipsos MORI (2012) 'Customer Engagement with the Energy Market – Tracking Survey 2012' pages 30 and 31.
[148] Review of supplier's regular communications conducted in 2010 and 2011. Further review conducted after publication of October 2012 updated proposals in January 2013.

3.9. Those consumers who assess their options are often put off acting on their assessment because they do not trust the information provided by suppliers.[149]

**The Role of Regulation**

3.10. Our review of suppliers' regular communications has shown that different suppliers communicate and present information in different ways. There are legitimate reasons for this; communication is an important part of non-price competition, for example, through customer service standards and branding. However, for particular information to be effective and useful to a consumer there needs to be some consistency in how that information is provided to them across the market. To assist consumers to accurately assess information, the regulator can provide some degree of standardisation of information which is difficult to achieve through the market alone. For example, by ensuring tariff information provided by one supplier is comparable with another, to allow consumers to make accurate comparisons. Standardisation of the presentation of some information can also be useful to build familiarity and help consumers recognise or retain important information.

3.11. Our research and analysis has also shown that a communication approach that is effective today will lose impact once it becomes standard practice. This means that it is not appropriate for all elements of information to be standardised: in some areas the market can deliver a better outcome for consumers. However, regulation can play a role in incentivising good practice for communication with consumers, and to some extent create minimum expectations for the clarity of information.

3.12. In our role as regulator we can also ensure consumers get all the information they need to make a decision. Suppliers' interests are not always aligned with the best interests of consumers. For instance, our evidence suggests suppliers tend to earn higher margins from those consumers who do not engage compared to those who are more active.[150] As a result, a supplier does not always have a strong incentive to ensure their consumers have all of the information they need to engage with other tariffs they offer, or the wider market. Through regulation we can support the alignment of a supplier's interests with those of the consumer. For example, we can require suppliers to provide consumers with the information they need to engage in the market and a reminder for consumers to do so.

*Action*

3.13. To address the issues identified above, we have identified a number of ways to improve the information available to consumers.

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[149] Ipsos MORI (2012) 'Customer Engagement with the Energy Market – Tracking Survey 2012', and, Ipsos MORI (2012) 'Ofgem Consumer First Panel Year 4; Findings from first workshops (held in October and November 2011)

[150] Retail Market Review 2011 – Findings and initial proposals

3.14. **We are proposing to create new rules designed to increase consumers' *awareness* of alternative tariffs. These are:**

- On the first page of routine communications[151] to consumers, requiring information on cheaper tariffs with their current supplier and how much they could save if they changed.
- Creating a tool called the 'Tariff Comparison Rate' (TCR) to assist consumers to make an initial comparison of alternative tariffs.
- Requiring a message on regular supplier communications reminding consumers they can change tariff or supplier.

3.15. **We are proposing new rules to improve consumers' *access* to relevant information. These are:**

- Requiring specific information a consumer needs to compare alternative tariffs on regular communications. For instance, this includes details about the consumer's current tariff, their consumption over the last 12 months[152] and whether there are any exit fees which may apply.
- Providing consumers with information on the personal impact of a price increase and a notice to set out their new tariff options when a consumer's current tariff is ending.
- Making information clear and easy to understand through grouping together similar information, requiring clear titles and the use of simple language.

3.16. **We are proposing to create new rules to assist consumers *assess* alternative tariffs and choose the most suitable for their needs by:**

- Creating a new tool called the 'Personal Projection', which uses a consumer's actual or estimated consumption to estimate their projected cost for a particular tariff for the next year. The standardised methodology across all suppliers will help consumers make more accurate comparisons of tariffs.
- Introducing a new concept called the 'Tariff Information Label' which provides all the key features of a tariff in a standardised label format. This will help consumers to easily compare all the different features of different tariffs both with their current supplier and different suppliers.

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[151] This includes the Bill (or statement of account) and the Annual Statement. We are also requiring this messaging on the Price Increase Notice (and notifications about unilateral variations to other terms and conditions) and End of Fixed Term notice; however, we are not requiring it is included on page 1 in these instances.

[152] Or the supplier's best estimate of consumption for a 12 month period.

3.17. **To help consumers have confidence in their assessment and *act* on their decisions, we are:**

- Proposing signposting to where consumers can find independent, impartial, advice on changing tariff or supplier.

3.18. These new rules will, if implemented, give consumers more prompts to consider alternative tariffs and suppliers. We intend that these prompts will appear on routine communications, for example Bills[153], Annual Statements, Price Increase Notices, and End of Fixed Term Notices.

3.19. The introduction of our proposed new metric, the TCR, will encourage consumers to consider their options across the market. For instance, a consumer may see one TCR is lower than their own, and look to investigate the tariff further. It will also provide a guide to initially compare the rates for different tariffs by different suppliers in a consistent way.

3.20. Consumers will receive information which is personal to them on their routine communications which can help them navigate the market more easily and make more accurate decisions. They will also have a better understanding of how changes to their tariffs will impact them.

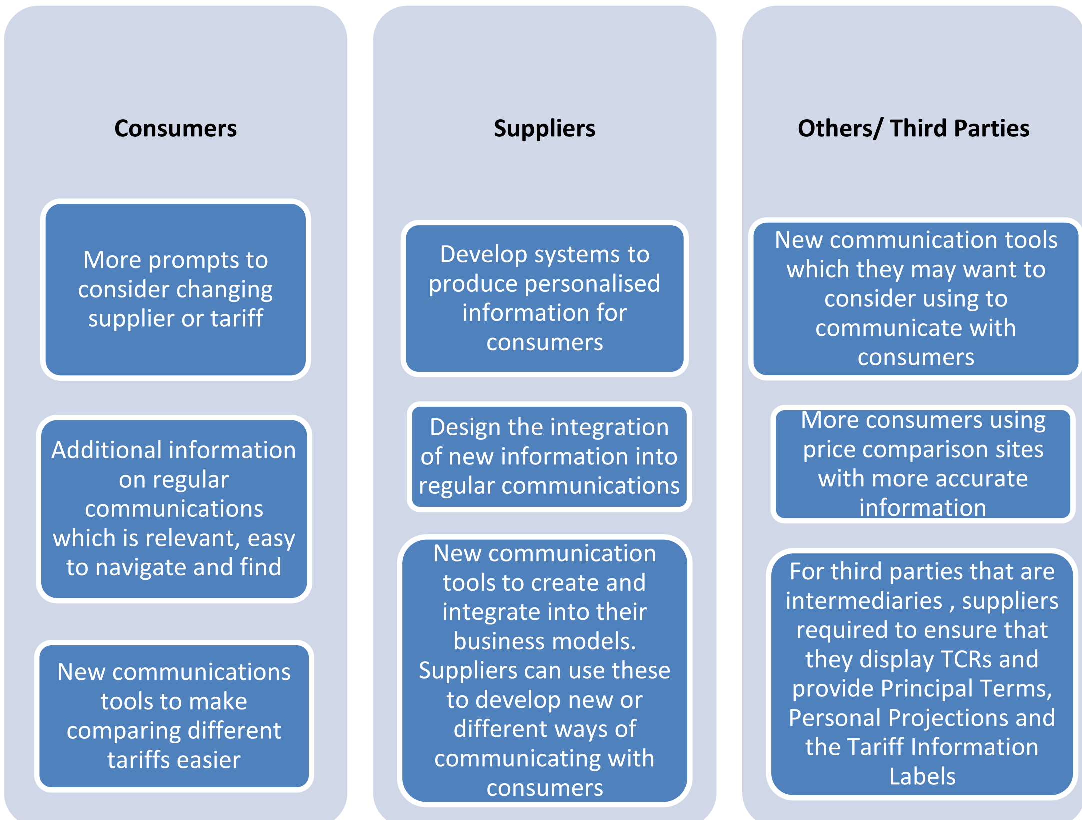
3.21. For suppliers, they will have new tools such as the TCR and Tariff Information Label (TIL) to communicate with customers. These tools can be integrated into their businesses and used to develop different ways of communicating with consumers. For example, this could be through the advertisement of their products online or how they explain the tariff features to consumers.

3.22. Suppliers will also need to invest in their operational systems to make sure they are capable of producing this personalised information for consumers. As part of this investment, they will also need to design the integration of this new information into their regular communications to consumers.

3.23. These proposed rules may also have an impact on consumer groups or third parties such as switching sites. The new tools which would be available to consumers and suppliers may also be useful to switching sites or consumer groups when they are assisting consumers in comparing tariffs. A summary of how this may impact consumers, suppliers and other parties can be found below in Figure 5. Furthermore, under our proposals suppliers will be required to ensure that third parties which are intermediaries display TCRs and provide Principal Terms, Personal Projections and Tariff Information Labels.

[153] Where we use the term 'Bill' we are also referring to Statement of Account.

**Figure 5 - Summary of the impact of proposed new rules on stakeholders.**




3.24. To give effect to these proposed new rules, we are proposing to change existing Standard Licence Condition (SLCs) and in some cases, where we are proposing to introduce new tools or concepts, introduce new Standard Licence Conditions.[154]

3.25. For some aspects of our proposed new rules, in particular around the interaction with Time of Use tariffs and the TCR, we expect to work with industry to develop the methodology for these types of tariffs.

*Reasoning*

*Our proposed new rules provide consumers with clear triggers to engage in the market.*

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[154] For full details of the draft domestic standard licence conditions which we are proposing to change or introduce, please see refer to 'The Retail Market Review – Envisaged legal drafting for the Retail Market Review Domestic proposals'

3.26. Our proposed new rules provide consumers with regular information on how much they could save by changing tariff with their supplier, giving consumers an easy and low effort way of engaging. More widely, the advertisement of the new TCR pricing metric may trigger consumers to consider different suppliers and allow them to do so in an easy, consistent way.

*We will be providing consumers with easily accessible, better quality information*

3.27. The introduction of a Personal Projection and a Tariff Information Label, if implemented, will provide consumers with a 'common currency' for energy. It will allow them to easily and accurately compare the prices and/or features of different tariffs in a consistent manner without the assistance of a third party.

3.28. Our proposed new rules for routine communications will help improve the quality of consumers' energy tariff decisions, for instance, when a customer's prices are increasing, or when their current tariff is ending. They will, if implemented, ensure important information is provided and is complete. Also, that it is clear, accurate and easily located.

*We will help to provide consumers with the confidence to act*

3.29. Our proposed new rules for regular communications will remind consumers of their rights and explain how they can manage any changes to their energy tariffs. Suppliers will be required to provide consumers with information on independent sources for advice to help consumers have confidence in their decisions.

3.30. Our role as regulator means we are in the unique position to provide consumers with the standardisation of information they require to make accurate comparisons. We have restricted this standardisation to only information which is essential to allow consumers to compare across suppliers. For example, annual costs, tariff prices and features.

3.31. In addition, our proposals target the prescription of information only to those requirements where we have found evidence of poor practice. We allow the market the freedom to develop their own messaging and presentation of information where we consider they can deliver better results for consumers.

## Our Final Proposals – in detail

3.32. This section sets out in more detail the new rules that we are proposing to put in place to routinely provide domestic gas and electricity customers with clearer, more relevant and useful information. It describes each area of the proposed new rules, highlights changes from our previous proposals, and sets out how we envisage the rules will be implemented. It also explains why, based on the evidence, we have concluded that these particular rules are both necessary and proportionate.

3.33. We first discuss measures that will, if implemented, have an impact across a number of channels of communication. We then set out how the proposed rules affect individual routine communications.

**Tariff Comparison Rate (TCR) and Personal Projection**

*Our Proposals*

3.34. We are proposing to create new rules to establish a common means of summarising the cost of different energy supply tariffs – the TCR. This is similar in nature to the Annual Percentage Rate (APR) used to describe savings, loan and credit agreements. As with the APR, it is a simplification – and will not capture all of the features of a particular offer – but can help consumers compare different offerings initially. It can also support the compilation of 'best buy' tables.

3.35. We are also proposing to create rules to establish a common means of projecting the estimated annual cost for a specific customer of different energy supply tariffs – the personal projection. The personal projection will enable consumers to make an accurate comparison of energy tariff prices. It will use a consumer's individual energy consumption, which aims to ensure that the projection is relevant to the consumer and that comparisons between tariffs offered by different suppliers are like-for-like.

3.36. Appendix 3 includes a worked example for the calculation of TCRs.

TCR

3.37. Our proposed new rules will oblige energy suppliers (and their representatives) to:

- Calculate a TCR for all tariffs, including white label deals.[155]
- Calculate each TCR using a methodology set by Ofgem.[156]
- Use the TCR in regular supplier communications and marketing.
- Refer to the TCR as 'TCR' or 'Tariff Comparison Rate'.

3.38. Ofgem will publish on its website the methodology for calculating TCRs. The key elements of the proposed TCR methodology are:

- The TCR shall be a single number expressed as pence per kilowatt hour (p/kWh).
- The TCR shall be calculated for each region of Great Britain.

[155] The exceptions will be Time of Use tariffs, and tariffs with staggered seasonal prices. We expect to work with the industry to develop the TCR methodology for these types of tariffs. To ensure that the TCR rules could be applied to these tariffs (and to deal with related issues) in the future (once a suitable methodology is developed), we are proposing to include a power of direction for this purpose.
[156] We envisage that the methodology will be set out in a new definition inserted in SLC 1.

- The cost on which the TCR is based shall include all non-contingent (i.e. unavoidable) charges or discounts for someone on that tariff,[157] assuming a medium level of usage of gas or electricity.[158]
- This cost shall be divided by the energy consumption of a medium user to create the TCR.[159]
- The TCR shall be calculated to two decimal places and expressed in the format XX.XX p/kWh.
- TCRs shall be calculated for each variant of a core tariff (i.e. for each payment type and with and without dual fuel and online discounts).
- TCRs for fixed term tariffs (with the exception of tracker tariffs, and staggered price tariffs with staggered periods other than annual) will be calculated over the totality of the fixed term period.
- Where TCRs include the dual fuel discount, the value of the discount shall be split evenly across the gas and electricity elements.
- The TCR will also include the cost of the non-energy element for tariffs that include a mandatory (tied) bundle, but will exclude the non-energy element of a tariff with a bundled product where the bundled product is offered as an option. It will also include the value of discounts in tied bundles where the value of such discounts directly affects the standing charge and/or unit rate.
- The TCR will not assign a value to other features, such as affinity partnerships with businesses that are active in other markets, charities, loyalty card providers, or schemes where the value of the features provided are difficult to estimate.
- Each time a tariff is created or the price of a tariff changes, the supplier will need to calculate (or update the calculation of) its TCR.[160]
- For tracker tariffs that are updated infrequently, the TCRs will be updated at the same time that the price changes. TCRs will be updated at the end of each day for tracker tariffs with more frequent price changes (based on the daily average price).

3.39. If our proposals for the TCR are implemented, suppliers (and their representatives) will be required to present the TCR in all circumstances where they provide price information and where a comparative claim is made (e.g. 'we're

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[157] For clarity, our proposed rules mean that the dual fuel discount and the online discount (provided for online account management) would represent the only two allowed discounts which are capable of being included in the TCR calculation.
[158] For the purposes of this policy proposal, a contingent discount (or penalty) is one that depends on a consumer's decision after they have chosen a tariff (or a dual fuel tariff), or one that depends on the purchase of a product other than gas and electricity supply.
[159] We propose that Ofgem will have a power of direction to specify the consumption assumptions to be used in the TCR calculation. Currently, Ofgem has published consumption assumptions on an informal basis consumption and this provides that the consumption assumptions for a medium user are 3,300 kWh for electricity and 16,500 kWh for gas (available at http://www.ofgem.gov.uk/Markets/RetMkts/Compl/Consumption/Pages/ConsumptionReview.aspx).
[160] When calculating TCRs, suppliers must use the new prices where there has been a public price change announcement (even if the price increase does not yet apply to the customer because of the 30 day rule in SLC 23). In all other cases the supplier must use the charges that currently apply to each customer.

cheaper than supplier B').[161] Suppliers will also be required to include the TCR for the customer's current tariff on regular supplier communications. This includes:

- The Bill (please see section on 'Bill' below).[162]
- The Annual Statement – the TCR is included in the version of the Tariff Information Label included in the annual statement.
- Price Increase Notification – the letter will inform the consumer of the new TCR for the tariff they are on.[163]
- End of fixed term contract notification – the letter will inform the consumer of the TCR for the alternatives presented.
- Tariff Information Label.

3.40. Where a TCR is presented in advertisements and marketing materials, we are proposing that suppliers will be required to do it in a way that is clearly communicated and clearly visible, including by using a colour that is distinguishable from the background medium. Where TCRs are displayed on websites suppliers should ensure these are easily accessible. A consumer should only need to enter their postcode or address in order to be presented with the TCRs of tariffs available to them.

3.41. We are proposing that suppliers must in addition provide the TCR to whoever requests it. They will be required to do this within 5 calendar days of the request (or as soon as possible after that, and free of charge). Suppliers however are not able to require TCRs from each other.

3.42. When presenting a TCR suppliers will have to identify the tariff represented by that TCR, by making clear:[164]

- The tariff name.
- The payment method.
- The combination of dual fuel and/or online discounts that apply to the TCR.
- A signpost to where additional information on the composition of the TCR is available.

3.43. When suppliers present a TCR we are proposing rules to require them to also include a statement that the TCR is based on assumed consumption values for a typical user and that the actual prices will depend on their actual usage of energy. This statement shall make clear that the TCR should be used only as a guide and

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[161] Where these comparative claims are made, the supplier making the claim shall present the TCR(s) for its respective tariff(s). For the avoidance of doubt, we are proposing rules to make clear that the TCR does not have to be provided for supplier cheapest tariff comparison information (i.e. in circumstances where we are proposing supplier cheapest tariff information must be provided).
[162] For the avoidance of doubt, any reference to 'bills' also includes statements of account (i.e. the communications commonly used for direct debit and pre-payment meter customers).
[163] The TCR (but not the personal projection) will also have to be provided in notifications required under SLC 23 for unilateral variations to other terms and conditions which are to the disadvantage of customers.
[164] In regular supplier communications, this information does not need to be repeated where it is already provided elsewhere in the communication.

that it is not an actual price. Where the customer's TCR is provided, the supplier must make clear that this is the TCR for the customer's tariff.

3.44. Under our proposals, suppliers will have to publish information on all the elements factored into the calculation of a given TCR alongside, though not on, the tariff's Tariff Information Label.[165] We are proposing that this information will also have to be included where the TCR is presented in the suppliers' websites, or where a hard copy of the TCR is provided.[166] This will include, in addition to the above information requirements:

- The existence and value of any contingent discount, termination fee, or late payment fee that applies to the tariff and a clarification for the consumer that such contingent discounts or charges are not included in the calculation of the TCR.
- Details (including name, price and brief description) of any tied or opt-out bundled products or services that apply to the tariff, and for each such product or service a clarification as to whether its value is included in the TCR calculation.
- A clarification that the TCRs of dual fuel tariffs are subject to the customer taking both fuels.
- Identifying which discounts are included in the calculation, and their respective values.

3.45. Any information that the supplier chooses to include when presenting a TCR should promote the use of the TCR and how it may help consumers. Suppliers should satisfy themselves that the information that they include with the TCR (including any additional information) would comply with any wider relevant legislation.

Personal Projection

3.46. Our proposed new rules will oblige energy suppliers (and their representatives), including in respect of white label tariffs, to:

- Calculate a personal projection for all tariffs.
- Calculate each personal projection using a methodology set by Ofgem.
- Use the personal projection in regular supplier communications and in all sales contexts.[167]
- Refer to the personal projection as 'Personal Projection'.

3.47. The methodology that underpins the personal projection is partly based on the TCR methodology. The key elements where the personal projection methodology differs from the TCR methodology are:

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[165] Appendix 3 includes an example of what this information could look like.
[166] Suppliers may choose to provide the TIL in order to comply with these requirements.
[167] We envisage amending the existing rules in SLC 23 to require that a personal projection has to be provided in conjunction with principal terms (i.e. before a supplier contract is entered into by any sales method).

- The personal projection shall be a single number expressed as pounds sterling per year (£/year).
- The cost on which the personal projection is based shall be calculated using the customer's actual or estimated consumption of gas or electricity.
- The personal projection shall include the annual value of all non-contingent discounts and surcharges, calculated, where necessary, using a consumer's actual or estimated consumption.
- Where the consumer's actual annual consumption is not available (e.g. where actual meter reads are not available), suppliers will be required to use their best estimate of consumption for a 12 month period, taking into account all relevant factors (including the most up to date meter reads available to the supplier).

3.48. If our proposals are implemented, suppliers (and their representatives) will be required to present the personal projections to potential new customers in the context of any sales method. Suppliers will also be required to include the personal projection for the customer's current tariff on regular supplier communications. This includes:

- The Bill (in conjunction with the cheapest tariff messaging).[168]
- The Annual Statement.
- Price Increase Notifications.
- End of Fixed Term Contract Notices.

3.49. Suppliers shall also use the personal projection methodology for calculating the supplier's cheapest tariff and identifying the savings that could be made through switching to it.[169]

3.50. We propose that personal projections and TCRs will be provided by third parties where they are suppliers' representatives. We expect that other third parties (where they are not suppliers' representatives) such as comparison websites will apply the rules on the TCR and personal projection. We have taken over responsibility for the confidence code and have set up a project to consider options for how domestic and non-domestic Third Party Intermediaries may need to be regulated. We expect that this work will help in applying our proposed rules in the future.

*How have our proposals changed since October?*

3.51. The majority of respondents to our October 2012 consultation supported our intention to create a price comparison tool. However, there were concerns raised about a number of features of the TCR, specifically that it did not strike the appropriate balance between simplicity and accuracy.

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[168] For the avoidance of doubt, any reference to 'bills' also includes statements of account (i.e. the communications commonly used for direct debit and pre-payment meter customers).
[169] The next section discusses our proposal on the supplier cheapest tariff.

3.52. Since October we have considered the responses to our consultation and further developed our proposals. The key changes we have made to the TCR proposals since the previous consultation are:

- The TCR will be calculated for each region,[170] rather than as a national average for each tariff, improving the accuracy of the TCR as an indicator of a tariff's price for a medium consumer.
- The TCR will be a single medium figure only, rather than separate figures for typical low, medium and high consumption levels. This will ensure the simplicity of the TCR is preserved, and will partially offset the move to a regional TCR, which may increase the number of figures for consumers to digest.
- The TCR will have to be presented in a way that is clearly communicated and clearly visible, rather than be the most prominent form of price information.

3.53. Respondents also raised concerns about the level of supporting information that would need to accompany the TCR. The above changes have minimised the amount of information needed in some cases, and we have taken further steps to clarify the supporting information we consider appropriate for situations in which the TCR is used.

*Why*

3.54. Consumers should be able to compare the relative price of alternative tariffs. However, there are currently a large number of tariffs, and complex and inconsistent pricing structures, which make it difficult for consumers to do so.

3.55. Switching sites can, to some extent, help consumers to make consistent comparisons. However, they are not available to, or used by, all consumers.

3.56. For a consumer to make an accurate comparison of their current tariff against alternative offers, it is essential that they know how much they currently pay for energy each year. It is currently difficult for consumers to find this information, but even when the consumer finds the information, there is currently no guarantee that the figure is correct as prices may have changed. Finally, it is not certain that the figure will be comparable with estimated annual costs provided by other suppliers.

3.57. This makes it difficult for consumers to shop around for better deals than the one they are on. In some situations this complexity may also lead to bad consumer experiences when they consider switching tariff.[171] Some consumers might be put off

[170] For clarity, 'region' could mean specific premises. We consider, however, that there are significant gains in terms of simplicity in having standardised regions. We expect therefore that tariffs linked to individual premises would be the exception, rather than the rule, and that suppliers would use standardised regions wherever possible.
[171] For example, our research with consumers has shown that some 'felt that the number of suppliers and choices [leads] to a sense of confusion which [prevents] people engaging in the market'. See Opinion

engaging altogether. These barriers to consumer engagement in the energy market reduce competitive pressure on suppliers and may be detrimental to consumers.

Addressing the problem

3.58. Our proposal to introduce the TCR aims to prompt consumers to engage with the energy market. It allows consumers to access information on a number of tariffs which is presented in a consistent manner. This might encourage a consumer then to further investigate a tariff with a lower TCR than their own tariff, and improve consumers' understanding of relative prices. [172]

3.59. Consumers may use the TCR in different ways. Some consumers may compare tariffs directly using the TCR. Others may use it as a prompt to investigate further the relative prices for different tariffs, and find out if they are on the best tariff for their particular circumstances. The different objectives of the TCR result in design trade-offs. For example, as a prompt, the TCR should be simple and salient, but as a comparison tool it is important that the TCR is also accurate.

3.60. The more accurate the TCR, the less simple it is and the greater the amount of information that may need to be included in conjunction with the TCR to make it clear and avoid confusion. Our current proposals are aimed at striking the appropriate balance between simplicity, accuracy and saliency to ensure the TCR is an effective comparison tool for consumers.

3.61. Our proposal to introduce a personal projection addresses the difficulty faced by consumers in making accurate comparisons of tariff prices. The mandated methodology aims to ensure that all personal projections will be comparable. By providing the personal projection on each Bill and Annual Statement, our proposals will ensure that consumers have up to date information to hand whenever they wish to compare the price of energy tariffs. Requiring suppliers to use the personal projection during any sales process will ensure that consumers know how much they could save through a switch and so should improve the quality of, and confidence in, their switching decisions.

3.62. Both the TCR and the personal projection proposals aim to make it easier for consumers to compare tariffs by expressing prices as a single number. In several recent qualitative consumer research projects, the idea of a 'common currency' for energy prices has been viewed as something that would help consumers to engage

Leader (2011), 'Ofgem Consumer First Panel Year 3, Report from the second set of workshops'. Similar concerns feature in the 2012 Consumer First Panel Report: Ipsos MORI (2012)'Consumer Engagement with the Energy Market; information needs and perceptions of Ofgem; Panel Year 4; Findings from the second workshops'.

[172] The TCR would be based on standard consumption assumptions and so would not allow an accurate comparison for individual consumers. However, the metric could act as a guide to potential savings. Consumers would investigate the suitability of particular tariffs for their circumstances where a TCR suggests that savings might be available.

with the market.[173] To ensure this, the methodology for both the TCR and personal projection, if implemented, will be consistent across suppliers.

*Implementation*

3.63. The proposed new rules on the TCR and personal projection will be implemented, subject to consultation, through standard conditions of the electricity supply licence and gas supply licence. The envisaged drafting to give effect to the new rules is provided in our proposed amendments to SLC 1 and SLC 23, and the proposed new SLC 31C.

