

# Press Release

Friday 19 October 2012

## OFGEM PUBLISHES PLANS TO DELIVER A SIMPLER, CLEARER, AND FAIRER ENERGY MARKET FOR CONSUMERS

### **SIMPLER CHOICES**

- **Ban on complex multi-tier tariffs and scrapping of uncompetitive dead tariffs\***
- **All tariffs shown as a standing charge and single unit price**
- **Limit on number of core tariffs each supplier is allowed to offer**

### **CLEARER INFORMATION**

- **All consumers given their supplier's cheapest tariff on their bill**
- **A Tariff Comparison Rate to compare tariffs 'like for like' across the market**
- **New personalised information to help consumers find their best deal**

### **FAIRER TREATMENT**

- **Fair treatment to be enforced by standards of conduct backed by fines**
- **Consumers to default to cheapest tariffs at the end of fixed term contracts**
- **Ofgem to consider ways to promote more collective switching**

Ofgem is consulting on plans for a package of simpler, clearer, fairer measures to improve radically the competitiveness of the household energy market. This follows a commitment to tackle problems of tariff complexity, poor supplier behaviour and lack of transparency identified in its review of the retail market.

Following feedback from consumers and extensive consultation, Ofgem is extending its proposals to simplify tariff structures and limit core tariff numbers across the whole market, while still allowing consumers choice. Ofgem is also proposing to make suppliers tell customers about the cheapest tariff they have on offer. Additionally, it intends to work with suppliers to trial a proposal to provide vulnerable consumers and those who haven't switched for a long time with information about the cheapest tariff for them across the whole market.

Chief Executive of Ofgem, Alistair Buchanan, said: "Our plans will put an end to consumers being confused by complex tariffs and will usher in a simpler, clearer, fairer and more competitive energy market for all consumers. We have spoken to thousands of consumers who have helped us shape this package through a period of extensive consumer research, and are very grateful for their input.

"I am glad to say suppliers have already responded with some initiatives, but these don't go far enough. Ofgem is determined to press forward with proposals to deliver for consumers the most far-reaching shakeup of the retail energy market since competition was introduced."

Ofgem is proposing simplifying the market by limiting each supplier to no more than four core tariffs for each fuel and ensuring all tariffs are expressed as a standing charge and single unit price. Dual fuel discounts will be presented separately as an additional stand alone option available to all consumers when choosing a tariff from a supplier. They will

be expressed in pounds and pence rather than as a percentage to give consumers greater clarity, and must be the same across all tariffs. All other discounts will count as separate tariffs towards the cap.

These reforms - along with an easy-to-use Tariff Comparison Rate - will give consumers simple choices to help ensure they get the best tariff for them.

Energy policy in Great Britain has, for decades, been committed to effective competition in energy markets, which is also a requirement of European directives. Ofgem has to work within this framework and its reforms seek to increase the competitive pressure on suppliers to keep prices as low as possible and spur innovation and improvements in customer service. However, while wholesale gas costs remain high and Britain needs to invest to secure supplies and meet environmental targets, upwards pressure on prices is likely to continue. This is why Ofgem’s reforms are vital as they will make it easier for consumers to get the best tariff possible for them.

-Ends-

\*Dead tariff – tariffs which are no longer open to new consumers

**Notes to Editors:**

**1. Progress on Ofgem’s reforms**

<b>Ofgem promised:</b>	<b>What’s happened:</b>	<b>Ofgem’s plans aim to deliver:</b>
To sweep away unfair pricing practices.	A number of the Big Six have simplified tariff structures and replaced complex discounts with fixed value discounts.	Ofgem is proposing to introduce four core tariffs per fuel for each supplier and banning multi-tier and dead tariffs.
Fairer treatment for consumers.	All Big Six suppliers have introduced new initiatives to engage consumers. Many suppliers have ceased doorstep selling since Ofgem launched a number of investigations into alleged misselling.	Standards of Conduct enforceable by fines will hard-wire fairness into suppliers’ treatment of consumers.
Increase transparency.	Independent investigation by accountants BDO concluded financial information was appropriate, but recommended improvements. Ofgem now publishes on its website its view on the relationship between wholesale and retail prices, on a weekly basis.	Ofgem has introduced improvements to the Big Six’s financial reporting to improve transparency of their segmental statements.
A more open wholesale market – we demanded companies auction 25 per cent of power output.	Big Six have made some progress in the near-term market, with at least 30 per cent of output sold through day-ahead auctions. However, further progress is	Things are moving in the right direction but more is needed to meet Ofgem’s liquidity objectives. Ofgem will publish its way forward by the end of the year.

	needed in relation to longer-term products.	
Tariffs that are easy to compare.	Some suppliers have introduced comparison metrics and similar tools to make it easier for consumers to compare tariffs.	A cross market Tariff Comparison Rate to compare tariffs "like for like" across the market. Suppliers to give personalised information on their best tariff. Feasibility study on suppliers offering market best deal for consumers.
Clearer information for consumers.	Some suppliers have redesigned bills to make them easier understand.	Ofgem to set enforceable standards for clearer information on bills, annual statements, and price notification letters.
Better information on notice of price increases.	Ofgem has put in place a requirement for 30 days notice.	

