

**R 14**

**Monday 23 March 2009**

## **Regulator's new rules pack a punch for customers**

- **Consumers empowered through new retail market rules**
- **Ban on unjustified price differences**
- **Small businesses get more power in the market**
- **Ofgem acting now and thinking ahead for consumers**

Energy regulator Ofgem has unveiled a package of new rules for energy suppliers that will give consumers more power and help to seal the flaws in the retail market identified in the regulator's market probe. The proposed measures will make the market work better for all energy consumers including vulnerable households and small businesses.

The regulator is proposing an approach on two flanks: a prohibition of unjustified price differences to close off any recurrence of poor deals for customers in sectors of the market; and a set of remedies to address specific retail market issues.

Ofgem chief executive, Alistair Buchanan, said: "Our undue discrimination rule will address the symptoms of flaws in the market while our retail market measures will treat the causes.

"This is an emphatic move by Ofgem to clear the decks of obstacles that prevent consumers from getting access to the best offers.

"All consumers will be given greater power in the market and small businesses in particular will have a stronger hand to play in the market."

Following a decision by the regulator's governing Authority, Ofgem will consult on the detail of the ban on unjustified pricing and on the retail remedies package which includes obligations on suppliers to provide:

- a standard annual statement covering, among other things, the tariff name, the customer's consumption and a reminder of the customer's right to switch;
- simplified information on tariffs to make comparison easier including an at-a-glance price score card to help consumers in switching;
- written quotations following doorstep sales and, for prepayment meter customers, proof that the offer made on the doorstep is better than the customer's existing deal;
- new protections for small businesses including clear and transparent contract terms and conditions, and an end to automatic roll-over when fixed-term contracts expire; and
- greater financial transparency to give consumers confidence that the market is competitive and fair.

Suppliers will be expected to deal fairly with customers. This will be spelt out at the head of the retail remedies package in a set of new, overarching standards of conduct that suppliers should meet. The standards will complement the licence conditions that will deliver the new retail remedies package and will remind suppliers of what customers should expect of them in all instances.

If there is no industry agreement on the package of proposals, Ofgem retains the option to take the matter to the Competition Commission.

## **Notes to editors**

### **1. New overarching standards of conduct for suppliers**

Ofgem will be consulting on new standards that suppliers must keep to in all of their dealings with consumers. Our initial ideas on these are that suppliers **must**:

not sell a customer a product or service that they do not fully understand or that is inappropriate for their needs and circumstances;

not change anything about a customer's product or service without clearly explaining why;

not prevent a customer from switching product or supplier without good reason;

not offer products that are unnecessarily complex or confusing; and

make it easy for customers to contact their supplier and act promptly and courteously to put things right when the supplier makes a mistake.

### **2. Probe proposals**

The probe report proposed measures to tackle issues identified in a number of areas where the transition to fully effective competition should be accelerated. These proposals were grouped under five action areas.

- 1 Promoting more active customer engagement
- 2 Helping consumers make well-informed choices
- 3 Reducing barriers to entry and expansion
- 4 Helping small business consumers
- 5 Addressing concerns over unfair price differences

Today's announcement takes in actions 1,2,4 and 5. Many of the proposals under action 3 are being taken forward on a separate timetable. These include work on wholesale market issues, such as liquidity and market abuse, and work on regulatory burdens.

### **3. Ban on unjustified pricing**

Ofgem's governing Authority is minded to introduce a new licence condition on suppliers that will ban unjustified price differences. It will require that prices reflect the costs to the companies. For example, prices charged under different payment methods such as pre-payment meters and direct debit will have to reflect the cost to the supplier of offering those payment methods.

The ruling will ensure that price discrimination must be objectively justifiable on cost or other grounds. Such discrimination includes differences between charges to customers in areas where the supplier was once the local incumbent and out-of-area charges.

The proposal is that the undue discrimination licence condition will be removed after three years. The purpose of this "sunset clause" is to allow the retail market measures to come into play. This combination of a new licence condition banning unjustified price differences and the retail market remedies, which include other new licence obligations,

will make sure that the market works better for those consumers who were identified in our retail market probe as not being best served by the market.

#### **4. Timing and process**

Ofgem will, in April, publish a consultation on the drafting of the licence condition and related guidance on the prohibition of undue discrimination. We will also publish in April a consultation on the detail of the package of retail market remedies.

Based on responses to these consultations, the Authority is aiming to decide on the final package by July so that the new measures can be implemented for the autumn - ahead of next winter.

- 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 powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 as well as arising from directly effective European Community legislation.

#### **For further press information contact:**

**Trevor Loveday: 020 7901 7288**

**Chris Lock: 020 7901 7225**

**Out of hours contact 07766 511 470 or 07887 652 252**