**Supplier Cheapest Tariff Messaging**

*Our Proposals*

3.64. We are proposing to create new rules to require suppliers to provide personalised information to their customer on what the cheapest available tariff is, including an estimate of how much the customer would save if they moved from their current tariff to alternative tariffs.

3.65. More specifically, we are proposing that the message must include:

- A Personal Projection for the consumer's current tariff (see previous section on Personal Projection).
- An estimate of how much the consumer would save (in pounds per year), if they changed from their current tariff to:
  (1) A tariff which respects a customer's current preferences[174] ('narrow' savings) and;
  (2) Another tariff which is the overall cheapest of all tariffs supplied by that supplier ('wide' savings).
- The name of the two alternative cheaper tariffs.
- A statement to inform the customer that they may have significantly different terms and conditions with these alternative tariffs.
- If appropriate, a statement/and or relevant dates may be included to clarify the availability of the tariffs offered.
- For prepayment customers:
  (1) A clear message which explains this tariff may involve meter changes and explaining the costs involved.
  (2) A statement, where applicable, to remind PPM consumers of their right to switch supplier even if in debt up to £500 according to the debt assignment protocol.

[173] Research events were held with a wide range of consumers from across Great Britain. Some events involved the Consumer First Panel while others involved consumers with no previous involvement in energy market research. The TCR concept was discussed to varying degrees as part of various research projects exploring options for improving tariff comparison and research into information remedies and improved customer communications.
[174] With the exception of payment method.

(3) A statement, where necessary, that a consumer might not be able to switch tariff due to debt

3.66. Our proposals require the cheapest tariff messages to be provided in the following communications: Bills, Annual Statements, Price Increase Notifications and End of Fixed Term Notices.

3.67. To calculate the savings available from switching tariffs, suppliers must:

- Follow the same rules as the Personal Projection[175] .
- Identify the:
  **(1) Narrow** cheapest tariff by respecting the consumer's current meter type, account management (online or offline), and whether the consumer is on an evergreen contract or fixed term contract.
  **(2) Wide** cheapest tariff by offering a tariff irrespective of the consumer's current meter type or other preferences.
- Make calculations based on the best available consumption information for a consumer.
- Include all open tariffs offered by the supplier to identify the two cheapest tariffs for that consumer at a point in time as near as practically possible to when the document is produced. With respect to tariffs that have been announced by the supplier but are not yet open, we expect suppliers, where practical, to take all reasonable steps to include them in the cheapest tariff message.

3.68. When providing the cheapest tariff information, we are proposing that suppliers will be required to follow specific rules for the following circumstances:

- **Prepayment meters (PPM)** – we recognise there are currently limited choices for PPM tariffs. However, where a supplier does provide alternative tariffs for PPM meter consumers, which are cheaper than their current tariff these will be offered to consumers through the narrow message. However, they will also be informed of alternatives under the wide cheapest tariff, irrespective of their meter type. Suppliers will be allowed to include a statement, where appropriate, that a consumer might not be able to switch tariff due to debt.
- **Consumers on E7/E10/DTS/smart meters** – consumers should be offered tariffs that their meter can support where they are cheaper under the narrow and the wide definition of the cheapest tariff.
- **Time of use (ToU) tariffs –** suppliers should include in the calculation of the cheapest tariff message only those tariffs for which consumption data is available to calculate the personal projection.
- **White label –** for the transitional period of 12 months there will be exclusion for white label preferences in the narrow definition of the cheapest tariff[176]. We are proposing that there will be no exclusion for the

[175] See previous section on Personal Projection
[176] That is, customers on a white label tariff will only be presented with information about white label tariffs of the same white label provider and customers not on white label tariffs will not be presented with information about white label tariffs.

wide definition of the cheapest tariff and therefore consumers currently on white label tariffs will be provided with the information on the parent supplier's cheapest tariff. Parent suppliers will also be required to provide information on associated 'white label' lower priced tariffs.

*How have our proposals changed from October?*

3.69. The majority of respondents to our October 2012 consultation support our view that the cheapest tariff message should include both the narrow and wide cheapest tariff messages. However, some suppliers argued that our proposed rules did not sufficiently account for the situation of consumers who prefer innovative tariffs, as opposed to price. Our proposal is about making consumers aware about the cheapest tariff with their current supplier and does not discourage innovation. However, we do recognise some consumers may have already expressed a preference for a tariff type, whether that is a decision to go for a fixed tariff or go with a green supplier.

3.70. Since our previous consultation we have considered the issues raised by respondents to our October 2012 proposals, reviewed the actions undertaken by suppliers and had further discussions with stakeholders. As a result we have further developed some of our proposed rules.

3.71. For the specific rules on how the lowest price tariff is identified and the savings calculated, we have made the following change to our proposals:

- The narrow definition **does not respect a consumer's payment method**. However, it will now take into account whether a customer has expressed a preference for online management, an evergreen tariff, or a fixed term tariff.

3.72. In October we proposed the 'narrow' savings messaging would respect a consumer's choice for payment method but not their tariff type. However, our new rules to simplify tariffs would mean not all tariffs would be available for all payment types. It is likely this will significantly reduce the number of available tariffs for some consumers in the narrow definition, mainly those paying by standard credit. This would reduce the effectiveness of this messaging for the most 'sticky' group of consumers, those on evergreen contracts paying by standard credit.

3.73. Furthermore, under our October proposals, consumers on evergreen contracts may be offered fixed term tariffs where they are cheaper in the 'narrow' definition. There are many factors for a consumer to consider when deciding to change to a fixed term tariff. For example, whether they are willing to be tied to a tariff for a long period or pay an exit fee to leave early. This could be a significant barrier for some consumers to overcome, particularly if they have not previously engaged in the market. We recognise changing payment methods could be seen by some consumers as a barrier to changing tariffs, however on balance we consider changing to an alternative tariff type, in particular a fixed tariff would be a greater change. Our new proposal will ensure a consumer is provided with a tariff which is similar to their own, and would have fewer barriers to overcome.

3.74. We have also made the following amendments to our proposals:

- **PPM consumers** will be included in both the narrow and the wide definitions of the cheapest tariff. The narrow definition will inform PPM consumers of what they could save without changing their meter type. The wide definition will offer a tariff for an alternative meter type if this is cheaper for them. In that circumstance we require that PPM consumers are provided with a clear explanation of the costs involved in changing meter and the debt assignment protocol. This proposal allows PPM consumers to make an informed decision as to whether prepayment is the most suitable payment method for them and the circumstances under which they can change it if they wish to do so. We are nevertheless aware that this proposal might be unhelpful to some consumers and intend to monitor its effect closely to change it if evidence suggests it is causing consumer harm.
- **All open tariffs** will be included in the calculation for the cheapest tariff – however suppliers are allowed to explain the availability of a tariff with date and/or wording.
- To extend the rules we proposed for consumers with E7 meters to also cover those with **E10 and DTS meters** - where their meters can run in standard mode consumers should be offered standard meter tariffs under the narrow and the wide cheapest tariff message.
- To introduce a 12 months exclusionary period for white label preferences in the narrow definition of the cheapest tariff.

3.75. Many stakeholders considered the phrasing and format of the cheapest tariff information we proposed was too wordy and the format was disengaging. We suggested in the October 2012 consultation alternative formats may be more appropriate.

3.76. We are encouraged by the supplier response to the concerns we have about the retail market. A number of suppliers have taken steps to improve their interactions with customers by beginning to redesign and simplify their Bills and Annual Statements to make them easier to understand. In response to our proposals we have observed that in some cases the cheapest tariff message prototypes are simpler and clearer than what we proposed. Our new approach would give suppliers flexibility to work out other formatting elements (i.e. branding, page layout and messaging), encourage innovation and differentiation among suppliers.

3.77. For where and how this information is provided:

- We are **no longer** proposing **to prescribe the exact wording/phrasing** of the cheapest tariff message. We propose to set only the content of the message but allow for it to be presented in the format and language to be decided by the suppliers.
- Where a cheapest tariff message is not applicable to a consumer, or they are already on the lowest priced tariff, the supplier should provide a message to that effect.

*Why*

3.78. This proposal aims to help disengaged consumers to identify cheaper tariffs for them and encourage them to engage with their supplier. Our research suggests that providing consumers with information on cheaper tariffs available from their own supplier is effective for some consumers and is likely to encourage a degree of engagement with the market. The intention of the 'narrow' savings is to provide consumers with a saving figure which would represent very low barriers to overcome and still provide consumers with an avenue to engage with the market. Whereas the 'wide' savings are intended to show the largest savings available if the consumer is willing to change their current preferences.

**Figure 6 - Summary of the key benefits and reasoning for these proposed new rules**

| | |
|---|---|
| Increases awareness of switching savings and improves consumers understanding | • Our research shows that some consumers are unaware that they could switch to a cheaper tariff with their current supplier and savings that can be made from participating in the market in this way. They think their supplier has put them on the best tariff they have on offer and so there is no point in engaging at all. |
| Highlights to consumers a low effort way of engaging which could save them money | • Providing consumers with a cheaper tariff for their existing preferences minimises the change to their existing choices but provides it at a lower cost. This effectively provides a default option for consumers. It will reduce the effort/time consumers have to invest to compare tariffs by making relevant information more readily available. |
| Reduces the search costs for consumers | • Many consumers are not confident enough to engage in the market and/or are put off by the perceived search costs and hassle around switching supplier. For them, switching to their supplier's cheapest tariff may represent a more realistic way of benefiting from competition in the market. |

**Tariff Information Label**

3.79. Currently suppliers present information about their tariffs in a variety of ways. We are still proposing to create new rules to establish a common, standard approach to presenting this information in a Tariff Information Label (TIL). Our proposed new rules are set out below[177].

3.80. In a specified format (see Appendix 4A and 5B), the TIL must contain:

[177] We propose to issue guidance on the TIL if and when we deem this necessary.

- The title "Your Tariff Information".
- Fuel type, supplier, tariff name, tariff type, payment method, unit rate, standing charge, tariff end date, the date a price is guaranteed until, any exit fees, discounts and surcharges, additional products or services, estimated annual cost for a medium user and the tariff's TCR.
- The estimated annual cost for a medium user and the TCR are not required on TILs provided at the same time as the Principal Terms and the Personal Projection or on TILs for ToU tariffs and seasonal staggered price tariffs[178].
- "Frequently Asked Questions" section, which at a minimum includes definitions of kilowatt-hour (kWh) and TCR. These definitions can be determined by the supplier. Suppliers can add up to three frequently asked questions of their choice.
- On a separate page, further information about the TCR (see Appendix 3 – TCR methodology: worked example for illustrative purposes).

3.81. We are proposing to require suppliers to take all reasonable steps to update the TIL prior to any change to tariffs coming into effect.

3.82. We are also proposing to set rules for where and how the TIL is provided to consumers. These are to:

- Require suppliers to provide the TILs of their tariffs to consumers free of charge on request and to publish them on their websites in a position that can be easily accessed.
- Wherever the Principal Terms of a tariff are provided to consumers, the relevant TIL should also be included.
- The TIL should be made available for all tariffs open to new customers and/or with existing customers.
- Allow suppliers to present TILs in websites using filters on consumer circumstances or preferences (for example, based on payment method, fuel, or tariff type) but if they do so require them to provide a clear statement that accessing TILs does not require any more information than address or postcode.
- Require suppliers to take all reasonable steps to ensure that their representatives provide up to date TILs.

*How have our proposals changed from October?*

3.83. Respondents to our October consultation were largely supportive of our proposal to introduce a TIL, with some suppliers indicating that they had already taken steps towards the introduction of a TIL for their tariffs.

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[178] In the first case entry text must refer the consumer to the Personal Projection. In the second case entry text is "N/A" until guidance is issued on the TCR methodology for those tariffs. We propose to give the Authority power of direction with regards to this information.

3.84. However, some respondents raised concerns that several of the content items in the illustrative cost section of the TIL and the answers to the frequently asked questions could be misunderstood by consumers.

3.85. Following the review of the consultation responses to our October proposals, we have decided to make some amendments to the proposed content of the TIL. We removed the estimated monthly cost and we opted for using the medium user consumption figure to illustrate the estimated annual cost and the TCR. We now also propose not to set standardised answers to the frequently asked questions that accompany the TIL[179].

*Why*

3.86. For engagement with the energy market to be effective, consumers must be able to assess the details of their current tariff as well as the details of any tariffs that they might consider switching to. This task is made more difficult when suppliers provide different tariff information, do not use the same wording or present it in dissimilar formats.

3.87. To evaluate the benefits of standardising how tariff information is expressed and presented, we commissioned research on language, and content and formatting[180]. This research found that consistent language and formatting of tariff information allows consumers to become more familiar with such information and makes it easier for them to assess.

3.88. We produced an initial version of the TIL and we tested it with one round of workshops with the Consumer First Panel[181] . The concept of the TIL had appeal among many Panellists, especially among those more open to switching. Their initial views on the content of the TIL informed further iterations which were developed by design experts Boag McCann and tested with a broad range of consumers by the research agency SPA Future Thinking. This programme of development and consumer testing informed the content and format of the version that we presented in our October proposals.

**Bill/statement of account**

*Our Proposals*

3.89. The Bill[182] is a key piece of communication for consumers where its primary purpose is as an invoice, telling the consumer how much they are required to pay

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[179] We are still proposing to prescribe some titles which must be used and include rules on the nature of certain questions and the answers which must be provided.
[180] Lawes Consulting and Lawes Gadsby Semiotics (November 2011), 'Energy bills, annual statements and price rise notifications: advice on the use of language'.
[181] Ipsos MORI (January 2012), 'Ofgem Consumer First Panel Year 4 Findings from first workshops'.
[182] For the purpose of this document where we refer to 'Bill' we also are referring to 'Statement of Account'.

using the available information on how much each customer has consumed. A Statement of Account however has the main purpose of informing PPM and Direct Debit customers about how much they have paid and what they are paying. Because of this primary purpose these communications are most likely to be opened and read by a consumer. Consequently, it is a useful platform for conveying other important information.

3.90. We are updating the proposed rules for what the Bill must contain, and how this information is to be presented. Our proposed new rules are set out below. Appendix 4B gives an example, while Appendix 5B describes how these will be given legal effect.

3.91. The following information must be grouped together, in a box, distinct from other information and included on page *one* of the Bill:

- The standardised title "Could you pay less?"
- Information on cheaper tariffs offered by the supplier and the savings available if the consumer were to switch (see section 3.64).
- A Personal Projection for the consumer's current tariff. [183]
- A signpost to further tariff information.
- A standardised switching reminder "Remember – it might be worth thinking about switching your tariff or supplier".

3.92. The following information must be grouped together and included on page *two* of the Bill, in a box, distinct from other information, in the following order:

- The standardised title "About Your Tariff".
- The name of the customer's fuel, current tariff, payment method, any applicable tariff end date, exit fees and the customer's personalised usage in the last 12 months.

3.93. The following information must be provided anywhere on a bill:

- The standardised title "About Your TCR".
- The TCR for the customers current tariff (see the above TCR section).
- A signpost to where to find independent advice on switching supplier.

*How have our proposals changed from October 2012?*

3.94. In October 2012, we proposed to mandate the format, language and content of the Summary Boxes for inclusion on the Bill, split over pages one and two. Our proposals were intended to prompt consumer engagement with the market and to

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[183] See Personal Projection section for new common rules for how this is calculated. Supplier's will also be required to information on such as the inclusion of VAT and that it is based on current prices.

provide the minimum information necessary for consumers to do so. However, respondents to the consultation did not support the proposed level of prescription.

3.95. Although some level of standardisation was considered to be of benefit, it was suggested that the competitive market, driven by meeting customer needs, could deliver more engaging ways of presenting the information. We have therefore decided to move away from fully prescribing the format and messaging of the Summary Boxes.

3.96. In designing our final proposals we have taken on board considerations raised by respondents to our consultation, suppliers' Bill design prototypes and further discussions with stakeholders[184]. We have recognised the pressure for space on the Bill and have looked to reduce the amount of information that is to be included in the Summary Boxes. Where some information was considered to hold potential for confusion, such as the TCR metric being displayed adjacent to the standing charge and unit rate on the second page, this information requirement has been de-coupled from the Summary Boxes so suppliers can determine the best position for this requirement to be displayed.

3.97. In addition, formatting requirements have also been reduced to target only where we think it is needed to meet our objectives, such as page requirements, grouping of information under standardised headings and distinction from other information.

3.98. Respondents also mentioned that the systems changes associated with the proposal would result in additional costs for suppliers. Given these costs would be borne by consumers we have accepted this challenge and proposed amendments. We consider that the reduction in levels of format and language prescription we are proposing should mitigate this issue and is even more strongly justified by the benefits to increased consumer engagement and ease of access to information.

*Why*

3.99. The Bill is the most likely of the regular communications to be noticed and read by consumers. It is also a valuable means through which to prompt consumers to consider their energy options and provide them with the key information they need to do so effectively.

3.100. We propose to ensure the Bill achieves this by mandating that prompts to consider energy options and essential tariff information are provided in prominent and noticeable positions, introducing industry consistency where appropriate. Below we have summarised the key benefits and reasoning for these new rules:

*Prompts for the consumer to explore switching options*

[184] Through Consumer Bills and Communications Roundtable (CBCRG). For further information on this working group please visit our website here.

3.101. If our proposals are implemented, the front page of the Bill will provide **prompts for consumers to engage** with the market by displaying savings available through switching tariffs and a prompt to consider switching supplier. Where research has shown that consumers are unaware they could switch to a cheaper tariff with their current supplier and savings that can be made from doing so, these prompts in a distinctive and noticeable position can increase consumer understanding and awareness of their energy options.

*Informs the consumer of a minimum of essential information they need to understand their current tariff*

3.102. To help consumers overcome a lack of information about their current tariff[185], we are proposing that the information on the second page of a Bill should include **essential tariff information,** personalised to the consumer[186]. This will be presented with standardised headings similar to a condensed version of the TIL to ensure the information is presented clearly, and can be used for cross-market comparisons. The grouping of the information in a distinctive Box, and restrictions on any other content within it, will ensure this information is noticeable and engaging. By signposting to this information from the Box on the front, consumers will be able to navigate to document to find this information with ease should they wish to use it to act on the prompt to engage.

*Targeted approach to prescription should ensure clarity and consistency where of most benefit to consumers but allows for the market rather than regulation to determine the optimal manner to convey this information to different consumers over time*

3.103. The content, and headings, which are informed by consumer research and testing[187], and stakeholder input[188], will be set in order to ensure consistency across the industry and familiarity with consumers. We have developed our proposals through an iterative process of consumer testing to ensure that we have an in-depth understanding of how consumers are likely to engage with the information and messaging contained within the Bill.

3.104. This includes grouping together related information with standardised headings[189] to assist the consumer in navigating the document and **make the information more engaging and accessible**[190]. This will ensure this information

[185] A lack of information about a consumer's current tariff was recognised as a potential barrier to engaging with the market in consumer research. See page 25 of Ipsos MORI, Ofgem Consumer First Panel Year 4, Findings from second workshops (held in March 2012), October 2012.
[186] Consumers want to see clear information about how to assess home energy use and related costs accurately and have expressed a strong preference for personalised communications which use information which is directly relevant to them.
[187] Our final proposals have incorporated findings from our Consumer First Panel and research carried out on our behalf by SPA Future Thinking
[188] Our final proposals have also incorporated feedback from our RMR working groups and Consumer Bills Roundtable
[189] Lawes Consulting, 'Energy bills, Annual Statements and price rise notifications: advice on the use of language', November 2011
[190] Research clearly shows that many consumers do not find their bills particularly user-friendly or easy to

stands out from the rest of the information on the Bill, but allows suppliers to present the majority of the content as they see appropriate. Reduced prescription on the messaging will allow for supplier differentiation and non-price competition to reflect their branding, and the framing and tone that they consider appropriate to their customer base. This will also allow for the standardised terms decided upon by industry to feed into the communication[191] and adaptation to market developments where these arise.

**Annual Statement**

*Our Proposals*

3.105. The Annual Statement is a report on energy usage and cost over the past twelve months. Its primary purpose is to increase awareness and prompt quality engagement. We are proposing to update the rules for what the Annual Statement must contain, and how this information must be presented. A summary of our proposed new rules is set out below.

3.106. Under our proposed new rules, the following information must be provided in a specified layout (see Appendix 4C and 5C), *page one* of which will contain:

- A standardised title: 'Your annual gas/electricity summary'.
- Dates of the 12 month period the Annual Statement relates to.
- An explanation of the purpose of the Annual Statement and how the information can be used by the consumer to help them engage.
- The consumer's annual consumption.[192]
- A graph or chart showing the consumer's energy usage over the previous year, or two years, if available.
- A Personal Projection for the consumer's current tariff.[193]
- A reminder that the consumer might want to consider switching: "Remember – it might be worth thinking about switching your tariff or supplier".
- Information on cheaper tariffs offered by the supplier and the savings available if the consumer were to switch[194].

3.107. Information required on page *two*:

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understand. Bills are perceived as being unnecessarily complicated and many consumers are confused by the content of their bills. These proposals aim to mitigate this issue.

[191] Lawes Consulting linguist experts found that inconsistency in the terms used by suppliers was a major barrier to consumer understanding. The Consumer Bills and other Communications (CBCRG) working group is in the process of drawing up a list of key terms to be used across the industry.

[192] This will be the supplier's best estimate and apply to all consumers, not only those who have been supplied more than 12 months. Supplier's will also be required to provide a statement that explains where this may include estimations.

[193] See Personal Projection section for new common rules for how this is calculated. Supplier's will also be required to information on such as the inclusion of VAT and that it is based on current prices

[194] For further information on Supplier Cheapest tariff information requirements, please see earlier section.

- A prompt to consider cutting costs through energy efficiency.
- Where to find impartial advice on switching, energy efficiency, the Confidence Code and consumer guidance.
- A special concise version of the Tariff Information Label showing key information for the consumer's current tariff in a standardised format.[195]
- The key contractual terms applicable to the consumer (which may continue onto a third page, if necessary).
- A glossary providing user-friendly definitions of industry terms.

3.108. The Statement must also:

- Be clear and easy to understand.
- Group relevant information in sections with bold headings.
- Subject to limited exceptions, not include, or be sent in conjunction with any other material or communication,[196] but may:
- Include up to one optical machine-readable label, such as a Quick Response Code (QR Code), to direct the customer to additional information.

*How have our proposals changed from Oct 2012?*

3.109. In October 2012, we proposed to standardise the content, format and messaging of the Annual Statement to improve the quality of the information provided and ensure its presentation was engaging, consistent across the industry, and recognisable by consumers. We proposed this to be a distinctive two-page document with bold headings, sent as an individual communication (i.e. not in conjunction with a bill or any other communication) with the intention it would be kept for reference much like a P60 form or an insurance certificate.[197]

3.110. Although the benefit to consumers of the personalised content requirements and some standardisation of the document was recognised, responses from our consultation and further work with stakeholder groups suggested the overall approach was too prescriptive; better outcomes for consumers could be achieved through allowing the market, driven by meeting customer needs, to optimise the presentation of the information. A review of Annual Statement prototypes submitted by suppliers indicated that in some cases, required content could be presented in a more engaging manner than that proposed to be set in regulation. Reduced format prescription would also reduce redesign costs, allow for greater supplier differentiation in branding, framing and tone, as well as adaptation to evolving market conditions and consumer needs, without onerous changes to the supply licence.

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[195] For further information on the information included see the table in annex (Appendix 5A). This includes annual consumption information and personal projection.
[196] With the exception of the Green Deal Statement where required or a gas statement where a customer is supplied both fuels by the same supplier. We are also proposing that we will have power of direction to require energy literacy information to be provided on or with the Annual Statement.
[197] See Chapter 5, page 72 of 'Retail Market Review – Updated Domestic Proposals' (October 2012).

3.111. Taking the above into account, we now propose to set only the content and layout of the communication, and allow the majority of that content to be presented in the format and language developed by the supplier. Layout prescription will ensure key information is still grouped together and standardised headings will enable consumers to navigate the document with ease. Key information will still be subject to standardisation, such as a reminder that a consumer is able to switch supplier, and the format of the tariff information.

3.112. Some stakeholders also felt that where the purpose of the Annual Statement is to assist a consumer in understanding their energy usage and costs, it would be appropriate for a prompt to consider reducing energy usage through efficiency measures, as well as access savings by changing tariff. This has now been incorporated into the proposed content requirements of the Annual Statement.

*Why*

3.113. The Annual Statement has a clear purpose: it is intended to prompt quality engagement in the market by providing a consumer with key information about their energy use and its cost. This can incentivise consumers to engage in the market, and equip them with the information and tools to making them confident in assessing their options effectively.

3.114. We aim to ensure the Annual Statement achieves this purpose by improving the quality and accessibility of information provided on the document, and introducing consistency where appropriate. Below we have summarised the key benefits and reasoning for these new rules:

*Informs the consumer of key information they need to understand their current tariff and energy options and provides a reference document*

3.115. To help consumers overcome a lack of information about their current tariff[198], we are proposing that the Annual Statement be required to contain **key tariff information**. This will be presented in the same standardised format as the TIL to ensure this information is presented in full, clearly, and can be used for cross-market comparisons with ease. Key principal terms of a customer's tariff will also be provided alongside, as well as a glossary to enable a consumer to improve their literacy of key energy terms.[199] A clear layout and bold headings will prompt engagement, an important precursor to retention[200], enabling the document to be accessed for reference purposes when managing one's account or exploring energy

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[198] A lack of information about a consumer's current tariff was recognised as a potential barrier to engaging with the market in consumer research. See Ipsos MORI (October 2012), Ofgem Consumer First Panel Year 4, Findings from second workshops (held in March 2012)
[199] Lack of familiarity and understanding of key terms used in energy communications was highlighted as a barrier to engagement by our language experts. See Lawes Consulting & Lawes Gadsby Semiotics, 'Retail Market Review – energy bills, annual statements and price rise notification advice on layout and the use of language; A research report for Ofgem; November 2011'
[200] Ipsos MORI (2012), 'Prompting engagement with and retention of written customer communications, Final report prepared for Ofgem', October 2012

options. Furthermore, standardisation will enable consumers to build up familiarity with the document which will support the development of energy literacy over time[201], leading to more and better quality engagement.

*Prompts engagement with energy tariffs and costs*

3.116. The proposed Annual Statement will also contain numerous **prompts for consumers to engage** with the information, including a visual representation of their energy usage over time, savings available through switching tariff, and reminders to consider switching supplier or reducing energy use. The purpose of the document will also be outlined to inform the consumer of how the information can be used to engage with the market[202] . The simplicity of the document, and restrictions on the content within and alongside its mailing, will further ensure this information is clear and engaging.