## **2. Ofgem's proposals for consultation include:**

### **Simpler – making it easier to compare suppliers**

- i. Four "core" tariffs to cut the baffling array of tariffs currently on the market. That will actually mean four tariffs per fuel type (electricity and gas), which would apply to each payment type. If suppliers participate in collective switching they will be able to offer another tariff.
- ii. Dual fuel discounts will remain, and will not be considered as "core tariffs" but as a discount. They will be simplified and will apply uniformly across all tariffs as £/pence per year. For example, a supplier would be able to offer a direct debit customer a choice of no more than four electricity and four gas tariffs. The customer could then choose a dual fuel discount.
- iii. All tariffs have a standing charge and unit rate.
- iv. Certain 'dead, 'standard' or 'variable' tariffs no longer available will be banned to reduce the overall number of tariffs and reduce the risk of people paying too much. Suppliers will only be to keep consumers on dead tariffs if they offer them value for money. Otherwise they will be transferred to their supplier's cheapest variable deal.
- v. A new tariff information label will set out key terms and conditions and relevant information to help consumers compare across suppliers.

### **Clearer – introducing new tools to help switching**

- i. Suppliers will be required to give all their customers personalised information on the cheapest tariff they offer for them. Ofgem wants to go a step further and is proposing a pilot scheme where suppliers offer their vulnerable customers and others who haven't switched for some time a personalised estimate on the cheapest tariff from across the energy market. Ofgem proposes working with energy suppliers and consumer groups to run a pilot scheme to see if this can be made to work.

- ii. New rules requiring all information suppliers send to consumers to be simplified, more engaging and use standard, easy-to-understand wording.
- iii. Suppliers will use a new Tariff Comparison Rate (TCR), in all their communications to help customers compare tariffs. Ofgem is also proposing personalised estimates with customers' usage to help them compare tariffs more accurately when switching.

### **Fairer – building trust in the energy market**

- i. New enforceable standards of conduct will enable Ofgem to take action against suppliers where they have failed to treat customers fairly. This will place an overarching condition on suppliers to consider consumers' needs and treat them fairly.
- ii. Added protections for customers on fixed term contracts, including:
  - banning price increases or other changes to fixed term tariffs (except trackers or structured price increases set out in advance which are fully in line with consumer protection law);
  - banning practices whereby customers are rolled onto further fixed term contracts without their consent;
  - providing a no-exit fee and 42 day switching window before the end date to their fixed term tariff before switching to a new tariff.

### **3. Other reforms**

To support the package of proposals, Ofgem is also proposing to introduce new monitoring procedures that will include tracking the impact on consumers, including vulnerable consumers. It will also monitor the market to gauge the impact of the reforms. Ofgem will publish suppliers' performance, including complaint handling and satisfaction results. It will continue to publish its consumer research.

Ofgem is to undertake further work to improve access to brokers and other intermediaries who can help consumers engage in the energy market. Ofgem will also be taking over the Confidence Code for price comparison sites and looking at how to facilitate collective switching.

Ofgem is also proposing to monitor the impact of the package and carry out a full review of the effects in three years - or earlier if the proposed reforms were not having the desired effect.

### **4. Timetable**

The package of proposals will be published before the end of October alongside our non-domestic proposals. Ofgem is legally required to go through an extensive consultation process but we are aiming start to introduce our reforms by summer 2013.

On Ofgem's liquidity proposals, further progress has been made since our February consultation. We have been analysing the progress very closely before deciding on an intervention. We anticipate reaching a decision on how to proceed by the end of the year.

**5. Ofgem is the Office** of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's functions are set out mainly in the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 and the Utilities Act 2000. In this note, the functions of the Authority under all the relevant Acts are, for simplicity, described as the functions of Ofgem.



Join @ofgem to discuss the RMR proposals on twitter on 19 October from 0900 GMT.

**#simplerclearerfairer**

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