*Targeted approach to prescription to ensure clarity and consistency*

3.117. The layout, informed by design experts[203], consumer research and testing[204], and stakeholder input[205], will be set in order for the document to remain consistent and recognisable. This will include grouping together related information with standardised headings[206] to assist the consumer in navigating the document and **make the information more user-friendly**. This will enable the Annual Statement to have a distinct look from the Bill and other communications, but allow suppliers to present the majority of the information in as engaging way as they are able. Reduced prescription on the messaging will allow for supplier differentiation and non-price competition to reflect their branding, and the framing and tone that they consider appropriate to their customer base. This will also allow for the standardised terms decided upon by industry to feed into the communication[207].

### Price Increase Notice[208]

*Our Proposals*

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[201] Lawes Consulting & Lawes Gadsby Semiotics, 'Retail Market Review – energy bills, annual statements and price rise notification advice on layout and the use of language; A research report for Ofgem; November 2011'
[202] Research suggests consumers need to clearly understand the point of the communication to remain engaged with its content. See SPA Future Thinking (2012), 'Energy bills, annual statements, price increase notification letters and tariff information labels: proposals for consumer testing'
[203] We have worked with design experts, Boag McCann, to further develop our proposals for the Annual Statement
[204] We have incorporated findings from our Consumer First Panel and research conducted on our behalf by SPA Future thinking
[205] We have also incorporated feedback from our RMR working groups and the Consumer Bills Roundtable
[206] Lawes Consulting & Lawes Gadsby Semiotics; Retail Market Review – energy bills, annual statements and price rise notification advice on layout and the use of language; A research report for Ofgem; November 2011.
[207] An expert analysis using desk-based review found that inconsistency in the terms used by suppliers was a major barrier to consumer understanding (Lawes Consulting).
[208] Incorporating proposed rules for the contents of notices about unilateral changes to other terms and conditions which are to the disadvantage of customers.

3.118. The Price Increase Notice (PIN) is a letter sent to each consumer when their contract is changing, whether due to an increase in price or other change which is to their disadvantage[209]. The communication is intended to inform consumers of what change(s) will take place to their tariff, how it will impact them and the steps they can take to manage the change. For instance, their right to exit the tariff without paying a termination fee[210] . We are updating the rules for what the PIN must contain, and how this information is to be presented. Our proposed new rules are set out below.

3.119. For an increase in price[211], the following information must be provided in two specific table formats (see Appendix 4D) and included on page *one* of the notice[212]:

- A comparison of previous unit rates and standing charges with the new rates.[213]
- A Personal Projection[214] for the consumer's current tariff at the old and new rates and the difference in cost.

3.120. The proposed rules for the PIN *and* notice for other unilateral variations, would also require the supplier to provide the following information on page *one* of the notice, (in any format considered appropriate by the supplier):

- A clear title to highlight that the letter is informing the customer of an increase in charges or other variation.
- Where any other term is increasing, a comparison of those terms.
- A standardised switching reminder: "Remember – it might be worth thinking about switching your tariff or supplier".

3.121. Information required elsewhere on the notice (in any format considered appropriate by the supplier):

- The key reasons for the increase in charges.
- Details of the specific price increase and/or change that applies to each customer.
- The date the increase is effective.
- Personalised tariff details, including tariff name and payment type.
- The consumer's annual consumption.[215]
- Information on the new TCR for that customer's current tariff.

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[209] Please see Chapter 2 for other proposals relating to SLC 23 (including the circumstances when a PIN has to be provided and associated rules about termination fees in SLC 24)
[210] Some of these purposes reflect the requirements of the 2009 gas and electricity directives.
[211] Only the case of a price increase, but not a notice relating to unilateral variations to other terms and conditions.
[212] With the exception of Time of Use tariffs where all the relevant charges may not be accommodated on the first page.
[213] Noting where what is included and excluded from the charges and personal projection, such as VAT.
[214] See Personal Projection section for new common rules for how this is calculated.
[215] With new common rules for how this is calculated. This will be the supplier's best estimate, see Chapter 2 for new common rules for how this is calculated.

- Information on cheaper tariffs offered by the supplier and the savings available if the consumer were to switch.[216]
- A signpost to where to find independent advice on switching supplier impartial advice on switching and (if the supplier wishes to provide it) energy efficiency advice and consumer guidance.
- An explanation of the customer's rights in relation to switching, including:
  (1) The right to cancel the contract by switching tariff or supplier and the rules which mean that they may be able to switch without being affected by the price increase.
  (2) Where applicable, when a termination fee cannot be charged.
  (3) The circumstances where a consumer's outstanding charges (debt) could prevent that consumer from switching supplier.

3.122. Where a customer is supplied with both fuels by the same supplier or has a single account for both fuels, these must be combined in a single notice and, subject to limited exceptions[217], the notice may not include or be accompanied with any other information, or sent in conjunction with any other material.

3.123. Please see Appendix 5D for more detail about how we intend to give this legal effect.

*How have our proposals changed from Oct 2012?*

3.124. Many suppliers did not support the amount of personalised information required by the Notice and some felt the level of standardisation of the pricing information unnecessary, as they considered it would impact on innovation and cost. However, consumer research we carried out in April-May 2012[218] supports our earlier findings[219] that personalised information in a standardised format is likely to ensure communications effectively inform consumers of the impact of a price increase, and improve their understanding of how to manage it.

3.125. The proposed ban on any additional information on the PIN and in conjunction with its mailing, especially energy efficiency advice and marketing material, was considered unnecessarily restrictive, especially by small suppliers. It was also suggested that the content restrictions would inhibit suppliers' ability to compete on a non-price basis. However, these restrictions ensure that the key purpose of the document, communication of the increase in price, remains clear. The supplier will be able to present further information or marketing separately, or alternatively, in conjunction with other communications such as the Bill. Where the messaging is not set, suppliers will be able to convey information in a way that is in keeping with their branding and appropriate in tone to their customer base.

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[216] For further information on Supplier Cheapest Tariff information requirements, please see earlier section.
[217] A separate PIN or other variation notice for gas can be provided in conjunction with an electricity PIN or other variation notice (and vice versa). We are also proposing that Ofgem will have power of direction to require energy literacy information to be provided on or with the PIN or other variation notice.
[218] SPA Future Thinking, Price Increase Notification Letters, Summary Box on Bills, Tariff Information Labels and Annual Statements, Report of consumer testing to support template development
[219] Ipsos MORI, Consumer First Panel, Findings from Year 4, first workshop (published January 2012)

3.126. In general our proposals in relation to content and targeted formatting requirements have remained broadly consistent with our October 2012 proposals. Minor changes have included some clarifications of the relative prominence of content, and introducing a standardised prompt for the consumer to consider switching supplier. Stakeholders also felt that at a time when consumers are reviewing their energy costs, it would be appropriate to prompt consumers to consider energy efficiency measures. This prompt has now been incorporated into the content requirements of the notice.

*Why*

3.127. The key purpose of a PIN is to inform a consumer of when their charges are planned to increase, their right to exit the contract without penaltyand how this can be managed to provide an element of predictability and enable budgeting decisions. Prices being set to increase can also form a persuasive trigger to consider alternative tariff options.

3.128. Our proposals aim to ensure the PIN achieves this purpose by improving the quality and accessibility of the pricing information provided on the document and introducing consistency where appropriate. Below we have outlined the key benefits and reason for these proposed new rules.

*Ensure pricing information is clear, accurately informs the consumer of the incremental increases in price and provides an estimate of the likely impact on their costs*

3.129. Our proposed requirements for pricing information will ensure consumers are provided with personalised information on the impact of a price increase and that the key information is displayed in a clear, consistent and engaging way. Requiring a breakdown of the changes to a consumer's energy charges and the impact of these on yearly cost upfront, aims to combat instances where this information had formerly been overly complex or was not displayed prominently. This information will also be personalised, as consumers have expressed a strong preference for information which is directly relevant to them[220] rather than nationalised. By also requiring this information is displayed in a standardised tabular format, the pricing information is guaranteed to be complete, to be more easily seen and more easily understood[221]. By limiting the additional information that can be provided with the notice, the key purpose of the document, to inform of the increase in charges, will remain clear.

*Provide key tariff information and further prompts to explore energy options*

3.130. Where an increase in price is likely to nudge a consumer to consider their energy costs, providing consumers with explicit information about their tariff will

[220] SPA Future Thinking (2012), 'Energy bills, annual statements, price increase notification letters and tariff information labels: proposals for consumer testing'
[221] SPA Future Thinking (2012), 'Energy bills, annual statements, price increase notification letters and tariff information labels: proposals for consumer testing'

enable a consumer to understand their current tariff and equip them with the information they need should they wish to explore alternatives. Additional information such as personalised savings available from switching tariff and where impartial advice can be found on switching and saving energy, will provide additional prompts for the consumer to consider their energy options.

*Inform the consumer of their rights and options*

3.131. Providing the consumer with key information about their rights and options in response to an increase in price will ensure a consumer is aware of the opportunities they have available to manage the increase in price, and what steps they will need to take in order to take advantage of these. Prominence requirements will ensure that this information is clear and explicit to ensure the customer reads and understands this important information.

**End of Fixed Term**

*Our Proposals*

3.132. Notifications are routinely issued to consumers when they are on a fixed term tariff and the term is drawing to an end.

3.133. We are proposing to update our envisaged rules for what End of Fixed Term Notices must contain, without prescribing the format, design or positioning of this content. We are proposing that all information on the End of Fixed Term Notice and sent with the Notice must be drafted in plain and simple language, in text of a colour different to the background medium, and have text of an equal size (except for headings). Our proposed new rules require the notice to include:

- A clear title explaining that the customer's tariff is ending and that this is a good time to consider alternative tariffs. The title should not encourage the consumers to remain with their current supplier or the tariff they suggest.
- The date the fixed term period is due to end.
- The consumer's annual consumption.[222]
- A statement explaining that the customer will default on to supplier's cheapest evergreen tariff if the customer does nothing.
- A statement that information containing details of principal contract terms is provided alongside the notice.
- The personal projection for the default cheapest evergreen tariff[223] .
- Information on cheaper tariffs offered by the supplier and the savings available if the consumer were to switch[224], compared to the default tariff.

[222] This will be the supplier's best estimate and apply to all consumers, not only those who have been supplied more than 12 months. Suppliers will also be required to provide a statement that explains where this may include estimations.
[223] For further information on Personal Projection requirements, please see earlier section.
[224] For further information on Supplier Cheapest Tariff information requirements, please see earlier section.

- A standardised switching reminder "Remember – it might be worth thinking about switching your tariff or supplier".
- The TCRs for the alternative tariffs (see previous TCR section).
- A signpost to where to find independent advice on switching supplier.
- Information about a penalty free switching window and circumstances where the customer may be able to benefit from the original prices for an extended period if they switch tariff or supplier.

3.134. Where suppliers wish to agree an extension to the fixed term period with the consumer (i.e. a rollover), they must also provide the following information within the End of Fixed Term Notice:

- Clearly state they would like to agree another fixed term period with the consumer[225] and the duration of the extension.
- That the consumer is not required to agree to another fixed term period.
- Provide an explanation of the nature, purpose and effect of any changes that would apply.

3.135. Alongside the End of Fixed Term Notice, suppliers must provide:

- Principal Terms in a form which is easy to compare, and the corresponding Tariff Information Label[226]. This means suppliers must provide the Principal Terms of:
  (1) The current fixed term tariff.
  (2) The evergreen tariff that consumers would default to, if they took no action.
  (3) The Principal Terms that would apply, where the supplier is offering to extend the current fixed term tariff.
- A personal projection for each set of Principal Terms[227] (other than for the default tariff which is provided in the main notice).

3.136. With the exception of supplier and customer information[228], the End of Fixed Term Notice cannot contain, or be provided in conjunction with, any other information. For further information please see Appendix 5E.

*What has changed since Oct 2012?*

3.137. In order to reflect issues raised by respondents to our October 2012 proposals, actions undertaken by suppliers and further discussions with stakeholders and analysis, we have amended some of our proposed rules on the content.

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[225] Please note this agreement must be in writing.
[226] This is the effect of our proposed new rules on principal terms. See the tariffs chapter and draft SLC 23.1A.
[227] This is also the effect of our proposed new rules on principal terms. See the tariffs chapter and draft SLC 23.1A.
[228] For instances, the names and addresses, the date, and customer identification references.

3.138. Stakeholders also suggested there were too many conflicting messages in the End of Fixed Term Notice. We are now proposing to simplify the information by:

- Removing the personal projection for the expired fixed term tariff from the main body of the notice.
- Reducing the number of tariff suggestions from four to three (two cheapest tariff messages and the default evergreen tariff remain).
- Requiring all Principal Terms to be separate from the body of the Notice.

3.139. Where suppliers have provided additional materials with the End of Fixed Term Notice, our review found some of this information may be useful to the consumer[229] . However, we consider it distracts from the purpose of the End of Fixed Term Notice. We propose that only key pieces of information should remain so that consumers will be able to assess their options, with their current supplier and market wide, more easily.

3.140. We are also clarifying that the Statement of Renewal Terms and the End of Fixed Term Notice may be contained in one single document.

*Why*

3.141. Consumers on fixed term offers have previously engaged in the market. However, we have found that even after having switched, consumers lack confidence they have made the right decision. We believe that our new rules will make it simpler for consumers to find the information that is important when their contract is ending. Also, the End of Fixed Term Notice now shows consumers more clearly that this is a good time to engage with the market and what their options are.

3.142. Our proposal on End of Fixed Term Notices currently targets a small proportion of consumers[230] . However, as we expect this proportion will rise in the future, it is increasingly important to protect these consumers in a proportionate manner.

3.143. Our proposals as outlined above leave suppliers the freedom to develop the format, positioning and design of End of Fixed Term Notices. We consider this is justified because the notice is different from other communications. A large proportion of these consumers have already engaged with the market. Suppliers have an incentive to engage effectively with the consumer, to retain their custom for another contract. Our information request has shown some good practice on different aspects of the Notice. Our research has also shown that regular change makes consumers more likely to engage with a communication[231]. We think that suppliers are well-placed to deliver this constant change for particular aspects of the notice. However, for all suppliers, our January 2013 information request has highlighted

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[229] Following the review of the January 2013 Information Request to suppliers.
[230] 22 per cent of domestic gas and electricity consumers are on fixed term offers. Source: DECC Quarterly Energy Trends December 2012, p68.
[231] Ipsos MORI 2012

areas where information could be made clearer to the consumer. To ensure our proposals are having the desired effect, we will continue to monitor market developments.

**Dead Tariff Notice**

*Our Proposals*

3.144. As set out in Chapter 2, as part of our proposals to simplify tariffs, we are proposing new rules for Dead Tariffs, i.e. evergreen tariffs which are no longer open for new customers to sign–up to. Suppliers will have a number of different options available to accommodate these new rules and there will be a requirement to send a notice to the consumer to inform them of any changes[232] . The requirements for these notices will differ depending on the changes that are made to the customer's tariff[233] . Our new proposals are:

3.145. Where the supplier is terminating the dead tariff, similar requirements as for the End of Fixed Term Notice will apply (as set out above). Except;

- The Notice must state the date consumer's dead tariff will end.
- Similar to the End of Fixed Term Notice, suppliers must provide alongside this Notice Principle Terms in a form which is easy to compare, and the corresponding Tariff Information Label.[234] In this case, suppliers must provide the Principal Terms of:
  (1) The current dead tariff.
  (2) The evergreen tariff that consumers would default to.

3.146. If the supplier applies any unilateral variation to the dead tariff[235], similar requirements to the PIN (as set out above) will apply. Except;

- The title must highlight that the customer's tariff is changing
- Pricing information[236] is not subject to a standardised format
- The steps the customer can take to avoid the variation, e.g. changing tariff or supplier, and by when they have to do so to remain on the dead tariff terms for the duration of the switch.

3.147. For all Dead Tariff Notices, we propose that:

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[232] See Chapter 2 which sets out the requirement to send a notice no earlier than 60 days and no later than 42 days before any proposed contract changes would come into effect.
[233] Including, but not limited to, engagement tools for consumers, such as a Tariff Information Label, personal projection and a TCR (for up-to-date tariffs).
[234] This is the effect of our proposed new rules on principal terms. See the tariffs chapter and draft SLC 23.1A.
[235] Please note unilateral variations for PINs are only triggered where a unilateral variation is of disadvantage to the consumer. For a dead notice, these are triggered for all variations.
[236] This includes standing charges, unit rates and any comparisons of personal projections.

- There will be no restriction on additional information provided within, or in conjunction with the document.[237]
- The Notice must contain a title that informs consumers clearly of their situation, but suppliers are free to choose the exact wording.

Why

3.148. Given our proposed rules on dead tariffs, it is important that suppliers communicate all changes to dead tariffs due to RMR rules effectively to consumers. The RMR will trigger substantial changes to dead tariffs, and consumers must receive clear information on these developments. We expect ensuring consumers receive complete, clear information will increase consumer confidence in suppliers.

3.149. The Dead Tariff Notification will ensure that suppliers will give consumers the minimum information to make an informed decision. This is also an opportunity for consumers to engage in the market.

**Mutual Variations Notice**

*Our Proposals*

3.150. As set out in Chapter 2, we are proposing new rules for the situation when a supplier and a consumer both agree to change a term in their contract (a mutual variation) [238], including a requirement to send a Notice[239]. We propose that:

- The notice is easy to understand.
- The notice makes clear that the supplier wishes to agree a mutual variation and, set out in a prominent position, that the customer is not required to agree to it.
- The notice must explain the nature, purpose and effect of the proposed mutual variation.

3.151. Whilst we were originally proposing that the contents of the notice could only contain the above information, we are now proposing further information can be included in or alongside this notice. However, if our monitoring suggests evidence of consumer detriment arising from the way suppliers are implementing these notices (e.g. by confusing consumers about the key messages), we may use the power of direction to limit the inclusion of further information.

*Why*

[237] However, we proposing to have a power of direction to put in place restrictions. We may use this power if there was evidence of consumer detriment arising from the way suppliers were populating the notice.
[238] These rules exclude changing the time period of a tariff.
[239] See chapter 2, no earlier than 37 days and no later than 30 days before the proposed mutual variation would come into effect.

3.152. Chapter 2, Simpler Tariff Choices explains our rationale for regulating mutual variations. We propose minimal approach for the information requirements, set out above, to align the content of mutual variations with other regulated supplier communications.

3.153. We consider that today an approach with minimal prescription is proportionate to protect consumers. As these notices are seeking a joint agreement between a supplier and a consumer on changes to a tariff, suppliers have a strong incentive to engage consumers with the notice. As this is a new requirement we propose to provide suppliers the freedom to establish good practice for this notice. Our minimal requirements ensure that consumers receive the information they need to make an informed decision.

3.154. At this point, we are not minded to prescribe the entire content or the format of these notices. However, we may look to do so in the future if we are not satisfied with the way in which these measures are adopted.

**Implementation**

3.155. This section outlines when and how we are planning to implement the rules governing information remedies. For an overview of implementation timelines of the RMR as a whole, please see Chapter 1. According to our proposed timetable, early to mid-August will be the earliest date by which our RMR rules could come into effect.

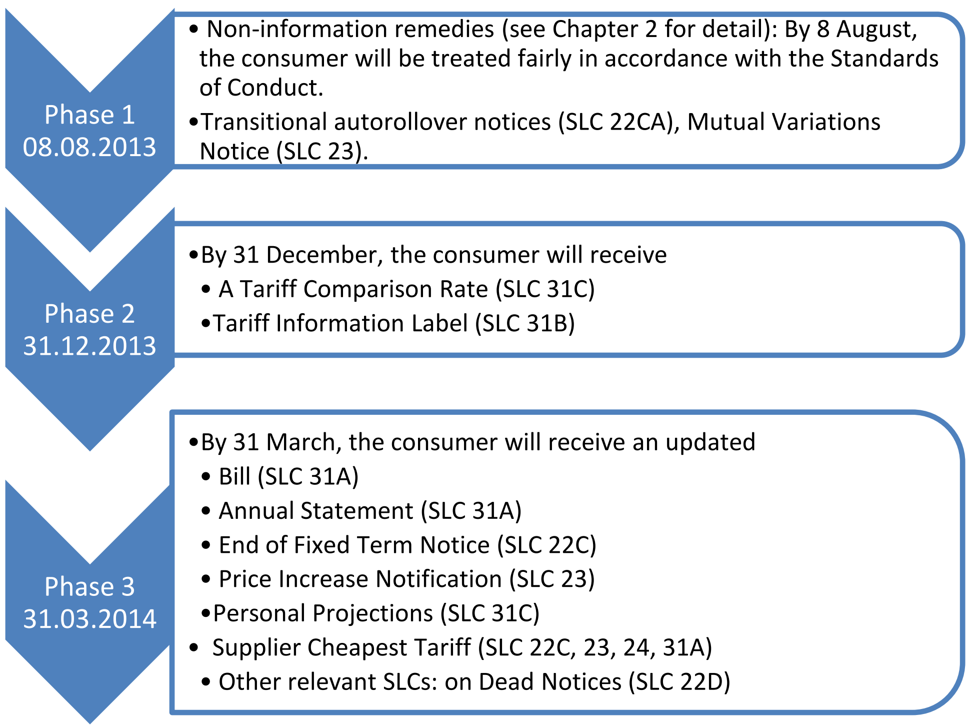
3.156. In October 2012 we proposed to implement the new provisions for PINs, the End of Fixed Term Notice, the TCR and the TIL within two months. This would have resulted in implementation in early to mid-October 2013. We also proposed to implement the new Bill and Annual Statement within four months. This would have lead to implementation in early to mid-December 2013.

3.157. However, consultation responses and our stakeholder workshop gave us consistent feedback that some rules on information remedies would take significantly longer to implement than our plan allowed. Our new three-phase implementation plan takes this feedback into account. We intend to implement information remedies proposals in stages two and three (see Figure 7 below).

3.158. With our proposed new implementation plan, consumers would receive improved information across all communications by 31 March 2014 at the latest. By the end of 2013, consumers would see TCRs across the market and would receive TILs. By the end of March 2014, consumers would receive updated Bills, Annual Statements, End of Fixed Term Notices and PINs (and notices for other variations). Those would include personalised tariff messaging and supplier cheapest tariff offerings.

3.159. However, we would encourage suppliers to move faster than our proposed timeline where it is possible to do so. In particular, where a supplier uses the transitional auto-rollover provisions (please see Chapter 2 for details) and notifies a consumer before our full information requirements come into effect. Given these rules, from implementation day one, 8 August 2013, transitional rules on auto-rollovers apply with minimum information requirements. This includes informing the customer that their current fixed term period has ended and what their alternatives are. We will expect that the content of the Notifications will comply with our Standards of Conduct, so that the content of the Notice is clear and contains the information consumers need to make an informed decision.

**Figure 7 – Proposed Implementation timelines**




3.160. Our January 2013 information request for suppliers' communications has shown some improvements and we are confident that suppliers will be able to implement the RMR rules according to the updated timeframes. This proposed implementation approach gives suppliers significantly more time to prepare their communications than our October 2012 proposal, having taken into account stakeholders' concerns about the challenge presented by our earlier implementation timeline. We are convinced that this strikes the right balance between swift implementation and technical feasibility.

# 4. Fairer treatment

**Chapter Summary**

Our third proposal is to introduce the Standards of Conduct covering all interactions between consumers and suppliers (and their representatives) as a binding licence condition. In this chapter we confirm our intention to introduce our October 2012 proposal and provide further details regarding how we see the Standards of Conduct working in practice.

## Introduction

4.1. The third component of the package of new measures we are putting in place is a set of rules designed to provide greater reassurance to electricity and gas consumers that they will be treated fairly in their dealings with energy suppliers.

4.2. The chapter has two sections. The first section provides an overview of our final proposal for making energy markets fairer. It explains the underlying motivation, and summarises the specific new rules we are putting in place and the supporting reasoning. The second section looks at the detail and implications of the new rules, and why we consider them necessary and proportionate. It also sets out our approach to enforcement of these new rules.

## Our Final Proposals - overview

**Motivation**

4.3. The following section outlines why fair treatment is important in seeking to protect the interests of current and future consumers in the energy market. Based on our research and the current state of the market, we consider that it is necessary to introduce our Standards of Conduct (SOC) proposal to increase effective engagement in the market. As outlined below, consumer trust in the industry has been low for several years and voluntary measures currently in place have not led to the positive change required.

4.4. Consumers consider gas and electricity supply to be essential services as they are not products they can easily do without. Therefore, it is important for consumers to have confidence that when they interact in the market they will be treated fairly. Concerns around consumer trust in suppliers - whether due to perceptions of unfairness, or other concerns - are a material problem because of the negative effect this has on consumer engagement. This in turn contributes to the erosion of overall competitive pressures within the market.

4.5. Despite the introduction of voluntary SOC as part of the 2008 Energy Supply Probe our research shows that consumer trust in energy suppliers and the industry is low. Qualitative research by Ipsos Mori found that only 6 per cent of consumers say they completely trust their supplier.[240] This was backed up by our recent research which has found that the overall perception of the energy industry is negative and rarely rises above neutral.[241]

4.6. Our research shows that a lack of trust in suppliers, can directly lead to consumers disengaging from the market as a whole. This can stem from a consumer's own interaction with a supplier or that of someone they know. Therefore, for some consumers, interactions with suppliers that do not meet their expectations erode trust in other suppliers and the industry, and can actually act as a barrier to them engaging in the market.[242] Results from our research show that, in general, consumers have limited interactions with their suppliers and many consumers feel that they have 'no real relationship with their suppliers'. [243] Therefore, each interaction can have a large impact on a consumer's impression of a supplier and the industry. Moreover, the impact of given interactions can be magnified as consumers also form perceptions of the industry based on experiences relayed by friends and family.

4.7. Our objective is to promote the effective engagement of consumers so the act (or threat) of switching places an effective competitive constraint on supplier pricing and behaviour. Achieving this objective requires measures to provide consumers with simpler choices, clearer information and fairer treatment so that those who are already engaged in the market can make good choices, and that those who are not engaged can rebuild trust and confidence in the market and be encouraged to engage.

**Action**

4.8. As part of the RMR package, we propose to introduce new SOC as binding licence conditions, which will require licensed domestic energy suppliers[244] (and their representatives) to treat consumers fairly and take consumer needs into account. The SOC will apply to all interactions between consumers and suppliers (and their representatives).

4.9. The SOC are expressed with an overarching objective of treating consumers fairly. The SOC also contain a range of more specific principles covering supplier behaviour, how suppliers are to provide information, and their processes. The full

[240] Ipsos Mori, Consumer Engagement Tracking Survey, October 2012.
[241] Insight Exchange, Consumer research and collaborative engagement on Standards of Conduct – Domestic consumers, October 2012.
[242] Ipsos Mori, Consumer First Panel Year 4, October 2012.
[243]Insight Exchange, Consumer research and collaborative engagement on Standards of Conduct – Domestic consumers, October 2012.
[244] For the avoidance of doubt, any references to a 'supplier' or 'suppliers' should be interpreted as a reference to a licensed supplier and matters relating to the regulation of licence-exempt suppliers are outside the scope of this document.

content of the requirements are set out in paragraph 4.22 below and the accompanying draft domestic licence text appendix.

4.10. The SOC licence condition includes an obligation on suppliers to inform consumers, on an annual basis, how they will apply the principles outlined in the SOC to their business. This will help consumers understand what specific actions they can expect from a supplier in relation to the SOC.

4.11. For the avoidance of doubt, with the exception of Deemed Contracts, the SOC do not impose restrictions on the level of charges for supply prices that energy suppliers charge as a means of ensuring fair treatment, nor does it impose a limit on the level of any ancillary charges. However, the SOC would apply to a determination of whether it was fair to charge for a given product or service, including the circumstances in which a charge is levied. Moreover, under consumer protections rules Ofgem currently has powers to consider the fairness of ancillary charges, and are able to draw on these powers where appropriate.

4.12. In the case of Deemed Contracts there are already rules within the Supply Licence Conditions (SLC 7 and 8) prohibiting unduly onerous terms and conditions (including charges). To supplement existing rules we propose the SOC would also apply to Deemed Contracts, including to any charges that may apply under such contracts. However, as a matter of policy, we are unlikely to take enforcement action in relation to the level of Deemed Contract charges where those charges are the same as charges for evergreen contracts (provided the given evergreen contract is not itself a Deemed Contract).

4.13. If, following further consultation, the Authority decides to proceed with licence modifications, we envisage introducing the SOC as a binding licence condition that will apply to all Domestic gas and electricity licensees (including their representatives). We intend for these rules to apply following the minimum statutory implementation period, a date which is 56 days after the Authority publishes its decision.

**Reasoning**

4.14. We believe the introduction of these SOC as a binding licence condition will lead to improved supplier behaviour and increased levels of consumer trust, and competitive pressures, within the industry and the retail energy market. We expect suppliers to demonstrate they have embedded the SOC into their organisation at all levels of the business. We envisage that over time, the SOC will bring significant changes to the culture and actions of suppliers – and consumer perceptions of them.

4.15. We are proposing regulatory action because voluntary interventions through the existing SOC[245] have not, in our view, resulted in improved levels of consumer

[245] Energy Supply Probe - Proposed Retail Market Remedies, 7 August 2009. http://www.ofgem.gov.uk/Markets/RetMkts/ensuppro/Documents1/Retail%20package%20-%20decision%20document.pdf

trust in suppliers. The original SOC covered the need for consumers to be treated fairly, to have full and accurate information and be helped in trying to find a better deal and switch supplier. Although consumers have noted some improvements, our qualitative research suggests that levels of consumer trust in the energy markets have not improved over the last few years. It is clear that suppliers could do more to fully embrace the spirit of the current SOC. Further, our Consumer First Panel research shows consumers may be negatively impacted in a wide range of contacts with their supplier, many of which are not covered by the existing SOC or current licence conditions.[246]

4.16. As part of our SOC policy, we are proposing to use a principles-based approach to regulation. We think the alternative option of detailed and prescriptive rules for the SOC is impractical as it is likely to be incomplete - it places too much reliance on regulatory design and not enough onus is placed on the behaviour of suppliers. Moreover, principles-based regulation allows suppliers to be flexible and innovative in the way they deliver the SOC. Therefore, the SOC will enable suppliers to focus on what consumers need rather than turning compliance with the SOC into a tick-box exercise. We see the SOC as something that should be considered and understood at all levels of energy supply organisations, including senior management and board level as well as front line staff.

4.17. We are proposing a licence obligation backed by enforcement because the potential reputational and financial costs associated with breaches this will help ensure compliance with the SOC. By making the SOC enforceable, we will ensure that suppliers are obligated to successfully deliver the SOC.

## Our Final Proposals – in detail

4.18. This section outlines details of key propositions related to the SOC. It provides details of the SOC themselves, outlines what we are proposing, highlights any changes from our previous draft proposals in the October 2012 consultation and why these changes have occurred, and how we envisage the SOC working in practice.

4.19. Our propositions are to define the **scope of the SOC**, outline our **approach to enforcement**, provide **guidance** to stakeholders, define the **role of representatives**, outline the **role of the Ombudsman Services: Energy** in relation to the SOC and clarify the SLC drafting with regard to our requirements of **communication of supplier action** under the SOC.

### Scope of the SOC

4.20. The SOC will cover all interactions between consumers and suppliers (and their representatives). It is important for consumers to have confidence that when they interact with market participants they will receive accurate information, can

[246] Ipsos MORI (January 2012) Ofgem Consumer First Panel Year 4.

easily contact their supplier and when they do have dealings with their supplier, they will be treated fairly in all their interactions and issues will be dealt with appropriately.

4.21. Under our proposal, electricity and gas suppliers will be expected to develop and maintain ways of embedding the fair treatment of consumers into their business processes and management reporting. It will be for suppliers to take account of the SOC across all levels of the organisation and consider how decisions made across the business will impact consumers in the context of the SOC. This will involve suppliers identifying and delivering what consumers need. The required standards and how they should be given operational effect will not be prescribed by Ofgem.

**The Standards of Conduct**

4.22. The SOC requires suppliers (and their representatives) to take all reasonable steps to ensure they treat consumers fairly. The SOC covers three broad areas:

i. Behaviour: suppliers must behave and carry out any actions in a fair, honest, transparent, appropriate and professional manner.

ii. Information: suppliers must provide information (whether in writing or orally) which:

   1. is complete, accurate and not misleading (in terms of the information provided or omitted);

   2. is communicated in plain and intelligible language;

   3. relates to products or services that are appropriate to the customer to whom it is directed; and

   4. 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).

iii. Process: the supplier must:

   1. make it easy for the consumer to contact them;

   2. act promptly and courteously to put things right when they make a mistake; and

   3. otherwise ensure that customer service arrangements and processes are complete, thorough, fit for purpose and transparent.

4.23. The proposed licence condition for the SOC includes a customer objective that a supplier (and their representative), must treat consumers fairly. A supplier would only be in breach of the SOC if their actions or omissions significantly favour the interest of the licensee **and** also give rise to the likelihood of consumer detriment.

## Approach to enforcement

4.24. As the proposed new SOC will be given effect through a licence condition, it will be enforced by the Authority. We will take a proportionate approach to investigating issues in line with the criteria set out in chapter 3 of our Enforcement Guidelines.[247] As noted in our October 2012 consultation document, we are introducing a bespoke policy approach to enforcement specifically to apply to the SOC.

4.25. We propose that our assessment of the seriousness of a potential breach will include consideration of whether a reasonable person, intent on complying with the SOC, would have acted in the way the supplier did in its interactions with consumers. To this end we will have regard to the supplier's actions and considerations (including at senior level) in (i) the development of new policies or processes, and amendments to existing policies and processes; (ii) the monitoring of its implementation of new initiatives and operation of existing policies and processes; and (iii) the taking of remedial action where any adverse consequences for customers came to light. This will mean that we will usually ask suppliers for contemporaneous documents so we can make this assessment before opening investigations.

4.26. The extent to which the supplier can demonstrate via contemporaneous documents that they acted reasonably will help us assess the seriousness of the breach and in turn whether we are more or less likely to take any enforcement action. Enforcement action could be based on failings in any or all of these stages. In line with the procedures set out in our Enforcement Guidelines, we propose to consider this in the round with other factors, such as the degree of harm, or potential harm, to consumers.

4.27. Having considered feedback from suppliers following our October 2012 consultation we confirm that we would usually speak to a supplier before taking enforcement action. However, we are not proposing a staged approach to enforcement where suppliers would be guaranteed an opportunity to avoid enforcement action, so long as they took steps to resolve the breach, even where there had been a past breach.

4.28. Some small suppliers raised concerns relating to the potential administrative burden that could result from the need to provide contemporaneous documentation illustrating their practices in relation to interactions with consumers, their relevant internal policies and practices (including how decisions are made in relation to the

[247] For more information, see the following link: http://www.ofgem.gov.uk/About%20us/enforcement/Documents1/Enforcement%20guidelines%202012.pdf

SOC). We recognise that depending on the size of the organisation, the nature of the business or internal business practices it may be appropriate for actions around the SOC to be documented and communicated internally in different ways. In many cases this would be consistent with good business practices that ensure a consistent and robust approach to consumer interactions.

4.29. We also recognised that appropriate documentation and 'audit trails' may be different for different situations. Documentation produced may vary depending on the scope of the issue, what it relates to and the nature of internal and organisational processes. We expect to see outcomes for consumers in line with the SOC and it is important that all suppliers, regardless of size, are held accountable to them.

4.30. Some of the large suppliers raised concerns in response to the October 2012 consultation with regard to implementation timeframes for the SOC, and specifically that lead times may be needed to allow for necessary changes in advance of the SOC coming into force. A transition period of 2 years was suggested by one supplier. We do not propose to delay the introduction of the SOC or have a period of 'soft enforcement', as suggested in one response - where the SOC is introduced but there is little or no enforcement action taken for an initial period. We believe it is important for rebuilding consumer trust that the SOC are introduced as soon as possible and that they are enforceable. We note it is important to have binding measures in place because voluntary SOC already exist and consumer trust in suppliers still remains low. Some suppliers have also indicated that they are already making changes to their practices, therefore a delay in implementation does not seem warranted.

4.31. We note that supplier action in relation to the SOC is a process and should evolve over time depending on a range of factors including consumer needs, changes in the market, technology and suppliers' opportunity to consider and implement relevant change within their organisation.

4.32. Ofgem is separately conducting a wider review of its approach to enforcement. The initial thinking on this was published in March 2013.[248] Amongst other things it has proposed moving to an approach where final decisions in relation to contested enforcement cases are made by a panel of decision makers appointed by the Authority for the purpose of deciding on these enforcement cases. This should address concerns raised by stakeholders with regard to how enforcement decisions are made and that it is important to ensure a consistent approach to assessing compliance with the SOC. This may address concerns that some suppliers had that Ofgem will adopt a subjective assessment.

[248] Open letter on the Review of Ofgem's enforcement activities – consultation on strategic vision, objectives and decision makers (March 2013).

**How the SOC will work in practice**

4.33. As mentioned in paragraph 4.16 above, we are using a principles-based approach to regulation for the SOC. This approach allows flexibility and innovation focusing suppliers on consumer needs.

4.34. We have provided draft guidance on the definitions of key terms used within the SOC including what we mean by 'appropriate', 'professional manner', etc in the Appendix for SOC guidance. This draft guidance is intended to help suppliers with their interpretation of the SOC and therefore assist them with the process of complying with the licence condition. However, as with the interpretation of all other licence conditions, suppliers will remain responsible for ensuring that the concept of fairness is embedded within their organisation including how this is made operational within their business. Given its importance, we have carefully considered the format and the level of detail included in our guidance.

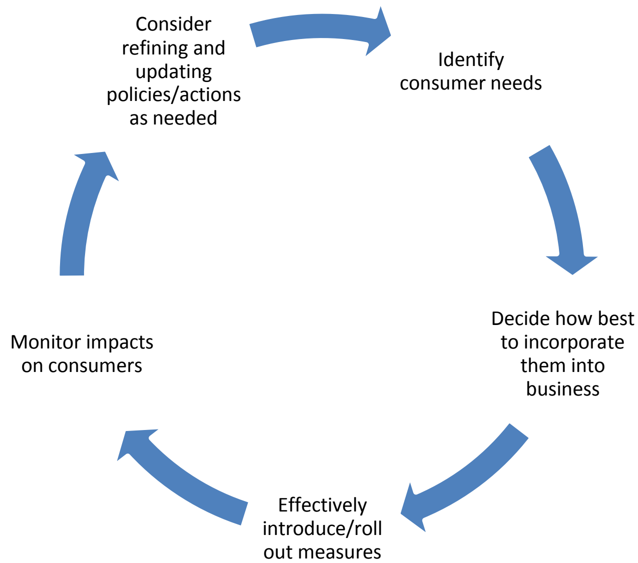
4.35. Along with changes to the licence proposed under the RMR (including the SOC) we would require suppliers to have regard to any guidance issued by Ofgem on any aspects of the overall SOC licence condition (the guidance provision). Before issuing (or revising) guidance which is subject to the guidance provision, Ofgem would need to consult with suppliers (this consultation may take place before the SOC licence condition comes into force).

4.36. This means that, in conjunction with this consultation, we are also consulting on our Appendix for SOC guidance that provides draft guidance on some key terms used in the SOC licence condition. Following a review of consultation responses, we will consider whether to designate this as guidance subject to the guidance provision.

4.37. At their heart, our SOC proposal is about the relationship, and interactions, between energy suppliers and consumers. We want to ensure the SOC are centrally about this relationship, and that all SLC the SOC apply to and guidance in place exists to support desired outcomes for consumers.

4.38. As noted above there would be an expectation that the SOC is embedded at all levels of the organisation and understood by all staff. It would be embedded in the design, monitoring and revision of all relevant systems and processes. The figure below illustrates a high level vision for supplier processes to ensure interactions for consumers are compliant with the SOC.

**Figure 8 - High level vision for likely processes in relation to the SOC**




## Role of representatives

4.39. Our policy intent is to ensure that consumers are treated fairly in the market and have trust in the market as well as suppliers and their representatives. With regard to representatives, we want suppliers to ensure third parties acting on their behalf treat consumers fairly and act in a way that promotes trust.

4.40. For the SOC we intend to use the existing term 'Representative'[249] as used in relations to face to face and telesales interactions. However, without prejudice to other licence conditions that use the term,[250] as a matter of policy, we would intend to focus our oversight of the SOC on more direct and express relationships between a supplier and another person. This includes chains of sub-delegation arising from such a relationship, such as a person directly appointed as an agent.

4.41. This is because we consider these relationships lead to more prominent interactions with a consumer on behalf of a supplier. On this basis, depending on the circumstances of the case, we do not generally envisage focusing on the relationships between a supplier and a broker or switching site which may arise via the payment of commission or other indirect arrangements, unless the broker is selling energy on behalf of only one or a limited number of suppliers.

[249] Which is defined as 'any person directly or indirectly authorised to represent the [licensed supplier] in its dealing with Customers'.
[250] For example, the marketing licence condition: SLC 25.

4.42. Beyond the SOC, we have made a commitment to undertake a parallel piece of work to help facilitate collective switching, to adopt the Confidence Code (which governs the switching sites) and to ensure that consumers have access to, and can have confidence in, all Third Party Intermediaries (TPIs).

**SOC and the role of the Ombudsman Services: Energy**

4.43. This element of the proposals is consistent with that outlined in our October 2012 consultation document. As set out in chapter 2 of our Enforcement Guidelines, we would not necessarily take enforcement action – with the SOC or other licence conditions - in light of individual or isolated consumer complaints. Our focus is more likely to centre on concerns over more systemic issues involving suppliers' actions. As Ofgem does not have a direct role in dealing with individual disputes between consumers and licensed suppliers, we therefore see a role for the Ombudsman Services: Energy (Ombudsman) in applying the SOC when dealing with individual cases referred to it.

4.44. Some stakeholders have raised concerns that the approach taken by the Ombudsman could result in setting a form of precedent for supplier actions. We note that rulings made by the Ombudsman are independent to those made by Ofgem. Also, the Ombudsman determines cases individually and treats them on a case by case basis as reflected in their terms of reference.[251] Therefore, we do not consider the Ombudsman would set precedent (particularly in a legal sense) in their rulings. The Ombudsman is independent and assesses the SOC in a different context to Ofgem (as the independent regulator). Due to Ofgem's independence and the legal framework that applies, it is also the case that decisions of the Ombudsman could never be binding on Ofgem. Therefore, decisions of the Ombudsman do not impact on Ofgem's interpretation of licence conditions. However, we would generally look to work with the Ombudsman to help foster a shared understanding of our objectives and expectations relating to the SOC. This general approach to promote a shared understanding is already part of the Memorandum of Understanding between the Authority and the Ombudsman.

**SLC drafting – communication of supplier actions under SOC**

4.45. We propose that the SOC licence condition includes an obligation on suppliers to inform consumers, on an annual basis, how they apply the principles outlined in the SOC to their business. This will help consumers understand what specific actions they can expect from a supplier in relation to the SOC.

4.46. Our proposed approach to the communication for suppliers require that this information is:

a) Set out in writing.

[251] Their Terms of Reference say '...the Ombudsman shall not be bound by any legal rule of evidence or by the past conduct or decisions of, or the past Remedies or Awards imposed by the Ombudsman'.

b) Uses a heading which clearly highlights that the information relates to how the licensee is seeking to treat consumers fairly.

c) Includes the information on the main actions taken and being taken by the licensee in line with the objective of treating consumers fairly and the SOC and what services and treatment a consumer can expect from the licensee and any representative.

4.47. If the supplier has a website, the licensee must publish this information on it and/or if a consumer requests it then they must provide a written copy of it to the consumer free of charge and as soon as reasonably practicable.

4.48. Beyond this requirement on suppliers, we consider it would be useful to have further correspondence that increases consumer awareness of the SOC in general. This information can be an important consumer empowerment tool as it increases awareness of the SOC. It provides both direct comfort to consumers in the form of knowledge that protections are in place and helps consumers to understand what they can expect from suppliers and industry. Consumer research suggests it would be helpful if generic messaging was consistent across all potential providers.[252] We intend for such materials or language to be developed in cooperation with relevant stakeholders, and provision of such material or information would be made on a voluntary basis.

4.49. We received some positive feedback from suppliers and consumer groups who are keen to be involved in our process to consider how we can help increase consumers' awareness of the SOC and how to best provide a high level understanding of the SOC.

We hope that communication of the SOC to consumers will raise consumer awareness of the new SOC that apply in the industry, and in turn this should help build consumer trust. With regard to our requirement on suppliers and communication of the SOC we have proposed an option which allows suppliers some flexibility in deciding how and what they communicate with their consumers.

[252] Insight Exchange (October 2012).

# Appendices

**Index**

# Appendix 1 - Consultation Response and Questions

1.1. The purpose of this consultation is to seek representations on the effect of Ofgem's final policy proposals and our envisaged approach to transposing the effect of the proposals outlined into licence conditions. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. Responses should be received by 23 April 2013 and should be sent to:

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

1.3. 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.

1.4. 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.

1.5. Next steps: Having considered the responses to this consultation, Ofgem will make a decision about appropriate next steps and whether it will publish a Statutory Consultation on proposed licence drafting. Further detail regarding proposed next steps and timing can be found in the Executive Summary of this document. Any questions on this document should, in the first instance, be directed to:

**David Hunt**
Retail Markets
Ofgem
9 Millbank
London
SW1P 3GE

# Appendix 2 – Summary of consultation responses to RMR updated proposals, 26 October 2012

1.6. The text below provides an overview of responses to our 26 October 2012 consultation document. This summary outlines key feedback related to given policy areas. For a more detailed view of responses, non-confidential responses are available on Ofgem's website as Associated Documents to The Retail Market Review - Updated domestic proposals.[253]

1.7. We received 62 responses to the domestic proposals. These included previous incumbent suppliers and small suppliers, consumer groups, switching sites, third party intermediaries, academics and other industry bodies, and individual consumers.

## Simpler tariff choices

**Tariff simplification**

1.8. Many suppliers accepted the direction of our proposals, with the exception of the proposals on discounts. On the tariff cap, some suppliers pushed for six core tariffs or additional core tariffs for specific groups (e.g. white labels), while others argued that the cap should be rigid or that there should be only three core products. Others argued that tariff proliferation was not an industry-wide issue so any tariff cap should only apply in a more targeted way.

1.9. Other concerns raised included the potential impact on innovation (especially in trialling innovative tariffs) and the impacts on the business models of white labels.

1.10. The majority of consumer organisations were in favour of our tariff simplification proposals, though they have some concerns about the rules on discounts. All MPs and the majority of consumers were in favour of our proposals on tariff simplification. One academic indicated that our proposals might limit competition.

1.11. Other issues raised by consultation respondents included:

[253] http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=300&refer=MARKETS/RETMKTS/RMR

- Surcharges: there was some support for consistency of charges across tariffs and payment types. However, some suppliers argued that Ofgem should not prescribe allowed charges in SLCs and should use a principles-based approach.
- Tariff structures: there was wide support for the proposal to have uniform tariff structures. One respondent indicated a preference to abolish the standing charge.
- Discounts: respondents had very little support for the rules on discounts. They argued that online discounts should be allowed to apply to all the core tariffs, and that suppliers should be able to have loyalty and prompt-pay discounts.
- Collective switching: there was some concern around collective switching generally. One supplier argued that it should be able to develop one bespoke tariff for each collective switching scheme it bids into.
- White labels: some respondents indicated that it should be possible to develop one bespoke core tariff for each white label tariff.

**Protecting consumers on fixed term offers**

1.12. Almost all respondents were, in principle, in favour of providing more protection to consumers on fixed term offers. However, there were more mixed views of the specific policy proposals. Some suppliers argued that aspects of the proposals are unnecessary and others will not be in the overall interest of consumers.

1.13. However, other suppliers expressed their support. That said, in these cases few suppliers provided detailed comments explaining their position. The majority of consumer organisations supported the proposals and recognised the importance of prohibiting auto-rollovers for example.

1.14. Other issues raised by consultation respondents included:

- Switching window: several suppliers objected to offering the same price to a consumer up to 20 working days after their contract ends. They suggested it may lead to more expensive fixed term offers as suppliers price wholesale hedging risk for 365 + 20 days instead of for 365.
- 30 day notice period for mutual variations: there was no consensus about the length of the notice period. Some suppliers believed it appropriate, others did not. However, there was little support for including direct debit. Suppliers wanted more flexibility to change direct debits at shorter notice.
- Auto-rollovers: there was broad support for the principle behind prohibiting auto-rollovers, particularly from consumer groups.
- Network charges: there were mixed views about permitting derogations to fixed term contracts. Some suppliers were supportive and agreed that case-by-case derogation is appropriate. However, others argued that it is inflexible and would not allow them to pass through costs quickly. Others believed it would damage consumer trust if prices on fixed term contracts are allowed to increase unexpectedly.

1.15. New issues raised by consultation respondents included:

- Network charges: one supplier suggested that the licence includes an exception for those variations in fixed price contracts caused by changes in network charges. Ofgem could use SOC to enforce it.
- Auto-rollovers: one consumer organisation suggested that suppliers should be limited to one evergreen tariff. This would make it clearer to which tariff a consumer will default. Another supplier suggested consumers should default to the cheapest tariff of the same type.
- End of fixed term contract notification: one supplier suggested that this should be brought forward. This would avoid the requirement to offer the same prices 20 working days after the contract end date.

## Clearer information

### Clearer and simpler information

Views on the level of prescription used across the information channels

1.16. While some level of standardisation for regular communications was felt to benefit consumers, all suppliers (and in some cases consumer groups) did not support the level of prescription we proposed. The majority of these comments focused on our proposal for a Summary Box on Bills and to a lesser extent the Annual Statement. However, overall our proposals for Price Increase Notices, End of Fixed Term Notices and the Tariff Information Label were considered appropriate in terms of prescription.

1.17. Respondents thought that our approach for Bills and Annuals Statements should be more flexible to adapt to the needs of consumers and future market developments, such as the Green Deal. Some suppliers, and a supplier organisation, believed that the competitive market would deliver more engaging formats, because suppliers could use their expertise and understanding of their customers. Small suppliers felt this was particularly pertinent where their customer base differs significantly from that of the previous incumbent suppliers.

1.18. The majority of suppliers agreed with the objectives of our proposals. A range of suppliers suggested an alternative approach of having content requirements only in the supply licence, alongside principles-based regulation for how that content should be communicated to consumers.

Views on the content requirements across the information channels

1.19. All respondents broadly supported the content requirements across the channels, subject to certain reservations such as cost and the exclusion of marketing materials. There were mixed views among suppliers regarding which channels are appropriate for consumers to engage with particular content, such as the cheapest tariff information. All suppliers and one consumer organisation voiced their preference for less prescription on the messaging around the cheapest tariff information. They thought that the language should be more future proof and more positive to avoid undermining consumer trust.

1.20. Most respondents were concerned that the current messaging for a TCR on communications would not provide enough relevant information, in particular where it is provided on a Bill. The majority of respondents expressed concerns that the TCR might confuse consumers if it were to be presented alongside personalised pricing information in consumer communications.

**Tariff Comparison Rate**

1.21. Almost all respondents were in favour of a price comparison tool, though the majority raised concerns about the proposed design of the TCR.

1.22. For example, some suppliers objected to the methodology behind the TCR, arguing that it is too complex, would be confusing to consumers and ineffective. Others pointed to issues with national TCRs, the current availability of simple comparison tools, and the fact that prices alone should not form the basis of the calculation. However, a small number of suppliers supported the TCR.

1.23. Support for the personal projection was mixed, with some suppliers strongly supporting it whilst others argued that it will be misleading and confusing given the introduction of the TCR.

1.24. The majority of consumer organisations were in favour of the TCR and the personal projection. This was also true for politicians and most individual consumer responses. One consumer organisation supported the TCR, but felt its launch would need to be accompanied by a large publicity/education campaign for consumers, to be led by Ofgem. One organisation did not support the personal projection, indicating that it is likely to suffer from the same problems that affect consumption forecasting. One academic group advocates focusing on price comparison websites.

1.25. Other key issues raised by respondents included:

- National TCR: while respondents acknowledged the intent behind a national comparison tool (and national best buy tables), they felt the proposal ignored the reality of regional pricing. There were strong objections (largely, though not entirely, voiced by suppliers) against our proposed basis for weighting a national TCR.
- TCR metric (p/kWh): respondents raised objections to the p/kWh unit proposed for the TCR, arguing that it would clash with a consumer’s unit rates (emphasised strongly in the case of the Bill). Also, they felt that a £/annum figure would have more impact, and would have the added benefit of avoiding consumer frustration at lower TCRs for higher users.
- Low / Medium / High users: some respondents felt that presenting TCRs for different user types may lead consumers to attribute a level of accuracy to the TCR that is inappropriate for a generic calculation. Additionally, they felt it could increase scope for consumers to misinterpret the correct TCR

for them. Instead, some recommended that we adopt a single, medium TCR.
- TCR for ToU tariffs: the majority of respondents highlighted that ToU TCRs may be very complex and difficult to achieve, and were concerned that they could be misleading.

1.26. New issues raised by consultation respondents included:

- National clearing house: three respondents suggested a national clearing house/harmonising DNOs' charges to enable comparison of single unit rates.
- Advertising standards: a number of respondents raised concerns that featuring the TCR as proposed would put suppliers at risk of breaching ASA standards, consumer protection legislation and/or CAP standards.
- Product rating system: one supplier suggested using a product rating system as a comparison tool, similar to that used for energy efficiency.

**Supplier cheapest tariff**

Views on proposed two sets of cheapest tariff messaging given to consumers

1.27. The majority of respondents supported our view that the cheapest tariff message should include both supplier cheapest tariff for (i) their payment method, consumption and meter type; and (ii) the cheapest overall tariff from their supplier irrespective of their current circumstances, personalised by consumption.

1.28. Two small suppliers opposed this proposal. They thought it insufficiently accounted for the position of their consumers - who sometimes value product features or innovation more than price. More widely, some respondents raised concerns our proposals focussed too heavily on price and did not reflect consumer preferences for tariff type.

1.29. Three suppliers and a supplier organisation were concerned about the cost and complexity of using personal projections when processing every Bill or consumer communication.

1.30. One consumer group did not agree that both "cheapest tariff" messages should be included. They were concerned it would be too complicated, particularly for dual fuel consumers who would have to engage with four messages. Several other respondents thought that the cheapest tariff should be based only on the consumer's current meter type.

Views on suggested tariff eligibility criteria

1.31. There were mixed views on our proposed tariff eligibility criteria – i.e. that tariffs would need to remain open to an unlimited number of consumers for at least four weeks from the time the communication goes out to consumers, with no restrictions on location or qualification.

1.32. Some respondents supported some form of tariff eligibility criteria. However, two large suppliers opposed them. They argued that this proposal contradicted the principle of treating consumers fairly and that suppliers would be misleading their existing customers where the "cheapest tariff" turned out to only be the "cheapest tariff we have to tell you about". These suppliers urged Ofgem to include all tariffs in the comparison. A smaller supplier also raised concerns that suppliers may be able to find easy ways around any such requirements. They noted that whatever criteria were set tariffs could be configured in a way that would ensure they did not meet the necessary criteria for inclusion in the cheapest tariff messaging.

**Market cheapest deal**

1.33. Many suppliers were critical of this proposal. On the other hand, it received a mix of support and opposition among smaller suppliers and academics, while being largely supported by consumer bodies. One respondent also stated it did not feel this proposal would be effective and suggested that a more radical approach might be required (e.g. displaying suppliers' spot prices in supermarkets, Post Offices and other stores). Another respondent argued that the proposal might not be workable unless accompanied by a considerable standardisation of prices and terms, as well as by appropriate advertising to consumers.

1.34. Concerns raised by many suppliers included both philosophical and practical aspects. Philosophical concerns focused on whether requiring companies to display competitors' prices would be appropriate or necessary. On the practical side, concerns were raised over consumer data protection and/or the ways of sharing or obtaining the needed information. How the "cheapest deal" will be defined and communicated was spotted as a main implementation issue. Some suppliers also noted that other RMR proposals would more effectively promote consumer engagement, and that the goals of our proposals could be better achieved via supplier initiatives, third party action or collective switching.

1.35. Some suppliers also noted this proposal would put a disproportionate emphasis on price (rather than products – e.g. green – or service). Some also felt that small suppliers do not have sticky consumers, so proposals would not be relevant to them and we should focus efforts on ensuring consumers do not face administrative barriers when they try to switch supplier. Further there were concerns raised about smaller suppliers' ability to cope if a high volume of consumers were to switch to them.

1.36. Consumer groups echoed some points made by suppliers, including the risk that this proposal may not target consumers appropriately and that it places a disproportionate emphasis on price. There was also concern that these measures would still not impact the "stickiest" and most vulnerable consumers.

1.37. Some respondents from the academic world voiced concern about suppliers sharing pricing details, and felt it would be better if a third party provided relevant information.

1.38. Within the consultation we asked stakeholders if they would be willing to participate in a trial to test more developed proposals around market cheapest deal.

1.39. The majority of suppliers indicated they would not be willing to participate in a trial, and only a few were willing. While there was some unconditional support, the more positive feedback was largely supportive subject to clarification of scope, timing and the nature of the trial. One supplier expressed reservations about supporting a trial unless their major competitors were also involved, although they recognised the importance of their involvement in order to understand more about the proposals as they develop.

1.40. The consumer bodies that commented on this point indicated they would be willing to help with a trial.

1.41. Two other stakeholders also signalled their interest in working with Ofgem on a trial of this proposal.

## Fairer treatment

### Standards of Conduct for domestic consumers

1.42. The majority of respondents were in favour of the Standards of Conduct (SOC) and were generally supportive of our approach. This included all consumer groups and the majority of suppliers. As with responses to our December 2011 consultation, there were still some concerns among the majority of suppliers over regulatory risk and our proposed approach to enforcement. However, there was a convergence in the views of suppliers since that consultation, with less general opposition and respondents focusing more on points of detail.

1.43. Most consultees were broadly in favour of the objectives of the SOC. All consumer groups were in favour of our SOC proposal. The majority of suppliers supported our proposal, with responses in general being more positive than the last consultation round. Two suppliers (that were positive in the last consultation) requested more clarity about what requirements around the SOC would look like in practice. Some suppliers believed they were already compliant with the SOC, although two did question the need for the SOC to be introduced at all.

1.44. Following the last consultation, issues were raised about enforcement of the SOC and exposure to regulatory risk that would result from a principles-based approach. We considered these views and proposed a bespoke approach to enforcement that would use a ‘reasonable person’ test. Suppliers raised concerns around what Ofgem will deem to be ‘reasonable’ in this context. Some suppliers felt there was potential for regulatory risk as they may need to overcompensate in their interactions with consumers to demonstrate compliance with the SOC. Some suppliers again requested a formal two-stage approach to enforcement, which would involve an initial dialogue between Ofgem and suppliers, or the use of an independent adjudicator (for instance a judge) to advise on cases.

1.45. Our proposed approach to enforcement would require suppliers to demonstrate how they have made decisions and set internal policy to take the SOC into account through the use of contemporaneous documents. Four suppliers raised concerns about the associated administrative burden of this approach for their businesses. The majority of suppliers requested more information on the documentation they should use to demonstrate compliance. Additional concerns were raised around verbal communications and how these are documented.

1.46. Suppliers also raised concerns over the implementation timeline for the SOC. Two suppliers believed that to be compliant with the SOC they must undertake a scoping and analysis of their processes and procedures, conduct research and engage with consumers. They say this will take time and it is not feasible that they will be ready for the SOC to be introduced in mid-2013.

# Appendix 3 – TCR methodology: worked example for illustrative purposes

## The Tariff Comparison Rate

1.47. We propose to introduce a Tariff Comparison Rate (TCR), a single number that would factor in a tariff's relevant price elements[254] for an assumed level of consumption.[255] Consumers could then use the TCR as an initial point of comparison of the relative price of tariffs available in the market.

1.48. Under our proposal, TCRs will be calculated for each variant of a core tariff (i.e. for each payment type and with and without dual fuel and online discounts). The calculation will include all non-contingent discounts and penalties, but will exclude the discounts that are contingent on the consumer's behaviour,[256] late payment fees, termination fees or other factors that cannot be known when the consumer enters into the contract. Dual fuel tariffs will have separate TCRs for the gas and electricity elements, with the dual fuel discount split evenly across both fuels.

1.49. We also propose that the TCR will not assign a value to other features such as affinity partnerships with businesses in other markets, charities, loyalty card providers, or schemes where the value of the features provided are difficult to estimate.

1.50. Finally, we propose to keep to a minimum the supporting information that suppliers are required to provide alongside the TCR in most cases. However, there are certain circumstances in which we consider a more comprehensive set of supporting information would be useful to consumers.

1.51. This appendix presents an example of how our rules would be applied to calculate a TCR for a given tariff. In constructing this example, we assume that all new RMR rules are applicable. Further, we set out a sample 'comprehensive' set of supporting information we would anticipate would accompany the TCR in the given example.[257]

[254] Including unit rate, standing charge, and non-contingent discounts and bundles
[255] Ofgem would set out the assumptions for the level of consumption to be used in TCR calculations, and provide updated consumption values from time to time
[256] For clarity, the effect of our proposed rules is that dual fuel and online discounts are the only discounts that are both allowed and capable of being included in the TCR calculation.
[257] For the avoidance of doubt, we consider this sample to be indicative only. Suppliers would ultimately be responsible for ensuring they are compliant with licence conditions.

**Tariff example**

1.52. Our worked example of a TCR is for a tariff with the following features:

- 2 year fixed term electricity tariff.
- Standing charge: 25 p/day.
- Unit rate (year 1): 10 p/kWh.
- Unit rate (year 2): 12 p/kWh.
- Dual fuel discount of £20 for taking both fuels.
- Online discount of £5 per year.
- Late payment fee of £5 if bill is not paid by due date.
- Termination fee of £50.
- Opt-out bundle: boiler maintenance cover at £2/month.
- Tied bundle: Free television provided at the outset of the contract – valued at £100.

**TCR calculation**

1.53. For this example we assume that the 'medium user' consumption for electricity is at its current level (3,300 kWh).

1.54. The TCR for this tariff example would be calculated as follows:

| Fuel | Tariff name | Type of tariff | Payment method | Standing charge (p/day) | Unit rate year 1 (p/kWh) | Unit Rate year 2 (p/kWh) | Dual fuel discount (p/annum) | Online discount (p/annum) |
|---|---|---|---|---|---|---|---|---|
| Electricity | 2 Year Staggered | Fixed Term | Standard Credit | 25 | 10 | 12 | 1000 | 500 |
| TCR calculation | TCR = ((25*365) + ((10*3300) + (12*3300))/2 – 1000 – 500)/3300 = **13.31 p/kWh** | | | | | | | |

1.55. As can be seen in the above calculation, all contingent amounts are excluded from the calculation. Of the total dual fuel discount of £20, £10 is applied to the electricity element. The different unit rates for the first and second year are factored in equally. And both the optional bundle cost (which is a direct monetary amount) and the tied bundle (which isn't) are excluded from the calculation.

**Supporting information**

1.56. As set out in our main consultation document, in most cases (e.g. the Bill, Annual Statement) the following minimal information would need to accompany this TCR:

- The tariff name.
- Payment method.
- The combination of dual fuel and/or online discounts that apply to the TCR.
- Signposting to further information about the composition of the TCR.

- A statement to the effect that the TCR is: based on assumed consumption values for a typical user and that actual prices will vary depending on actual energy usage; a guide only and is not an actual price; and for a consumer's current tariff (where this is the case).

1.57. However, alongside each Tariff Information Label, we would expect a more comprehensive set of supporting information to be included. In addition to the above, this would include:

- The value of any contingent discount, termination fee, or late payment fee that applies to the tariff, and a clarification for the consumer that such contingent discounts or contingent charges are not included in the calculation of the TCR.
- Details (including name, price and brief description) of any tied or opt-out bundled products or services that apply to the tariff, and for each such opt-out bundled product or service a clarification as to whether its value is included in the TCR calculation.
- A clarification that the TCRs of dual fuel tariffs are subject to the customer taking both fuels.
- Identifying which discounts are included in the calculation, and their respective values.

1.58. The table below sets out a sample of the supporting information, to sit alongside the Tariff Information Label that would accompany the TCR in our above example.

| | |
|---|---|
| **Tariff Comparison Rate (TCR) for this tariff** | 13.31 p/kWh |
| **About the TCR** | The TCR is a single figure that represents the cost per kWh that a typical consumer would incur on this tariff. It is based on an assumed consumption level of 3,300 kWh, and includes the unit rates and standing charges of the tariff, along with certain types of discounts and bundled products and services. It can be used as an approximate guide for comparing tariffs, and is not an actual price.<br>You can find the TCR of your current tariff on your Bill or Annual Statement. Further explanation of the TCR can be found below. |
| **Tariff name** | Online 2 Year Staggered (w/Dual Fuel discount) |
| **Payment type** | Standard Credit |
| **Discounts** | The TCR rate above is based on you being supplied with both your gas and electricity by YourPower. It applies a £10 discount to the total electricity cost (this is 50% of the total dual fuel discount).<br>The TCR rate above is based on you managing your account online, and applies a £5 online discount to the total electricity cost. |
| **Surcharges** | Termination fee: This tariff has a termination fee of £50 if you end your contract before DD/MM/YYYY. This amount is **not** included in the TCR calculation.<br>Late payment fee: This tariff has a late payment fee of £5 if you do not pay your bill by its due date. This charge is **not** included in the TCR calculation. |
| **Bundles** | This tariff comes with an optional opt-out bundle of boiler maintenance insurance cover costing an extra £2 per month. If you do not wish to receive this bundled service you can opt out by calling us at xxx-xxxxxxxx. The cost of this bundle is **not** included in the TCR calculation.<br>This tariff comes with a free television, valued at £100. The value of this bundled is **not** included in the TCR calculation. |

1.59. This table represents an example of the supporting information content that could accompany the TCR where it features on the Tariff Information Label. From a stylistic point of view, this may not be the most effective or appealing layout or wording of the information. We would anticipate that suppliers would attempt to put their individual stamp on any information to accompany the TCR in order to set themselves apart from other suppliers and ensure comprehension amongst their consumers.

# Appendix 4 – Proposed templates: information improvements

1.60. As referred to in Chapter 3 of our final proposals, this appendix includes templates of the Tariff Information Label, the Summary Box on Bills, the Annual Statement and the Price Increase Notice. Those templates are provided for a fictitious energy company 'YourPower' to illustrate what content and formatting is prescribed, and the nature and degree of prescription. Grey areas in the templates represent content where Ofgem is not proposing to prescribe the language[258].

1.61. For ease of reference, an outline of material included in this appendix is set out below:

**4A. Tariff Information Label (TIL)**

These templates provide the standardised format for the TIL

Figure A.1 – Standard Single Fuel Template
Figure A.2 – Standard Dual Fuel Template
Figure A.3 – Economy 7 Single Fuel Template

**4B. Summary Box on Bills**

We are not proposing to set how this information is presented to consumers. These visuals provide an illustration of our proposals for Bills, demonstrating where we have proposed to group information together. It does not set out all content requirements for a Bill.

Figure B.1 – Standard Single Fuel Template

**4C. Annual Statement**

We are not proposing to set how this information is presented to consumers. These visuals provide an illustration of our proposals for Annual Statements, demonstrating where information is required to be.

Figure C.1 – Standard Single Fuel Template

**4D. Price Increase Notice (PIN)**

This template provides the standardised format for charging information provided on a PIN. All other text provided on the template is only for illustrative purposes.

[258] For further information please see 'Boag McCann, Ofgem RMR Consultation Visuals', Forthcoming.

Figure D.1 – Standard Dual Fuel Template

## 4A. Tariff Information Label (TIL)

Figure 4A.1 – Tariff Information Label, Standard Single Fuel Template

# Your tariff information

| About your electricity tariff | |
|---|---|
| **Supplier** | YourPower |
| **Tariff name** | YourPower Fixed Renewables |
| **Tariff type** | Green, Fixed price |
| **Payment method** | Direct Debit |
| **Unit rate** | 14.01p per kWh |
| **Standing charge** | 17.41p per day |
| **Tariff ends on** | 18 February 2011 |
| **Price guaranteed until** | 18 February 2011 |
| **Exit fees** (if you cancel this tariff before the end date) | £50.00 |
| **Discounts and additional charges** | No discounts |
| **Additional products or services included** | Loyalty points |

| Illustrative electricity cost on this tariff | |
|---|---|
| **Assumed annual consumption** | 3,300 kWh |
| **Estimated annual cost** | £525.88 |
| **Tariff Comparison Rate (TCR)** | 15.94p per kWh |

*Estimated costs include VAT and are based on current prices for the tariff shown above.*

### Frequently asked questions

- **What is a kWh (kilowatt-hour)?**
  A kWh stands for kilowatt-hour – the unit used to measure energy use. 1 kWh will power a 40 watt light bulb for 25 hours.
- **What is the Tariff Comparison Rate (TCR)?**
  TCR is a rate per kWh that allows you to compare your tariff to other tariffs by taking account of the unit rate and standing charge.
- **Up to three additional frequently asked questions**

Figure 4A.2 – Tariff Information Label, Standard Dual Fuel Template

# Your tariff information

| About your electricity tariff | |
|---|---|
| **Supplier** | YourPower |
| **Tariff name** | YourPower Fixed Renewables |
| **Tariff type** | Green, Fixed price |
| **Payment method** | Direct Debit |
| **Unit rate** | 14.01p per kWh |
| **Standing charge** | 17.41p per day |
| **Tariff ends on** | 18 February 2011 |
| **Price guaranteed until** | 18 February 2011 |
| **Exit fees** (if you cancel this tariff before the end date) | £50.00 |
| **Discounts and additional charges** | No discounts |
| **Additional products or services included** | Loyalty points |
| **Illustrative electricity cost on this tariff** | |
| **Assumed annual consumption** | 3,300 kWh |
| **Estimated annual cost** | £525.88 |
| **Tariff Comparison Rate (TCR)** | 15.94p per kWh |

| About your gas tariff | |
|---|---|
| **Supplier** | YourPower |
| **Tariff name** | YourPower Fixed Renewables |
| **Tariff type** | Green, Fixed price |
| **Payment method** | Direct Debit |
| **Unit rate** | 4.26p per kWh |
| **Standing charge** | 19.72p per day |
| **Tariff ends on** | 18 February 2011 |
| **Price guaranteed until** | 18 February 2011 |
| **Exit fees** (if you cancel this tariff before the end date) | £50.00 |
| **Discounts and additional charges** | No discounts |
| **Additional products or services included** | Loyalty points |
| **Illustrative gas cost on this tariff** | |
| **Assumed annual consumption** | 16,500 kWh |
| **Estimated annual cost** | £774.88 |
| **Tariff Comparison Rate (TCR)** | 4.70p per kWh |

*Estimated costs include VAT and are based on current prices for the tariff shown above.*

## Frequently asked questions

- **What is a kWh (kilowatt-hour)?**
  A kWh stands for kilowatt-hour – the unit used to measure energy use. 1 kWh will power a 40 watt light bulb for 25 hours.
- **What is the Tariff Comparison Rate (TCR)?**
  TCR is a rate per kWh that allows you to compare your tariff to other tariffs by taking account of the unit rate and standing charge.
- **Up to three additional frequently asked questions**

Figure 4A.3 – Tariff Information Label, Economy 7 Single Fuel Template

# Your tariff information

| About your electricity tariff | |
|---|---|
| **Supplier** | YourPower |
| **Tariff name** | YourPower Fixed Renewables |
| **Tariff type** | Economy 7 Electricity |
| **Payment method** | Direct Debit |
| **Unit rate – Day** | 10.00p per kWh |
| **Unit rate – Night** | 10.90p per kWh |
| **Standing charge** | 27.4p per day |
| **Tariff ends on** | 18 February 2011 |
| **Price guaranteed until** | 18 February 2011 |
| **Exit fees** (if you cancel this tariff before the end date) | £50.00 |
| **Discounts and additional charges** | No discounts |
| **Additional products or services included** | Loyalty points |

| Illustrative electricity cost on this tariff | |
|---|---|
| **Assumed annual consumption** | 3,300 kWh |
| **Estimated annual cost** | N/A |
| **Tariff Comparison Rate (TCR)** | N/A |

*Estimated costs include VAT and are based on current prices for the tariff shown above.*

## Frequently asked questions

- **What is a kWh (kilowatt-hour)?**
  A kWh stands for kilowatt-hour – the unit used to measure energy use. 1 kWh will power a 40 watt light bulb for 25 hours.
- **What is the Tariff Comparison Rate (TCR)?**
  TCR is a rate per kWh that allows you to compare your tariff to other tariffs by taking account of the unit rate and standing charge.
- **Up to three additional frequently asked questions**

## 4B. Summary Box on Bills

Figure 4B.1 – Summary Box on Bills, Standard Single Fuel Template, Version 1, Page

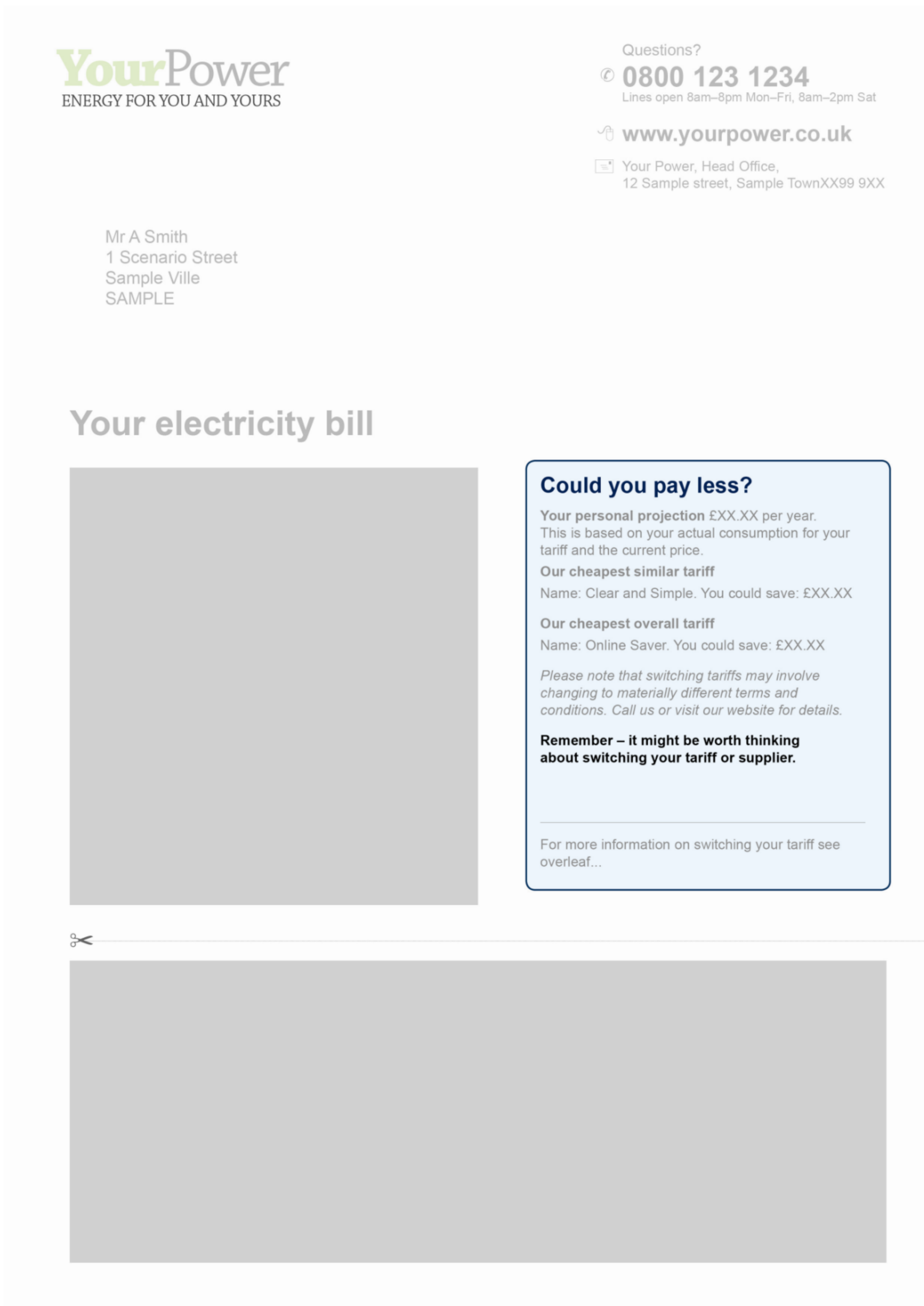
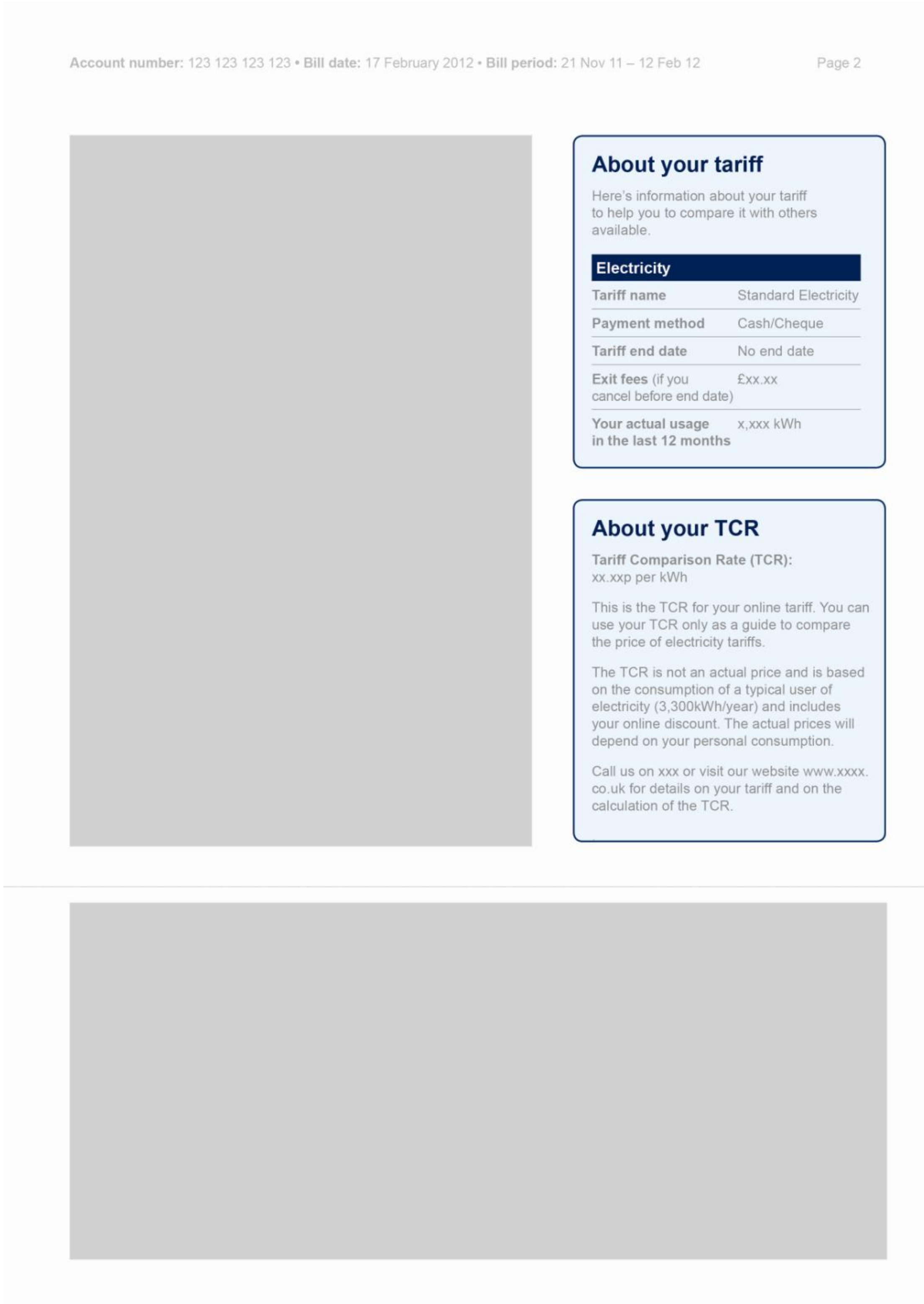


Figure 4B.1 – Summary Box on Bills, Standard Single Fuel Template, Version 1, Page 2



**Account number:** 123 123 123 123 • **Bill date:** 17 February 2012 • **Bill period:** 21 Nov 11 – 12 Feb 12 Page 2

## About your tariff

Here's information about your tariff to help you to compare it with others available.

| Electricity | |
|---|---|
| **Tariff name** | Standard Electricity |
| **Payment method** | Cash/Cheque |
| **Tariff end date** | No end date |
| **Exit fees** (if you cancel before end date) | £xx.xx |
| **Your actual usage in the last 12 months** | x,xxx kWh |

## About your TCR

**Tariff Comparison Rate (TCR):**
xx.xxp per kWh

This is the TCR for your online tariff. You can use your TCR only as a guide to compare the price of electricity tariffs.

The TCR is not an actual price and is based on the consumption of a typical user of electricity (3,300kWh/year) and includes your online discount. The actual prices will depend on your personal consumption.

Call us on xxx or visit our website www.xxxx.co.uk for details on your tariff and on the calculation of the TCR.

## 4C. Annual Statement

Figure 4C.1 – Annual Statement, Standard Single Fuel Template, Page 1

A

YourPower
ENERGY FOR YOU AND YOURS

**Any questions after reading your summary?**

Visit **yourpower.co.uk**

Or call **0800 123 1234**
(8am–8pm Mon–Fri, 8am–2pm Sat)

Mr A Jones
4 Scenario Street
Sample Ville
SAMPLE

**Your account number:**
123 123 123 123

**Summary date:**
15 Jan 2012

**Supply address:**
4 Scenario Street
Sample Ville
SAM PLE

B

Mr Jones,

# Your annual electricity summary

**For 01 January 2011 to 01 January 2012**

This is important information about your electricity usage and tariff – we hope you find it helpful. You can use this information to compare your current tariff with others that are available, either from us, or from other suppliers. Please keep this summary for your records.

**See below and overleaf for more information on switching your supplier or tariff →**

**Remember – it might be worth thinking about switching your tariff or supplier.**

C

### Your electricity usage summary

- Over the last 12 months you've used **3,900 kWh** *(including estimated readings)*
- Your total costs were **£529.89**


Based on your current tariff and usage, your personal projection for the next 12 months is **£529.89***.

**Based on our current prices and includes some discounts and added charges, like VAT. If the price of your tariff changes or you change your tariff, or the amount you use, this forecast will change too.*

D

### Could you pay less?

**Our cheapest similar tariff**
Name: Clear and Simple
You could save: £XX.XX

**Our cheapest overall tariff**
Name: Online Saver
You could save: £XX.XX

*Please note that switching tariffs may involve changing to materially different terms and conditions.*

*For more information on switching your tariff see overleaf...*

Figure 4C.1 – Annual Statement, Standard Single Fuel Template, Page 2

E

### Need independent advice about switching tariff or supplier?

For impartial advice on switching suppliers contact **Citizens Advice**:

adviceguide.org.uk 08454 04 05 06

**Consumer Focus** has a Confidence Code for online switching sites to ensure consumers receive accurate, detailed and unbiased price comparisons:

consumerfocus.org.uk

The **Staying Connected Energy Consumer Checklist** contains key information for energy consumers to get and stay connected to their energy supply.

xxxxxxxx.org.uk/consumerchecklist

### You could also reduce your costs by using less energy

Contact **Energy Saving Advice Service** for impartial advice on how to save energy:

0300 123 1234

F

## About your electricity tariff

| Tariff details | |
|---|---|
| **Tariff name** | Standard |
| **Tariff type** | Standard |
| **Payment method** | Cash/Cheque |
| **Unit rate** | 14.01p per kWh |
| **Standing charge** | 17.41p per day |
| **Tariff ends on** | No end date |
| **Price guaranteed until** | Does not apply |
| **Exit fees** (if you cancel this tariff before the end date) | Does not apply |
| **Discounts and additional charges** | No discounts |
| **Additional products or services included** | Loyalty points |

| Estimated electricity cost for you on this tariff | |
|---|---|
| **Your annual consumption** (based on your actual consumption) | 3,900 kWh |
| **Personal projection** (based on current prices and including VAT) | £529.89 |
| **Tariff Comparison Rate (TCR)** | 15.94p per kWh |

## Key contractual terms

**Cancellation fees and arrangements for ending the contract**

You may end your contract at any time without being charged a cancellation fee, but you must give us 28 days' notice, provide a final meter reading and settle any outstanding debt for electricity.

**Other terms**

***Discounts***

Your tariff includes our [x] discount of [x]. This discount will continue to apply if you continue to meet the following conditions [x]. If we decide to withdraw this discount we will notify you in advance and inform you of your rights.

***Moving house***

If you move house you must give us at least 2 days' advance notice or you will continue to be liable for the supply until the earlier of:

- the second working day after you have subsequently notified us of that you have moved house; or
- the date another person begins to own or occupy the premises and starts to consume electricity.

***Additional charges***

We may charge you for any additional visits, tests or work carried out at your request. Details of these charges are provided in the enclosed leaflet.

## Glossary

**kWh (kilowatt hour)** – one kilowatt of power being used for one hour. It's the same as a 40-watt light bulb being left on for 25 hours. Also known as a 'unit' of energy.

**Personal projection** – this is based on your actual consumption and is a projection of your future yearly charge. You could compare the personal projection for your current tariff with a personal projection given to you for an alternative tariff by your current supplier, an alternative supplier or a switching site.

**Switch** – to change from the current supplier to a different supplier, or to change from the current tariff to a different tariff with the same supplier.

**Tariff** – the package of charges and conditions that a supplier offers you for providing electricity.

**Tariff Comparison Rate (TCR)** – TCR is a figure that can be used to compare the price of the tariff you are on against alternative tariffs from your own or other suppliers. The TCR is calculated as the estimated yearly bill, divided by the amount of energy used each year by a typical medium user of electricity. The TCR takes account of any standing charge and the unit rate(s) that make up the tariff. The TCR is not based on your personal consumption and should be used as a guide only.

Figure 4C.1 – Annual Statement, Standard Single Fuel Template, Page 3

## Additional information

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## Additional information

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## 4D. Price Increase Notice

Figure 4D.1 – Price Increase Notice, Standard Dual Fuel Template, Page 1

YourPower
ENERGY FOR YOU AND YOURS

Questions?
0800 123 1234
Lines open 8am–8pm Mon–Fri, 8am–2pm Sat
www.yourpower.co.uk
Your Power, Head Office, 12 Sample street, Sample Town XX99 9XX

Your customer number:
123 123 123 123

**Supply address:** 20 Sample Street, Sample Town, Sample Ville SAMPLE
**Your electricity tariff:** Standard Electricity
**Payment method:** Direct Debit
**Your gas tariff:** Standard Gas
**Payment method:** Direct Debit

Mr A Smith
2 Sample Street
Sample Ville
SAMPLE

02 November 2011

Dear Mr Smith,

**Your energy prices are increasing from 01 December 2011**

Due to an increase in wholesale prices, from 01 December 2011, the price you pay for your electricity and gas is increasing. Your standing charges will remain the same. Here's a breakdown of how your prices are changing:

EXAMPLE

**Your new prices**

| | | Current prices until 30 Nov 2011 | New prices after 01 Dec 2011 |
|---|---|---|---|
| **Electricity** | Standing charge (per day) | x.xxp | x.xxp |
| | Unit rate (per kWh) | x.xxp | x.xxp |
| **Gas** | Standing charge (per day) | x.xxp | x.xxp |
| | Unit rate (per kWh) | x.xxp | x.xxp |

*All charges exclude 5% VAT, which will be added to your total bill.*

PRESCRIBED

Here's an idea of how the price increase will affect you, assuming you continue to use the same amount of energy:

EXAMPLE

| | | Current prices until 30 Nov 2011 | New prices after 01 Dec 2011 | Increase in cost |
|---|---|---|---|---|
| **Your personal projection for the year** | Electricity | £xxx.xx | £xxx.xx | £xxx.xx |
| | Gas | £xxx.xx | £xxx.xx | £xxx.xx |

*Your personal projection includes 'xxxx' discount and VAT but does not include 'xxxx'.*

**Could you pay less?**

PRESCRIBED

Remember, it might be worth thinking about switching your tariff or supplier.

We may be able to help you save money with one of our other tariffs:
**Cheapest similar tariff:** 'xxxxx' tariff. You could save £xx.xx
**Cheapest overall tariff:** 'xxxxx' tariff. You could save £xx.xx
Call us or visit our website for details.

***Please note:*** *switching tariffs may involve changing to materially different terms and conditions.*

For impartial advice on switching tariff or supplier visit **advice.org.uk** or call the Citizens Advice consumer helpline on **0800 891 0256**.

You can also cut your costs by **using less energy**. For advice on how to save energy, contact the Energy Saving Advice Service on **0300 123 1234**.

EXAMPLE

Turn over for more information about your tariff and your right to switch

Figure 4D.1 – Price Increase Notice, Standard Dual Fuel Template, Page 2

**About your tariff and energy usage**

You might find the following information useful when comparing your tariff with others:

Your gas tariff: you are currently on our Standard Gas tariff paying by Direct Debit. In the last 12 months you have used **xxx kWh** (including estimated readings).

Your electricity tariff: you are currently on our Standard Electricity tariff paying by Direct Debit. In the last 12 months you have used **xxx kWh** (including estimated readings).

Your TCRs: Your Tariff Comparison Rate (TCR) is a rate per kWh that can be used as a guide to compare your tariff to other tariffs by taking account of the unit rate and standing charge. For electricity, your new TCR is xx.xxp per kWh. For gas, your new TCR is xx.xxp per kWh.

The TCR is not an actual price and is based on the consumption of a typical user who uses 3,300kWh/year of electricity and 16,500kWh/year of gas. The actual prices will depend on your personal consumption.

Call us on xxx or visit our website www.xxxx.co.uk for details on your tariff and on the calculation of the TCR.

Further details on your rights to switch are available below

**Your rights as a consumer**

You have a right to end your contract for gas or electricity (or both) because of the increase in charges. There will be no exit fee for ending your current contract in any circumstances.

If you wish to end your contract, you can either:

1. **Switch to another one of our tariffs, or**
2. **Switch to another supplier.**

We recommend you enter into a new contract with us or another supplier as soon as possible, or on or before **01 December 2011**, as you may be able to avoid the increase in prices.

**Please bear in mind that**

- In order to avoid the prices increase when you switch to another one of our tariffs, we must start to supply you under another one of our tariffs by [date which is 20 working days from the effective date of the price increase].
- If you switch to another supplier, we won't charge you any increase if by [date which is 20 working days from the effective date of the price increase], your proposed new supplier has told us that they'll be taking over your supply within a reasonable period of time.
- If you have unpaid charges on your account, we may prevent the switch until you have paid them. If so, we will write to tell you. If you pay the balance on your account within 30 working days of us telling you this, your switch can still go ahead and we won't apply a charge increase during the switching period.

The **Staying Connected Energy Consumer Checklist** contains key information for energy consumers to get and stay connected to their energy supply. See **xxx.org.uk/consumerchecklist.**

Yours sincerely,

Name – Title/position

EXAMPLE

# Appendix 5 – How policy proposals concerning clearer information would have effect through licence conditions

1.62. As referred to in Chapter 3 of our final proposals, this appendix includes tables that link our policy intent with the proposed licence conditions. We have produced tables for each communication with formatting requirements: the Tariff Information Label, the Bill, the Annual Statement, the Price Increase Notification and the End of Fixed Term Notice. For ease of reference, we give our policy proposal, the details of the policy, the standard licence condition and its status (whether it is a new requirement, an unchanged requirement, or whether there have been changes). An outline of material included in this appendix is set out below.

1.63. Appendix 5 is intended to provide assistance in understanding our policy intent on a more detailed level than was possible in the body of our consultation document. Please note that the contents of this appendix do not constitute legal advice nor compliance guidance. It is not a substitute for reading the proposed SLC drafting which appears in Retail Market Review – Envisaged Legal Drafting for Domestic Proposals.

5A. Tariff Information Label
5B. Bills
5C. Annual Statement
5D. Price Increase Notice
5E. End of Fixed Term Notice

**5A. How our TIL policy proposals would have effect through licence conditions**

| Policy proposal | Policy details | SLC | Status |
|---|---|---|---|
| Introduction of TILs with specified layout, format and content | For all tariffs open to new customers and/or with existing customers, suppliers are required to create TILs and update them before any change is effective.<br><br>Suppliers are required to produce TILs:<br>• in writing;<br>• in plain and intelligible language;<br>• in a colour which is readily distinguishable from the background;<br>• in font size not smaller than nine points;<br>• in a set format; and<br>• with prescribed contents. | 31B.1 | New condition |
| | Suppliers must take all reasonable steps to ensure TILs are updated before any change that affects the information that must be included takes place. | 31B.2 | New condition |
| TILs provision and publication | Suppliers are required to provide TILs free of charge within 5 days after the day a consumer requests them or as soon as reasonably practicable thereafter. | 31B.3 | New condition |
| | Suppliers are required to publish TILs on websites in a position that does not require a consumer to input any information apart from their address or postcode. | 31B.4 | New condition |
| | Suppliers are allowed to present TILs on websites using filters on: fuel, payment method, discounts and bundled products. | 31B.5 | New condition |
| | When suppliers use filters to present the TILs, they must include a clear message that acquiring the TILs does not require any more information than address or postcode. | 31B.6 | New condition |
| | Representatives of suppliers are required to provide up to date TILs. | 31B.7 | New condition |
| TILs future directions | Suppliers do not need to provide estimated annual costs in the TIL for time of use and seasonal staggered tariffs. | 31B.8 | New condition |
| | Ofgem may issue directions (following consultation) in respect of the exemption for time of use and seasonal staggered tariffs. | 31B.9 to 31B.10 | New condition |

| | | | |
|---|---|---|---|
| TILs guidance | Ofgem will issue guidance on the TILs if and when we consider it appropriate. | 31B.11 | New condition |
| TILs prescribed content | TIL must be provided in a prescribed layout and format. | 31B S1.1 | New condition |
| | TILs contain the following prescribed content (in this given order): supplier, tariff name, tariff type, payment method, unit rate, standing charge, tariff end date, price guarantee date, exit fees, discounts, additional charges and additional products or services. | 31B S1.2 to 31B S1.14 | New condition |
| | TILs contain an estimated annual cost for a medium user (as set by Ofgem) and the TCR, except for:<br>• TILs provided at the same time as Principal Terms and Personal Projection: text refers the consumer to the Personal Projection<br>• TILs of time of use tariffs; and seasonal staggered tariffs: text is "N/A" until guidance is issued on the TCR methodology for these tariffs. | 31B S1.15 to 31B S1.21 | New condition |
| | TILs are based on new prices when a public announcement about prices has been made and on current prices otherwise. | 31B S1.22 | New condition |
| | Suppliers are allowed to insert additional text in the TILs to ensure that they are not misleading. | 31B S1.23 | New condition |
| | TILs contain, in plain and intelligible language, an answer to "What is a kWh (kilowatt-hour)?" And to "What is the Tariff Comparison Rate (TCR)?". The latter answer must promote the benefits of the TCR. | 31B S1.24 to 31B S1.25 | New condition |
| | Suppliers are allowed to have up to three additional frequently asked questions in the TILs. | 31B S1.26 | New condition |

**5B. How our Bill policy proposals would have effect through licence conditions**

| Policy proposal | Policy details and location on Bill | SLC | Status |
|---|---|---|---|
| Prescribed content | **Summary box 'Can you pay less?'**<br><br>Require suppliers to provide the following personalised information in the 'Could you pay less?' box on the first page of every Bill:<br>• Personal Projection (and what is included in that figure);<br>• the name of relevant and alternative cheapest tariffs and estimated annual savings;<br>• a statement that switching tariffs may involve changing to materially different terms and conditions; and<br>• a reminder that consumer may wish to consider changing supplier. | 31.A.2 and Schedules 1-3 | New requirement |
| | **Summary box 'About your tariff'**<br><br>Require suppliers to display the following personalised information in the 'About your tariff' box on the second page of every Bill:<br><br>• the exact tariff name;<br>• the exact payment method;<br>• the date of the end of the fixed term contract (if applicable);<br>• termination fee (if applicable); and<br>• the customer's annual consumption details (and what is included in that figure). | 31.A.2 and Schedules 1-3 | New requirement |
| | **Summary box 'About your TCR'**<br><br>Require suppliers to display the 'About your TCR' box on every Bill, which includes the following information:<br><br>• TCR in p/kWh;<br>• a statement (designed to promote the benefits of the TCR) that the TCR can be used as a guide only as it is not based on consumer's personal consumption; and<br>• and phone and website details for more information on the TCR/its calculation. | 31.A.2 and Schedules 1-3 | New requirement |
| | **All Summary boxes**<br><br>The summary boxes above may be produced in adapted versions for dual fuel accounts as set out in the standard condition and Schedules. | 31.A.2 and Schedules 1-3 | New requirement |

| | | | |
|---|---|---|---|
| | **Anywhere on bill**<br><br>Suppliers required to provide information with comparison of consumption with corresponding period in previous year | 31A.2.(a) | No change |
| Clarity and transparency requirements | **Applies to the whole document**<br><br>The information presented on bills must be clear and easy to locate and understand. Suppliers also have to: provide details of any time of use tariffs which may apply, make clear if any estimates of consumption are used in producing info, , set out the charges that have been used when providing info about Personal Projection. | 31A.5 | No change |
| | **Applies to the whole document**<br><br>Suppliers required to:<br><br>• display the quantity of electricity or gas used in kilowatt hours when providing info about annual consumption;<br>• ensure that the information presented is in plain and intelligible language using text of a colour which is readily distinguishable from the background medium;<br>• provide an explanation on how the personal projection has been calculated and set out the calculation used; and<br>• for consumers on Evergreen tariffs, a reminder that a licensee may increase the charges for energy supply in future. | 31A.5 | New requirement |
| Cheapest tariff rules | **Summary box 'Can you pay less'**<br><br>Require suppliers to provide a statement that changing tariffs may involve changing to materially different terms and conditions. For consumers already on the cheapest tariff provide a statement that customer is already subject to it and that they will be informed at least once a year if the position changes. For prepayment consumers provide a message if the switching involves meter changes and costs involved and limitations that may apply. | 31A.7 to 31A.9 | New requirement |
| Prescriptive requirements | **Summary box 'Can you pay less?'**<br><br>Suppliers would be required to display the 'Could you pay less?' box on the first page of the Bill as set out above,  and populate it in accordance with the following detailed requirements set out in a Schedule 1 to the standard condition:<br><br>• presenting text of an equal size and prominence not smaller than 10 points in | S1.1 to S1.14 | New requirement |

| | | | |
|---|---|---|---|
| | size; and<br>• including the exact title prescribed. | | |
| | **Summary box 'About your tariff'**<br><br>Suppliers would be required to populate the 'About your tariff' box on the second page of the Bill as set out above, and populate it in accordance with the following detailed requirements set out in a Schedule 2 to the standard condition:<br><br>• presenting text of an equal size and prominence not smaller than 10 points in size;<br>• arranging the information vertically and in the same order as it appears in the Schedule;<br>• including the exact title prescribed; and<br>• explaining the purpose of the information presented. | S2.1 to S2.12 | New requirement |
| | **Summary box 'About your TCR'**<br><br>Suppliers would be required to populate the 'About your TCR' box on the Bill as set out above, and populate it in accordance with the following detailed requirements set out in a Schedule 3 to the standard condition:<br><br>• presenting text of an equal size and prominence not smaller than 10 points in size; and<br>• including the exact title prescribed. | S3.1 to S3.8 | New requirement |

**5C. How our Annual Statement policy proposals would have effect through license conditions**

| Policy proposal | Policy details and location on the Annual Statement | SLC | Status |
|---|---|---|---|
| Prescribed content | **Zones A and B**<br><br>Suppliers required to provide consumers, at least once a year, an annual statement which:<br><br>• contains appropriate consumer and supplier contact details;<br>• has the title 'Your annual gas/electricity summary';<br>• explains the purpose of the document and the dates to which it relates;<br>• encourages the consumer to keep the document for their records; and<br>• includes a prescribed reminder that consumer may wish to consider changing their supplier or tariff. | 31A.4 | New requirement |
| | **Zone C**<br><br>Suppliers required to provide information on:<br><br>• the consumer's actual or estimated annual energy usage, and the associated costs;<br>• a chart with displaying the consumer's energy usage over the previous year;<br>• a personal projection for the consumer;<br>• inform the consumer of what is included and excluded from their Personal Projection; and<br>• for consumers on Evergreen tariffs, a reminder that the licensee may increase the charges for energy supply in future. | 31A.4 | New requirement |
| | **Zone D**<br><br>Suppliers required to provide information on:<br><br>• the name of the relevant and alternative cheapest tariffs and estimated annual savings available to the consumer;<br>• a statement that switching tariffs may involve changing to a materially different terms and conditions;<br>• information relevant to users with Prepayment meters. | 31A.4 | New requirement |
| | **Zone E** | 31A.4 | New requirement |

| | | | |
|---|---|---|---|
| | Suppliers required to provide:<br><br>• a prompt to consider energy efficiency;<br>• information on where to find impartial advice on energy efficiency and changing supplier; and<br>• access to the Confidence Code, and the Consumer Checklist. | | |
| | **Zone F**<br><br>Suppliers required to provide:<br><br>• an embedded version of the TIL, which is similar to the standalone TIL but with consumer-specific information on annual consumption and Personal Projection;<br>• Principal Terms, using a third page where necessary;<br>• brief, easy-to-understand explanations of key industry terminology; and<br>• information explaining the form and purpose of the TCR. | 31A.4 | |
| Clarity and transparency requirements | **Applies to all zones**<br><br>The information presented on the Annual Statement must be clear and easy understand. It must be fair in terms of content and presentation, and must not mislead consumers. | 31A.5 | No change |
| | **Applies to all zones**<br><br>Suppliers must not combine the Annual Statement with any other document. It must be provided separately from any other document, with the exception of a second annual statement to dual fuel customers, a Green Deal statement, and such energy literacy documentation as Ofgem may issue in future. | 31A.5 | New requirement |
| | **Applies to all zones**<br><br>Suppliers must ensure that the information contained in an Annual Statement is drafted in plain and intelligible language. | 31A.5 | New requirement |
| | **Applies to all zones**<br><br>Suppliers must, when providing information about a consumer's annual consumption details, include details of any time of use tariffs that apply and display the quantity of energy used in kilowatt-hours. | 31A.5 | Partial change |

| | | | |
|---|---|---|---|
| | **Applies to all zones**<br><br>Suppliers must make it clear where any estimates of the consumer's energy use have been used in producing the information on the annual statement. | 31A.5 | No change |
| | Suppliers must provide all information on the consumer's Principal Terms in the same part of Annual Statement. | 31A.5 | New requirement |
| Cheapest tariff rules | **Zone D**<br>Where suppliers provides cheapest tariff messaging, they must also:<br><br>• include a statement that changing tariffs may involve changing to materially different terms and conditions;<br>• inform any consumer if they are already on the cheapest tariff, and that the consumer will be informed at least once a year if the position changes; and<br>• inform prepayment consumers where a cheaper tariff would involve meter changes and additional costs and any limitations, and the effects of the debt reassignment protocol on switching supplier. | 31A.7 to 31A.11 | New requirement |
| Prescriptive requirements | **Applies to all zones**<br><br>Suppliers would be required to populate all zones in accordance with the detailed requirements set out in Schedule 4 to the standard condition, which include:<br><br>• populating the annual statement on standard A4 paper; and<br>• arranging the required information in accordance with the Zones set out in Part 1 of Schedule 4. | S4.3 to S4.8 | New requirement |
| | **Zone A**<br><br>Populate Zone A with the content set out above, the details of which are set out in Schedule 4. | S4.9 | New requirement |
| | **Zone B**<br><br>Populate Zone B with the content set out above, which must include a standardised switching reminder which must be in bold text no smaller than the text which is used to populate the rest of the Zone (with the exception of the heading). | S4.10 | New requirement |
| | **Zone C**<br><br>Populate Zone C with the content set out above, which must include the figures for the consumer's: | S4.11 | New requirement |

| | | | |
|---|---|---|---|
| | • annual energy usage;<br>• annual energy costs; and<br>• Personal Projection,<br><br>presented in bold text no smaller than the text which is used to populate the rest of the zone (with the exception of the heading). | | |
| | **Zone D**<br><br>Populate Zone D with the content set out above. | S4.12 | New requirement |
| | **Zone E**<br><br>Populate Zone E with the content set out above. | S4.13 | |
| | **Zone F**<br><br>Populate Zone F with the content set out above, including:<br><br>• a tailored, embedded version of the TIL; and<br>• key contractual terms which apply, which may extend onto a third page. | S4.14 to S4.16 | New requirement |
| Optional Messaging | **No requirement**<br><br>Suppliers may include an optical machine-readable label (such as a Quick Response Code) in order to direct consumers to information. The information linked to can not include marketing materials, and may not act as a substitute for the information required to be presented on the annual statement. | 31A.4 | New requirement |

**5D. How our Price Increase Notice policy proposals would have effect through licence conditions**

| Policy | Policy details | SLC | Status |
|---|---|---|---|
| Requirements for Notification of Principal Terms | The supplier must provide the consumer with Principal Terms in plain and intelligible language before a contract is entered into to ensure they are understood by the consumer. | 23.1 | Modification to existing |
| | At the same time as providing key contractual terms, as above, the supplier must provide:<br>• the Tariff Information Label (or, orally, the information contained in the TIL) which applies to the tariff; and<br>• the customer's estimated annual costs.<br><br>In any circumstance where the supplier must provide estimated annual costs under the supply license, it must refer to the figure as a 'Personal Projection'. | 23.1 A and 23.1 B | New requirement |
| Requirements for Notification before contract ends | Between 42 and 49 working days in advance of end of a supply contract, the supplier must provide the consumer with the Principal Terms of the deemed contract that will apply if no new contract is agreed. | 23.2 | Modification to existing |
| Requirements for Notification of increase in charges for the supply and other unilateral variations | The supplier must give the consumer notice of:<br>• any increase in charges under their contract; or<br>• other unilateral variation to their contract which could disadvantage them. | 23.3 | Modification to existing |
| | The requirement to give notice under 23.3 does not apply in relation to:<br>• a mutual variation made under standard condition 23A;<br>• a unilateral variation made in relation to a dead tariff under standard condition 22D; or<br>• an extension to a fixed term contract made under standard condition 22C. | 23.3 A | New requirement |
| | The notice must required under 23.3 must:<br>• be provided at least 30 days in advance to ensure ample notice is given for the consumer to consider their options; | 23.4 (a) | New requirement |
| | • not be provided in conjunction with any other material (including marketing material) except for a second SLC 23 notice provided to a dual fuel customer;<br>• only include the prescribed information; | 23.4 (b) (c) | New requirement |

| | | | |
|---|---|---|---|
| | • have a clear title which relates to the increase in charges (or other unilateral variation) to ensure the purpose of the communication clear; | 23.4 (d) | New requirement |
| | • inform the customer of each specific change that applies to them; | 23.4 (e) | New requirement |
| | • provide a comparison of the customers' current and new Charges to ensure the impact of a price increase is clear (which must be set out in the format prescribed by the Schedules to standard condition 23); | 23.4 (f) | New requirement |
| | • where the supplier is increasing its charges, provide estimated annual costs using customers' current and new Charges, along with the difference in cost (which must be set out in the format prescribed by the Schedules to standard condition 23); | 23.4 (g) | New requirement |
| | • where the licensee is unilaterally varying any other term, provide a comparison of the term that applies and the new term; | 23.4 (h) | New requirement |
| | • inform the consumer of the date that increase in charges or other unilateral variation takes effect; | 23.4 (i) | New requirement |
| | • inform the consumer of the main reasons for the increase in charges or other unilateral variation to terms; | 23.4 (j) | New requirement |
| | • contain a prescribed reminder that the consumer may wish to consider changing their tariff or supplier; | 23.4 (k) | New requirement |
| | • inform the consumer that they may end their contract if the change is unacceptable to them and either agree a new contract or change supplier; | 23.4 (l) | Modification to existing |
| | • inform the consumer where they may obtain impartial advice and information about switching supplier; | 23.4 (m) | No change |
| | • inform the consumer that they may be unable to switch supplier where they owe outstanding charges to their supplier; | 23.4 (n) | No change |
| | • explain how the customer may be able to take steps to avoid the increase in the charges or other unilateral variation; | 23.4 (o) | New requirement |
| | • explain the circumstances where a termination fee cannot be charged; | 23.4 (p) | New requirement |

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| | • where the supplier is increasing its charges, inform the customer of their estimated annual consumption; | 23.4 (q) | New requirement |
| | • inform the consumer of the name of their tariff and method of payment to ensure they receive personalised tariff information; | 23.4 (r) | New requirement |
| | • inform the consumer of where VAT is applicable; | 23.4 (s) | New requirement |
| | • inform the consumer of what is included and excluded from their estimated annual costs; | 23.4 (t) | New requirement |
| | • inform the consumer of the cheapest similar and overall tariffs available and the associated estimated annual savings to provide the consumer with information and a prompt to consider changing their tariff with their supplier; | 23.4 (u) | New requirement |
| | • inform the consumer of their TCR. | 23.4 (v) | New requirement |
| | The notice required under standard condition 23.3 may:<br><br>• inform the customer where he may obtain impartial advice on energy efficiency; and<br>• inform the customer where he may access the Consumer Checklist. | 23.4 (w) (x) | New requirement |
| | • include, where applicable, any information on energy literacy which is issued by Ofgem and which Ofgem may direct should be included with the notice. | 23.4 (y) | New requirement |
| | For dual fuel customers, the supplier may provide the consumer with a combined notice. | 23.4 A and 23.4 B | New requirement |
| | Where the supplier provides cheapest tariff messaging, it must include a statement to make the consumer aware that changing tariffs may involve changing to materially different terms and conditions. | 23.4 C | New requirement |
| | Where a supplier only has one tariff or the consumer is already on their cheapest tariff, the supplier must include a statement informing them as such and that they will be informed if the situation changes. | 23.4 D and 23.4 E | New requirement |
| Clarity and Transparency | The required information must be presented:<br><br>• in a manner that is clear and easy to understand;<br>• in text of a colour which is readily distinguishable from the background medium; and<br>• in text which is easy to see and read. | 23.5(a) | New requirement |

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| | Some items in the notice must be displayed in a prominent manner to ensure they are clear and noticeable to the consumer. | 23.5(b) | Modification to existing |
| | Some items in the notice must be presented on the front page of the notice to ensure the most important information is clear and noticeable to the consumer. | 23.5A and 23.5B | New requirement |
| | A supplier is unable to enforce or take advantage of an increase in charges or other unilateral variation where:<br>• it receives notice within 20 working days that a new supplier is to take over supply; or<br>• the consumer agrees a new contract with their existing supplier no later than 20 days after the price increase or unilateral variation takes effect. | 23.6 (a)(c) | Modification to existing |
| | 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. | 23.6 (b) | No change |
| | There are circumstances where the notification rules do not apply. | 23.7, 23.8 | New requirement |
| | Requirement for the supplier to have terms and conditions that reflect SLC 23. | 23.9, 23.10 | New requirement |
| Prescriptive Format Requirements | Requirement for the pricing information to be displayed in a standardised tabular format as set out in Schedules 1 to 6 to ensure that key pricing information is consistently presented in a clear and easy to understand format. | 23.11 | New requirement |
| | Detailed information on the requirements for standardised tabular format to be used in the notice. | S1 to S6 | New requirement |

**5E. How our End of Fixed Term Notice policy proposals would have effect through licence conditions**

| | Licence Condition | SLC | Status |
|---|---|---|---|
| SLC 22C - Clarity & Transparency: End of Fixed Term Notice | The End of Fixed Term Notice must be:<br><br>• set out in writing;<br>• easy to understand; and<br>• easy to see and read.<br><br>The purpose of the notice must be clear from the title: this is an opportunity for the consumer to engage.<br><br>All text, with the exception of headings, must be the same size. | 22C.3 | New condition |
| | The End of Fixed Term Notice must be provided separately from any other document. | 22.4 | New condition |
| SLC 22C - Clarity & Transparency: additional Notice | Where the supplier incorporates an additional Notice to the consumer with regard to extending a fixed term contract for another period, that additional Notice must be:<br><br>• easy to understand; and<br>• easy to see and read.<br><br>All text, with the exception of headings, must be the same size. | 22C.5 | New condition |
| | The additional Notice must:<br><br>• inform the consumer that the supplier is seeking the consumer's express agreement in writing to a further fixed term period;<br>• inform the consumer of the length of the proposed contract, and any changes to the terms and conditions;<br>• inform the consumer that they do not have to choose any of the proposed contracts; and<br>• include no additional information (or marketing material). | 22C.5 | New condition |
| | If the customer agrees to a new fixed term contract, they must do so in writing. | 22C.5 | New condition |
| Information requirements | Consumers receive the End of Fixed Term Notice within 42 to 49 days before the end of the contract. | 22C.4 | New condition |

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| | If the supplier proposes an extension to the fixed term contract, the period of the extension must not be longer than the previous fixed term contract.<br><br>Additionally, the extension must have the effect that the existing fixed term contract becomes identical to one of the supplier's existing 'live' tariffs. | 22C.5 | New condition |
| | Consumers receive the additional Notice, where applicable, within 42 to 49 days before the end of the contract. | 22C.5 | New condition |
| | The End of Fixed Term Notice must include:<br><br>• the end date of the current fixed term contract;<br>• a reminder to the consumer that they may wish to consider changing their tariff or supplier;<br>• information about where the consumer may obtain impartial advice and information about changing supplier;<br>• a statement to the effect that if the consumer does not change supplier or agree a new contract, they will be moved to the cheapest available evergreen tariff that most closely matches the terms of their current tariff;<br>• a Personal Projection for the cheapest available evergreen tariff that most closely matches the terms of the consumer's current tariff;<br>• information about howthe end date of the current fixed term contract;<br>• a reminder to the consumer that they may wish to consider changing their tariff or supplier;<br>• information about where the consumer may obtain impartial advice and information about changing supplier;<br>• a statement to the effect that if the consumer does not change supplier or agree a new contract, they will be moved to the cheapest available evergreen tariff that most closely matches the terms of their current tariff;<br>• a Personal Projection for the cheapest available evergreen tariff that most closely matches the terms of the consumer's current tariff;<br>• information about how and when a consumer may terminate their fixed term contract without being charged a termination fee; and<br>• information on the effect of the rules contained in SLC 24. | 22C.3 | New condition |

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| | • cheapest tariff information and estimated savings based on the cheapest available evergreen tariff that most closely matches the terms of the consumer's current tariff; and<br>• a statement to the effect that changing tariffs may involve changing to materially different terms and conditions.<br>• and when a consumer may terminate their fixed term contract without being charged a termination fee; and<br>• information on the effect of the rules contained in SLC 24. | | |
| | The End of Fixed Term Notice must also include:<br>• cheapest tariff information and estimated savings based on the cheapest available evergreen tariff that most closely matches the terms of the consumer's current tariff; and<br>• a statement to the effect that changing tariffs may involve changing to materially different terms and conditions. | 22C.3 and 22C.12 | |
| | Separately from the main body of the End of Fixed Term Notice, but clearly signposted, the supplier must provide information on:<br>• the Principal Terms that currently apply to the consumer;<br>• the Principal Terms that would apply if they moved to the cheapest available evergreen tariff that most closely matches the terms of their current tariff; and<br>• where applicable, the Principal Terms that would apply if the consumer agrees to extend their current fixed term contract.<br>The supplier must also provide a separate part containing:<br>• a TIL; and<br>• a Personal Projection,<br>in respect of each of the tariffs for which Principal Terms are provided. | 22C.3 | New condition |

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| | If the supplier fails to comply with the requirements set out in standard condition 22C, they cannot charge any termination fee in respect of the consumer's energy contract. | 22C.6 | New condition |

# Appendix 6 – Simpler tariff choices: mapping legal drafting and implementation

1.64. This section provides further detail regarding how policy proposals relating to simpler tariff choices would have practical effect through our proposed licence condition drafting. It also outlines proposed implementation timings. Further to the overview provided in chapter 2, this Appendix will help stakeholders to have visibility of the implications of proposed rules.

| Policy proposal | Policy details | Main Legal Provisions | Proposed implementation |
|---|---|---|---|
| | Description of the RMR proposition | SLC | |
| Limiting tariff numbers | All licensed suppliers which belong to the same corporate group will be prohibited from offering more than four core tariffs per fuel to any individual customer with non-time of use (ToU) meters (standard credit meters and pre-payment meters) and more than 4 core tariffs per fuel for each type of ToU meter (including E7, E10, DTS and smart meters) or smart meter mode, for any particular location at any one time. | 22B.1 (b) | Implemented by 31 Dec 2013 |
| | Suppliers will be allowed to have differences to T&Cs, without creating an additional core tariff, to account for adjustments to reflect different payment methods, specified surcharges, dual fuel and online discounts, bundles, and reward points. The Authority will have a backstop power to add additional one-off charges to the specified surcharges. | 22B.5 to 22B.23, Schedule to 22B | |
| | The supply licence will establish that all optional bundles, optional reward points, level of dual fuel and online discounts must be the same across all of a supplier's tariffs and be the same across all regions. All specified surcharges must be the same across all regions. | 22B.5 and 22B.6 22B.15 22b.23 Schedule to 22B | |
| | The supplier will be required to offer all tariffs to new and existing customers. | 22B.30 | |
| | The supply licence will require that there must be only one tariff name per core tariff, but additional text can be included to refer to branding. | 22B.1 (c) | |
| | The supply licence will allow suppliers to have a deemed tariff that does not count towards the tariff cap when its T&Cs are the same as those of an evergreen core tariff. | 22B.1 (c) | Implemented by 31 Dec 2013 |
| | The supplier will be able to have different terms for deemed contracts where there is a regulatory reason for that condition to be different from the conditions of the open core tariff. | Schedule to 22B | Implemented by 31 Dec 2013 |

| Policy proposal | Policy details<br>Description of the RMR proposition | Main Legal Provisions<br>SLC | Proposed implementation |
|---|---|---|---|
| | | | |
| Collective Switching | The supply licence will permit suppliers to use any fixed term core tariffs to participate in collective switching schemes. | 22B.2 | Implemented by 31 Dec 2013 |
| | This will apply for collective switching processes where:<br>a) The process is organised from time to time by a party that is not a licensed supplier.<br>b) It is a competitive and transparent process.<br>c) Is one-off in nature, and does not result in additional tariffs being open to anyone other than the original subscribing consumers.<br>d) The primary purpose of the collective switching process is securing an electricity or gas offer that will attract the bulk transfer of customers.<br>e) There is a clear beginning and end of the process. | 22B.36 | Implemented by 31 Dec 2013 |
| Adjustments to payment methods | The supply licence will require that any differences in the cost of providing different payment methods are made through adjustments either to the standing charge or unit rate. | 22B.7 | Implemented by 31 Dec 2013 |
| | Adjustments must be the same across all of a supplier's tariffs and be the same across all regions. | 22B.7 | Implemented by 31 Dec 2013 |
| | Adjustments cannot be made in other ways (e.g. as a discount) and cannot be presented as a percentage of the total bill, unit rate or standing charge. | 22B.7 | Implemented by 31 Dec 2013 |
| Tariff structure | The supplier will be required to recover all charges for a supply activity through a standing charge and unit rate structure. | 22A.1 to 22A.3, 22A.6 | Implemented by 31 Dec 2013 |
| | The supply licence will have a defined list of charges that will not have to be incorporated in a unit rate or standing charge (e.g. disconnection fees or late payment fees). The Authority will have a backstop power to add additional one-off charges that do not have to be incorporated in the unit rate or standing charges. | 22.A6 | Implemented by 31 Dec 2013 |
| | For non-ToU tariffs there should be a single unit rate that does not vary with consumption. | 22A.3 | Implemented by 31 Dec 2013 |
| | The supply licence will be amended to enable suppliers to make compensation payments to customers who have been adversely affected by a specific issue or event related with customer service, complaint handling or redress arrangements. | SLC1 Amended definitions | Implemented by 31 Dec 2013 |
| Surcharges, discounts & bundles prices | The supply licence will set out that all specified surcharges, bundles and all discounts (with the exception of the dual fuel discount) must be expressed in £/year or p/kWh. | 22B.15 Schedule to 22B | Implemented by 31 Dec 2013 |

| Policy proposal | Policy details | Main Legal Provisions | Proposed implementation |
|---|---|---|---|
| | **Description of the RMR proposition** | **SLC** | |
| Surcharges | The list of surcharges (both for the T&Cs that do not count towards the cap, and the T&Cs that do not have to be included in the standing charge or unit rate) will include a surcharge category for any charges required by licence conditions or legislation. | 22.A6<br>Schedule to 22B | Implemented by 31 Dec 2013 |
| | Suppliers will not be required to express surcharges, bundles and/or discounts in £/year or p/kWh, where i) A consumer has requested the information in another format, ii) it may be misleading to do so in the context, iii) where this is not possible, in which case the supplier will be required to set out the charging methodology. | 22B.24<br>22B.25 | Implemented by 31 Dec 2013 |
| Ban on expensive dead tariffs | Suppliers will be required to 'transfer' consumers from dead tariffs, where it would save them money, to the supplier's cheapest evergreen tariff given their payment method, meter and online/offline access. | 22D.6 | Implemented by 31 March 2014 |
| | Suppliers are required to make dead tariffs compliant with licence conditions in advance of comparing the tariffs with the cheapest evergreen tariff. The number of dead tariffs cannot be increased and that the terms and conditions of the dead tariff are as similar as possible to the original terms. They are required to notify customers about what will happen with their tariff, except where the dead tariff is not changed and is cheaper. | 22D.2 to 22D.4<br>22D.5<br>22D.9 | Day 1 implementation |
| | Suppliers are prohibited from introducing any new dead evergreen tariffs (consumers on an open tariff that is withdrawn need to be transferred onto another open tariff). | 22D.1 | Day 1 implementation |
| | When moving the customers on expensive dead tariffs by terminating the contract, suppliers will have to apply a deemed contract whose T&Cs are the same as those of the cheapest evergreen tariff. | 22D.11 | Implemented by 31 March 2014 |
| | Suppliers are required to provide an annual check of whether consumers on dead tariffs would be better off being transferred to their cheapest equivalent evergreen tariff. The annual check must be completed within 6 months of the Annual Statement being issued. | 22D.7 &<br>22D.8 | Implemented by 31 March 2015 |
| Notice period | Suppliers will be prohibited from requiring customers to give more than 28 calendar days notice to terminate an evergreen contract. Customers are entitled to give notice to terminate an evergreen contract at any time. | 24.6 | Day 1 implementation |
| Notification of unilateral variations | The supply licence will be amended to clarify that suppliers are required to give notification to customers of (a) any price increases and (b) unilateral variations to T&Cs which are to the disadvantage of the customer. | 23.3 | Day 1 implementation |

| Policy proposal | Policy details<br>Description of the RMR proposition | Main Legal Provisions<br>SLC | Proposed implementation |
|---|---|---|---|
| | Suppliers will not be required to give notice of the price increases where:<br><br>a) The price increases are 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.<br>b) The supplier explains the mechanism in advance and ensure that the terms clearly and prominently set out the details of that mechanism. | 23.8 | Day 1 implementation |
| | Suppliers will not be required to give notice of the price increases where:<br><br>a) They are set out in advance and scheduled to occur automatically by a precise amount(s) and on a precise date(s).<br>b) The supplier explains the precise details in advance and ensure that the terms clearly and prominently set out those details. | 23.8 | Day 1 implementation |
| Supplier and tariff protection window | The supply licence will be amended to make it easier for customers to switch supplier or change tariff without being affected by a price increase or other adverse unilateral variations. | 23.6 | Day 1 implementation |
| | For customers to avoid prices increase/other adverse unilateral variations:<br><br>a) They will no longer need to inform their current supplier of their intention to switch.<br>b) If they wished to switch supplier the deadline for the new supplier to notify the old supplier will be increased from 15 to 20 business days, applying from the date the price increase / adverse unilateral variation is scheduled to take effect.<br>c) They will be able to do so if they enter in a new contract with the same supplier and the new contract comes into effect no later than 20 business days from the date the price increase adverse unilateral variation is scheduled to take effect. | 23.6 | Day 1 implementation |
| Termination fee rules | The rules that prohibit a supplier to charge a termination fee will be amended to make clear that they apply when the supplier is required to give the customer notice of a price increase or other adverse unilateral variation (rather than where the supplier has actually given such notice). | 24.3 | Day 1 implementation |
| Mutual variation | A supplier's ability to agree a mutual variation to the T&Cs of any type of domestic supply contract will be subject to new rules, different from those for price increase notifications. | 23A | Day 1 implementation |

| Policy proposal | Policy details<br>**Description of the RMR proposition** | Main Legal Provisions<br>**SLC** | Proposed implementation |
|---|---|---|---|
| | The supplier will only be allowed to agree a mutual variation where:<br>a) The mutual variation does not extend a fixed term.<br>b) Consumers are notified, in writing, about the proposed mutual variations, 30 calendar days in advance, and are explicitly informed that they are under no obligation to agree.<br>c) The customer is provided with key T&Cs that would apply if the mutual variation is accepted.<br>d) There is an express agreement to the mutual variation that is initiated by the customer.<br>e) As a result of the mutual variation, the tariff will become identical to an open core tariff. | | Day 1 implementation |
| | The supplier must confirm any agreement with the consumer, in writing, within 5 working days (or as soon as is reasonably practicable thereafter). | 23A.3 | Day 1 implementation |
| Discounts, dual fuel | Suppliers will be prohibited from offering discounts to customers who contract for both electricity and gas which (a) are not a monetary amount, (b) are expressed as anything other than a £/year figure, or (c) vary the level of discount or any other T&Cs across the tariffs they offer or across regions. | 22B.5 | Implemented by 31 Dec 2013 |
| Discounts, online | Suppliers will be prohibited from offering an online discount to customers which (a) are not a monetary amount, (b) are expressed as anything other than a £/year figure, or (c) vary the level of discount or any other T&Cs which apply to discounts across the tariffs they offer or across regions. | 22B.6 | Implemented by 31 Dec 2013 |
| Other discounts | Suppliers will also be able to offer other discounts where (i) they are not a monetary amount or currency, and (ii) they are not capable of being applied to the standing charge or unit rate. These discounts must be expressed in either £/year or p/kWh. | 22B.3 | Implemented by 31 Dec 2013 |
| Discounts & tariff cap | The supply licence will establish that all discounts with the exception of the dual fuel and online discount would (a) be a separate core tariff and (b) expressed either in £/year or p/kWh. | 22B.3 | Implemented by 31 Dec 2013 |
| Discounts, termination fee | The licence condition will be amended to extend the definition of a termination fee to include loyalty discounts. | Amendments & additions to definitions in SLC1 | Implemented by 31 Dec 2013 |
| Discounts, applied continuously | Suppliers will be prohibited to offer discounts to their customers which (a) are not of the same value across all regions and (b) are not applied on a continuous basis. | 22B.5<br>22B.6<br>22B.16 | Implemented by 31 Dec 2013 |
| | Continuously applied means accrued on a daily or per kWh basis. | 22B.36 | Implemented by 31 Dec 2013 |

| Policy proposal | Policy details<br>Description of the RMR proposition | Main Legal Provisions<br>SLC | Proposed implementation |
|---|---|---|---|
| | Suppliers will not be required to have discounts of the same value across all regions where that are not possible. However the supplier must set out and apply the same charging methodology across regions. | 22B.26<br>22B.27 | Implemented by 31 Dec 2013 |
| | Suppliers will be exempted to comply with the rules on discounts where there are regulatory or legislation reasons to do so. | 22B.29 | Implemented by 31 Dec 2013 |
| | Suppliers will be exempted to comply with the rules to apply discounts on a continuous basis where:<br>a) The discount is provided upfront.<br>b) The discount is not cash, currency, or capable of being included in the standing charge or unit rate.<br>c) The customer does not have to pay anything to get the discount. | 22B.28 | Implemented by 31 Dec 2013 |
| Bundle rules | Suppliers will be prohibited to offer bundles to their customers which are not of the same value across all regions. | 22B.15 | Implemented by 31 Dec 2013 |
| | Suppliers cannot have more than one tied bundle to a particular core tariff. Tied bundles have to have distinct T&Cs, including the value of the bundle. | 22B.11 | Implemented by 31 Dec 2013 |
| | Suppliers will be able to offer optional bundles which have the same T&Cs, including the value of the optional bundle, across all core tariffs and all regions. | 22B.13 | Implemented by 31 Dec 2013 |
| | Bundles which are discounts have to be applied continuously. Otherwise, the bundle rules will apply. | 22B.8-22B.15 | Implemented by 31 Dec 2013 |
| | Bundles cannot be (and cannot be redeemed for) cash in any currency. | 22B.15, 22B.28 | Implemented by 31 Dec 2013 |
| | Bundles cannot be redeemed against or applied to the standing charge, unit rate, or energy bill. | 22B.15, 22B.28 | Implemented by 31 Dec 2013 |
| | Suppliers will not be required to have bundles of the same value across all regions where they are not possible. However the supplier must set out and apply the same charging methodology across all regions. | 22B.26, 22B.27 | Implemented by 31 Dec 2013 |
| | Suppliers will be exempted to comply with the rules on bundles where there are regulatory or legislation reasons to do so. | 22B.29 | Implemented by 31 Dec 2013 |
| Reward points rules | Suppliers will be prohibited to offer reward points schemes to their customers which (a) do not have the same T&Cs across all regions and (b) are not applied continuously. | 22B.17, 22B.23 | Implemented by 31 Dec 2013 |
| | Reward points have a specific currency system, where the currency unit is one point of the reward scheme. Applied continuously means points that are accrued on a daily or per kWh basis. | 22B.23 | Implemented by 31 Dec 2013 |

| Policy proposal | Policy details<br>Description of the RMR proposition | Main Legal Provisions<br>SLC | Proposed implementation |
|---|---|---|---|
| | Suppliers cannot have more than one reward point scheme tied to a particular core tariff. Tied reward points schemes have to have distinct T&Cs. | 22B.18 to 22B.22 | Implemented by 31 Dec 2013 |
| | Suppliers will be able to offer optional reward points schemes which have the same T&Cs, across all core tariffs and all regions. | 22B.18 to 22B.22 | Implemented by 31 Dec 2013 |
| | Reward points are not (and cannot be redeemed for) cash in any currency. | 22B.17, 22B.28 | Implemented by 31 Dec 2013 |
| | Reward points cannot be redeemed against or applied to the standing charge, unit rate, or energy bill. | 22B.17, 22B.28 | Implemented by 31 Dec 2013 |
| | Suppliers will be exempted from applying reward points continuously where:<br>a) They are provided upfront.<br>b) The customer does not have to pay anything to get them.<br>c) There is no more than one reward points scheme covered by this exception applied to a specific core tariff. | 22B.28 | Implemented by 31 Dec 2013 |
| | Suppliers will be exempted to comply with the rules on reward points where there are regulatory or legislation reasons to do so. | 22B.29 | Implemented by 31 Dec 2013 |
| Auto-rollover | Suppliers will be prohibited from automatically rolling over customers subject to a fixed term period for a further fixed term period, including by amending its duration. | 22C.2 | Day 1 implementation |
| | The supplier will be still be able to rollover the customer onto a further fixed term period where:<br>a) Suppliers provide customers with the information prescribed by Ofgem.<br>b) The customers must agree in writing during the rollover switching window.<br>c) The length of the new fixed term period is no longer than the length of the previous fixed term period.<br>d) The terms that apply to the new fixed term period are the same as the terms of an open core tariff.<br>e) The fixed term period refers to other than the last period of a tariff whose prices variations are set out in advance. | 22C.5 Transitional SLC 22CA | Day 1 implementation |
| | Suppliers will be prohibited to charge a termination fee if they do not comply with the automatic rollover requirements. | 22C.6 | Day 1 implementation |
| Fixed term tariffs, switching window | Suppliers will be required to apply a switching window starting with a notification letter sent between 42 and 49 calendar days before the end of the fixed term period. | 22C.5 Transitional SLC 22CA | Day 1 implementation |

| Policy proposal | Policy details<br>Description of the RMR proposition | Main Legal Provisions<br>SLC | Proposed implementation |
|---|---|---|---|
| | At the start of the rollover switching window, the supplier must provide to customers a notification with prescribed information. | 22C.5<br>Transitional SLC 22CA | Day 1 implementation |
| | Suppliers will be prohibited to charge a termination fee where customers choose to switch during the switching period. | 24.8 | Day 1 implementation |
| | Suppliers are prohibited from requiring customers to give notice to terminate a fixed term contract. | 24.8 | Day 1 implementation |
| | Where a supplier is using a staggered pricing tariff that is permitted, the switching window applies to the last fixed term period. | 22C.20 | Day 1 implementation |
| Fixed term tariffs, supplier protection window | The supplier will be required to apply the same charges and T&Cs (other than a termination fee) to customers until they have changed supplier. | 24.9 | Day 1 Implementation |
| | For this to apply:<br>a) The new supplier must notify the old supplier, within 20 business days from the end of the fixed term period, that they will begin to supply the customer within a reasonable period of time.<br>b) If the supplier objects on debt grounds, and the customer has paid the debt within 30 business days from the date they were notified of the objection. | 24.10 | Day 1 Implementation |
| Fixed term tariffs, tariff protection window | The supplier will be required to apply the same charges and T&Cs (other than a termination fee) to customers until they have changed tariff with the same supplier. | 24.11 | Day 1 Implementation |
| | For this to apply the new contract with the same supplier must come into effect no later than 20 business days from the end of the fixed term. | 24.12 | Day 1 Implementation |
| Fixed term tariffs, unilateral variations | In relation to fixed term offers, suppliers will be prohibited to (a) change the charges and (b) change any other T&Cs that are to the disadvantage of the customer. The exceptions are mutual variations, tracker tariffs compatible with consumer protection law, variations set out in advance. | 22C.9, 22C.10 | Implemented by 31 March 2014 |
| | Suppliers will still be able to make variations which occur automatically, where:<br>a) The variations are 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.<br>b) The supplier explains the mechanism in advance of the customer entering into a contract and ensures that the terms of the contract clearly and prominently set out the details of that mechanism. | 22C.11 | Day 1 Implementation |

| Policy proposal | Policy details<br>Description of the RMR proposition | Main Legal Provisions<br>SLC | Proposed implementation |
|---|---|---|---|
| | Suppliers will still be able make variations set out in advance where:<br>a) They are scheduled to occur automatically by a precise amount (or amounts) and on a precise date (or dates).<br>b) The supplier explains the precise details (amounts and dates) in advance of the customer entering into a contract and ensures that the terms of the contract clearly and prominently set out those details. | 22C.11 | Day 1 Implementation |
| Fixed term tariffs, default rules | In the absence of action from the customer, suppliers will be required to default customers coming to the end of a fixed term period to the cheapest evergreen tariff of the same meter type (or in the case of smart meters the meter mode) and payment method. | 22C.7, 22C.8 Transitional SLC 22CA | Day 1 Implementation |
| | Suppliers will be required to default (a) an offline customer to an offline tariff, and (b) an online customer to an online tariff. | 22C.21 | Day 1 Implementation |
| | Where a supplier is using a staggered pricing tariff that is permitted, suppliers will not be required to default customers onto the cheapest evergreen tariff until the last fixed term period. | 22C.20 | Day 1 Implementation |
| Fixed term tariffs, deemed contract rules | Suppliers will be prohibited from having, or claiming, that deemed contracts are subject to (a) a fixed term period, (b) a termination fee or (c) a requirement for customers to provide notice to exit a deemed contract. | 7.6A | Day 1 Implementation |
| White labels exemptions | Existing white labels on or before 1 March 2013 (and which are still in existence after that date) will be exempted from:<br>a) The tariff cap.<br>b) Applying the same surcharges, bundles, reward points, dual fuel discount and online discount that the parent supplier offers (and vice-versa).<br>c) Moving customers to the parent supplier's cheapest evergreen tariff when a fixed term contract comes to an end (and vice-versa).<br>d) Moving customers from expensive dead tariffs to the parent supplier's cheapest evergreen tariff (and vice-versa).<br>e) The cheapest messaging narrow definition. | 31D | Day 1 Implementation |
| | White labels tariffs which existed on or before 1 March 2013 (and which are still in existence after that date) will not be able to increase their number of tariffs as of that date (for clarity, white labels will be able to replace or amend existing open tariffs). | 22B, 31D | Day 1 Implementation |
| TCR, single number | Suppliers will be required to express each tariff they offer as a single number that captures the tariff's relevant price elements for an assumed level of consumption. They will be required to refer to this single number as 'Tariff Comparison Rate' or 'TCR'. | 31C.1 | Implemented by 31 Dec 2013 |

| Policy proposal | Policy details<br>Description of the RMR proposition | Main Legal Provisions<br>SLC | Proposed implementation |
|---|---|---|---|
| | TCRs will be calculated for each variant of a core tariff (i.e. for each payment type and with and without dual fuel discounts). | Amendments & additions to definitions in SLC1 | Implemented by 31 Dec 2013 |
| TCR methodology | Suppliers will be required to calculate TCRs for (a) medium users, (b) for Great Britain regions and (c) to include all non-contingent discounts and penalties. The TCR will also include the cost of the non-energy element for tariffs that include a tied bundle. TCRs will be created or updated when a new tariff is created, or the price of the tariff changes. | Amendments & additions to definitions in SLC1 | Implemented by 31 Dec 2013 |
| | TCR will be expressed in p/kWh, and its calculation will include any standing charge and the charges for the units of energy consumed. | Amendments & additions to definitions in SLC1 | Implemented by 31 Dec 2013 |
| | Ofgem would set the assumptions to be used for medium consumption in the calculation of TCRs. | Amendments & additions to definitions in SLC1 | Implemented by 31 Dec 2013 |
| | Suppliers will be required to include alongside the TCR (a) the tariff name, (b) the payment method, (c) whether the dual fuel and/or online discounts are included in the TCR and (d) signposting where full additional information is available. | 31C.5 | Implemented by 31 Dec 2013 |
| | Suppliers will be required to make clear where a TCR (a) does not include a contingent discount or penalty and (b) the value of such discount or penalty. | 31C.5 | Implemented by 31 Dec 2013 |
| | Suppliers will have to include a statement that the TCR is based on assumed consumption values for a typical user and that the actual prices will depend on their actual usage of energy. Suppliers will have to make clear that the TCR should be used only as a guide and that it is not an actual price. | 31C.5 | Implemented by 31 Dec 2013 |
| | Where the customer's TCR is provided, the supplier must make clear that this is the TCR for the customer's tariff. | 31C.5 | Implemented by 31 Dec 2013 |
| | Suppliers will have to publish the full information for the elements that make the TCR in a separate section to the TIL, where the TCR is included on their website, or where a hard copy of the TCR is provided. This will include:<br>1) Suppliers will be required to make clear where a TCR (a) does not include a contingent discount or penalty and the value of any discount/penalty.<br>2) Where bundled products are tied or opt-out in nature, suppliers would be required to provide information about the bundled product alongside the TCR (name, price, and description), and whether that is included or not in the calculation.<br>3) Suppliers will be required to make clear that the TCRs for dual fuel tariffs are subject to the customer taking both fuels.<br>4) Suppliers will be required to indicate which and the value of any other discount that applies to | 31C.5 | Implemented by 31 Dec 2013 |

| Policy proposal | Policy details<br>Description of the RMR proposition | Main Legal Provisions<br>SLC | Proposed implementation |
|---|---|---|---|
| | the tariff. | | |
| | Dual fuel tariffs will have separate TCRs for the gas and electricity elements, with the dual fuel discount split evenly across both fuels. | 31C.5 | Implemented by 31 Dec 2013 |
| | Online communications will be updated when updating the TCR, and hard copy communications will be updated within 7 calendar days. | 31C.6 | Implemented by 31 Dec 2013 |
| | For tracker tariffs that are updated infrequently, the TCRs will be updated at the same time that the price changes. | 31C.6 | Implemented by 31 Dec 2013 |
| | TCRs will be updated at the end of each day for tracker tariffs with more frequent price changes (based on the daily average price). | 31C.6 | Implemented by 31 Dec 2013 |
| | When calculating TCRs, suppliers must use the new prices where there has been a public price change announcement (even if the price increase does not yet apply to the customer because of the 30 day rule)." | Amendments & additions to definitions in SLC1 | Implemented by 31 Dec 2013 |
| | Any information that the supplier chooses to include when presenting a TCR should promote the use of the TCR and how it may help consumers. | 31C.5 | Implemented by 31 Dec 2013 |
| TCR, how to use | Suppliers will be required to use TCRs in regular supplier communications, where they provide price information, the supplier website, the TIL and where a relative price claim is made. | 31C.1 | Implemented by 31 Dec 2013 |
| | TCR for the customer's tariff will be presented in the specific box on the bill, in the annual statement, and the price increase notification/end of fixed term contract. | 31A.2, 31A.4, 23.4 | Implemented by 31 Dec 2013 |
| | The TIL will contain TCRs for Medium users. | Amendments & additions to definitions in SLC1 | Implemented by 31 Dec 2013 |
| | Suppliers will be required, where they present a TCR in advertisements and marketing materials, to do it in a way that is clearly communicated and clearly visible. | 31C.5 | Implemented by 31 Dec 2013 |
| | TCRs displayed in a website must be easily accessible and may only require customers to input their address or postcode. | 31C.4 | Implemented by 31 Dec 2013 |
| | When presenting the TCR, suppliers will have to use a colour that is distinguishable from the background medium. | 31C.5 | Implemented by 31 Dec 2013 |
| | Suppliers will be required to provide the TCR, within 5 calendar days or as soon as possible after that, to who requires it from them (free of charge). Suppliers however are not able to require TCRs from each other. | 31C.7 | Implemented by 31 Dec 2013 |

| Policy proposal | Policy details<br>Description of the RMR proposition | Main Legal Provisions<br>SLC | Proposed implementation |
|---|---|---|---|
| | Suppliers will be required, where they present a TCR in advertisements and marketing materials, to do it in a way that is clearly communicated and clearly visible. | 31C.5 | Implemented by 31 Dec 2013 |
| | Where a comparative claim is made (e.g. cheaper than tariff B; cheapest in market) the supplier who makes the claim must present the TCR for its tariff. | 31C.2 | Implemented by 31 Dec 2013 |
| Personal Projection | Suppliers will be required to provide a personal projection to consumers, which is based on similar rules to the rules of the TCR, but uses the consumer's actual consumption of gas and/or electricity to provide a projected annual cost for each consumer. Suppliers will be required to refer to this as a 'Personal Projection'. | New SLC1 definitions; 23.1B | Implemented by 31 March 2013 |
| | Suppliers will be required to estimate the consumer's usage where actual consumption is not available in line with the existing rules in Licence Conditions – where actual meter reads are not available, suppliers will be required to use their best estimate of consumption for a 12 month period, taking into account all relevant factors (including the most up to date meter reads available to the supplier). | New SLC1 definitions | Implemented by 31 March 2013 |
| | Personal projections are expressed in pounds per year (£/year). | New SLC1 definitions | Implemented by 31 March 2013 |
| | The personal projection for the consumer's current tariff will include the value of tied bundles. It will also include the value of discounts in tied bundles where the value of such discounts directly affects the standing charge and/or unit rate, but will exclude the value of any optional bundle. | New SLC1 definitions | Implemented by 31 March 2013 |
| How to use Personal Projection | Ofgem will require suppliers to include the personal projection in regular supplier communications and to use it when providing estimates to potential new customers in the context of face-to-face sales, telesales and online sales. | 23.1 | Implemented by 31 March 2013 |
| TCR for third parties | Suppliers may be required to publish or provide third parties with TCR information for all of their tariffs in an appropriate format. | 31C.4, 31C.7 | Implemented by 31 Dec 2013 |
| Supporting propositions | Suppliers are required to have terms and conditions in their contracts with customers that reflect the requirements of particular licence conditions. | See SLCs: 7; 22A; 22B; 22C; 23; 24; 31A+22D. | Day 1 Implementation |
| | In exceptional circumstances Ofgem will retain the ability to exempt suppliers from all or part of the requirements of particular licence conditions and put alternative requirements in place. | See SLCs:22A; 22B; 22C; 31C | Day 1 Implementation |

| Policy proposal | Policy details | Main Legal Provisions | Proposed implementation |
|---|---|---|---|
| | **Description of the RMR proposition** | **SLC** | |
| | Suppliers will be required to have regard to guidance published by Ofgem on particular licence conditions. | See SLCs: 22A; 22B; 22C;22D; 23A; 25C; 31B; 31C; 24; 31A; 23: 7 | Day 1 Implementation |

# Appendix 7 – Draft guidance on Standards of Conduct key terms

1.65. The content below represents proposed guidance relating to the proposed licence condition on the Standards of Conduct. We consider this guidance will help provide further clarity regarding how some of the terminology used in this licence condition should be interpreted. As part of this consultation we are seeking views on this proposed guidance.

Illustrative guidance on concepts used in Standards of Conduct

| Expression | Illustrative guidance |
|---|---|
| “honest” and “transparent” | The requirements to be honest and transparent encapsulate the following:<br><br>Honesty requires that the actions and omissions of a supplier are truthful, free of any form of deceit, and sincere. Transparency requires that information about a product (including the terms and conditions) is expressed fully, and in a manner which is clear and easy to understand and which avoids concealed pitfalls or traps.<br><br>When communicating directly with consumers, acting in a transparent manner would include (but not be limited to) proactively providing consumers with appropriate and/or relevant information (orally or in writing) to make them aware of their rights and the supplier’s obligations. It would also encapsulate actively responding to any questions.<br><br>Transparency and honesty would require appropriate and prominent signalling to be given to aspects of a product or contractual rights which might operate to the disadvantage of the customer. It also requires that a supplier does not, whether deliberately or unconsciously, take advantage of the customer's necessity or desperation, lack of experience or knowledge, unfamiliarity with the subject matter of the product, or weak bargaining position. |

| | |
|---|---|
| | An example of transparency and honesty would be for the supplier to disclose all relevant information the supplier has in response to a consumer's query via telephone even if this information does not favour the supplier. This query may relate to the price of the product or the quality of service provided by the supplier. |
| "appropriate" | Encapsulates adapting behaviour to take into account particular circumstances arising in a given situation, including but not limited to: cultural or other sensitivities, the position of vulnerability, disabilities, or intellectual and technical capabilities of consumers (including IT skills and access to the internet).<br><br>Examples of when a supplier may be insensitive to a consumer's circumstances when they are in a vulnerable position may include scenarios where a consumer is in financial difficulty, are suffering from stress and/or are in debt.<br><br>An example inappropriate behaviour in this scenario would involve the supplier's customer service representative adopting an aggressive/rude tone when speaking to a consumer on the phone. |
| "professional manner" | Encapsulates acting with reasonable care and skill, having good knowledge of the product and relevant aspects of the energy sector, dealing with consumers in a courteous manner and having relevant knowledge of the rights of consumers' and suppliers' obligations.<br><br>It also covers matters of taste and decency. The behaviour should not put the industry in disrepute.<br><br>Aggressive, intimidating, rude or condescending behaviour would be examples of acting contrary to this requirement. |
| "plain and intelligible language" | As per the SLC 7A guidance, we would |

| | |
|---|---|
| | look to the interpretation the Court and the Office of Fair Trading (OFT) have taken in the context of the Unfair Terms in Consumer Contracts Regulations 1999.<br><br>For example, plain and intelligible language requires:<br><br>"…not only that the actual wording of individual clauses or conditions be comprehensible to consumers, but that the typical consumer can understand how the term affects the rights and obligations that he and the seller or supplier have under the contract…I would consider it proper when assessing whether terms are in plain intelligible language to take into account clear and accessible presentation with, for example, useful headings and appropriate use of bold print, which can contribute to the intelligibility to the typical consumer of the language." |

# Appendix 8 - Glossary

**A**

### Annual Statement (also known as "Annual Gas/Electricity Summary")

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 and estimate of annual cost for the next 12 months.

### Automatic contract rollover ('auto-rollover')

Where, due to the terms of a contract, a supplier has the ability to extend the duration of an existing Fixed Term tariff or apply a new Fixed Term tariff without a consumer's positive assent.

### Annual Bill

The amount that a customer would have to pay for gas and/or electricity over one whole year.

### APR

Describes the interest rate for a whole year (annualized), rather than just a monthly fee/rate, as applied on a loan, mortgage loan, credit card, etc. It is a finance charge expressed as an annual rate.

### Authority

The Gas and Electricity Markets Authority.

**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.

### Bundle discount

Any form of payment, saving, rebate benefit or reward that is in any way linked to a Domestic Energy Supply Product, and which involves the provision of any goods or services which do not relate to energy supply. One example is a supermarket voucher..

### Bundled Products/Services (Bundles)

An 'opt in' bundle for the purpose of this proposal is when consumers can add on additional services/products to their energy offering.

A 'tied' bundle for the purpose of this proposal is a form of pure bundling where it is tied/mandatory to buy the entire bundle to receive all the products and services offered, i.e. the specific energy offering is only available with this particular bundled form.

An 'opt out' bundle for the purpose of this proposal is a when a consumer is presented with an entire bundled product and they are required to 'opt out' of the additional services if they wish to only purchase the energy element of the bundle or if they wish to 'opt out' of any one of the elements of the bundled product.

## C

### 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.

### Collective switching

Where consumers group together in a process typically facilitated by an independent organisation, which negotiates with multiple suppliers to secure a deal on the consumers' energy supply.

### 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.

### Core tariff

The charges for supply of electricity/gas combined with all other terms and conditions that apply, or are in any way linked, to a particular type of contract for the supply of gas/electricity to a domestic customer excluding certain matters such as dual fuel discounts, variations in charges relating to payment method, appropriate surcharges and optional additional services/products.

### Cross subsidise

The part financing of one product or activity by another.

**D**

Dead tariff

A tariff in respect of an evergreen contract which is no longer capable of being entered into by all domestic customers.

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 Energy and Climate Change (DECC)

The UK government department responsible for policy in the fields of energy and climate change.

Derogation

An exemption from or relaxation of a rule (which may include the imposition of alternative rules).

Direct debit (DD)

A method of payment where a fixed or variable amount is taken from a bank account each month, quarter or year.

Discount

Any form of payment, saving, rebate benefit or reward that is in any way linked to a Domestic Energy Supply Product. One example is the dual fuel discount.

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 (or two affiliated suppliers).

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.

### End of Fixed Term Notification

A communication from a supplier to a consumer, indicating that the fixed term period of the consumer's energy supply contract is due to expire, and setting out the arrangements that the consumer will default to and the options available to the consumer to act in response to this notification.

### Estimated annual cost/personal projection

The estimated cost of energy to a consumer over a 12 month period, based on a specified methodology and the best available information about that consumer's consumption.

### Evergreen contract

A tariff which is for a period of an indefinite length and which does not contain a fixed term period.

### 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**

### Fixed term tariff

A tariff with a fixed end date.

### 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 Deal

A scheme that allows householders to improve the energy efficiency of their homes and repay the cost through energy bills.

### Green tariff

A tariff that is promoted primarily on the basis of its association with renewable energy sources and/or climate change mitigation.

**H**

### High user

A consumer who annually uses 5.100 kWh of electricity and/or 23.000 kWh of gas.

**I**

### In-area customers

Customers of an electricity supplier who are located within the supplier's original ex-PES region.

### Incumbent suppliers

See ex-PES suppliers.

### Intermediary

An organisation that can help consumers to switch energy tariffs.

## K

### kWh

Kilowatt-hour is a unit used to measure energy consumption in both electricity and gas.

## L

### Low user

A consumer who annually uses 2.100 kWh of electricity and/or 11.000 kWh of gas.

### Loyalty discount

A discount that is paid at a pre-specified point in time if the consumer does not switch energy suppliers.

## M

### Margin

In this document a term margin refers to the profit that suppliers make for supplying electricity and/or gas to a domestic consumer.

### Market Segmentation

The process of splitting customers, or potential customers, in a market into different groups, or segments.

### 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.

### Medium user

A consumer who annually uses 3.300 kWh of electricity and/or 16.500 kWh of gas.

### Mutual variation

An amendment to the terms and/or conditions (including price, but excluding contract duration) of a consumer's energy supply contract, mutually agreed between the supplier and the consumer. The consumer would not be obliged to accept the proposed variation. The variation can only be binding following express agreement from the consumer.

### MWh

A megawatt hour. Equal to 1000 kWh.

## N

### New entrant

An entrant that does not have an incumbent customer base.

### Non Time of Use tariff (Non-ToU)

A tariff that is not a Time of Use (ToU) tariff.

## O

### Office of Fair Trading (OFT)

The body established by the Enterprise Act 2002 (which replaced the Office of Director General of Fair Trading) with functions that include enforcing consumer protection law and competition law, reviewing mergers and conducting market studies.

### Ombudsman Services: Energy (the Ombudsman)

Ombudsman Services: Energy means the Ombudsman Services provided to Energy Suppliers and Energy Network Operators. The Ombudsman's principal aim is to receive complaints made by complainants in accordance with the Ombudsman's Terms of Reference and to consider and, where appropriate, investigate such complaints in order to encourage and/or facilitate the terms of their resolution, settlement and/or withdrawal.

### Online Account Management

Where a consumer does not receive a paper version of a bill or statement of account and would need to access the internet and use a computer or communication device.

### Online discounts

A discount provided to a customer with online account management.

### Online tariff

A tariff for the supply of electricity/gas which may only be entered into via a website, and/or a tariff which must be managed fully or partly by a customer via a website.

### Open tariff

A tariff that is available to new and existing domestic customers at any given time.

## P

### Parent supplier

A supplier that owns enough stock in another supplier to have control of management and operations of that supplier.

### Payment method

A method by which a consumers pays for energy. Payment methods are classified into three main categories: direct debit, standard credit and prepayment.

### Personal projection

See Estimated Annual Cost.

### Pre-payment

A method of payment where consumers pay for credit to their account. Their meter deducts credit from the account based on the amount of energy used by the consumer and the rates that apply to the consumer's tariff.

### Price Increase Notification (PIN)

If a supplier increases the price of a tariff or varies any term which could cause disadvantage to the consumer, 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 (or other variation) takes effect.

### Principal terms

The most important terms of a supply contract, including the charges, duration, amount of any termination fees and any terms which may reasonably be considered to significantly affect the evaluation by the consumer of the contract under which they are supplied with energy.

## S

### Self regulation

Industry regulation without Ofgem's binding licence conditions or rules contained in legislation. However, if self regulation is not operating as Ofgem would hope, licence conditions may be introduced.

### Smart meter

A meter that provides measured gas or electricity consumption data for multiple time periods, and is able to provide the relevant supplier with remote access to such data.

### 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 credit

A method of payment where the consumer receives a bill for their energy use over a number of months and pays their bill by cash or cheque after energy has been consumed.

### Standing charge

In respect of the supply of gas/electricity to a customer's premises, a monetary amount that is continuously chargeable to a customer on a daily basis and which is chargeable in addition to charges arising on the basis of a unit rate.

### Standard Licence Conditions (SLCs)

The legally binding conditions that licensed 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).

### Surcharge

An additional and exceptional charge added to the usual energy charge(s).

### Switching

The process of changing gas or electricity supplier, or changing to a new tariff with the same supplier.

### Switching costs

The costs incurred by customers in finding and switching supplier. Switching costs are classified into a variety of categories, including: transaction costs, contractual costs, uncertainty costs, psychological costs, shopping costs and search costs. In addition to the above, firms can also incur costs when customers switch supplier.

### Switching site

An online comparison and switching service that helps consumers to compare prices on a range of products and services.

### Switching window

The period in which a consumer is eligible to switch supplier, in response to an End of Contract Notification, in which they will not be subject to any Termination Fees or be required to notify their supplier of their intention to switch.

## T

### Tariff

The charges for supply of electricity/gas combined with all other terms and conditions that apply, or are in any way linked, to a particular type of contract for the supply of electricity/gas to a domestic customer.

### Tariff Comparison Rate (TCR)

A metric that would allow consumers to compare the price of energy tariffs on a like-for-like basis.

### Tariff Information Label (Label)

A table of key facts that would allow consumers to compare the price and non-price features of energy tariffs on a like-for-like basis.

### Tariff Structure

The way in which a tariff's charges are structured. For example, some tariffs have a single unit rate whilst others have more than one unit rate (multi-rate).

### Telesales

A method of direct marketing in which a salesperson solicits prospective customers to buy products or services over the phone.

### Termination (exit) fees

Where part of their contract, these are the contractually agreed fees a customer must pay 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 had to do this by the 3rd March 2011.

### Third Party

A person or entity who is not involved in an interaction between consumer and supplier.

### Time of Use tariff (ToU)

A tariff where the charges vary by the time when the energy is consumed, for example through different unit rates for energy consumed during the day and during the night.

### Tracker tariff

Currently, this is a tariff where the price per kWh for gas/electricity will vary in reference to other prices or indices. This can be for example the price of another tariff from another supplier. In this consultation we are proposing to change the scope of fixed term tracker tariffs. These tariffs will no longer be able to track the price of tariffs offered by suppliers, but only a published stock exchange quotation or index or a financial market rate over which the supplier has no control.

## U

### Unilateral Variation

An amendment to the terms and/or conditions (including price) of a consumer's energy supply contract, which is provided for in the contract and is at the sole discretion of the supplier.

### Unit Rate

The monetary amount that is chargeable in respect of each unit of gas/electricity consumed.

## V

### Variation

An amendment to the terms and/or conditions (including price) of a consumer's energy supply contract.

## W

### White label tariff

A tariff that is offered by a licensed energy supplier but uses the brand name of a non-licensed entity (excluding a brand name of the corporate group to which the licensed supplier belongs). The price and terms of the tariff may replicate those of the licensed supplier or may be modified to suit the specific needs of the brand. The legal relationship between the customer and the licensed energy supplier remain unchanged irrespective of the brand utilised for sales and marketing purposes.

# Appendix 9 - Feedback Questionnaire

1.66. 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. Do you have any further comments?

1.67. Please send your comments to:

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