

Press Notice

14 October 2011

RADICAL REFORM FOR A SIMPLER, MORE COMPETITIVE ENERGY MARKET

- **All consumers will be able to compare prices easily and those seeking more innovative tariffs will be free to choose them**
 - **Consumers wanting a no frills tariff will get a simple unit price and a fixed standing charge set by Ofgem**
 - **Consumers seeking more innovative tariffs will get protection against price increases for the duration of their deal**
 - **Standardised price information will allow consumers to compare easily standard and more innovative tariffs**
- **Ofgem welcomes recent indications from some suppliers about the importance of restoring consumer confidence and looks to suppliers to get behind its reforms**

Simple tariffs, clearer bills and annual statements will be the result of the radical reform model proposed by energy regulator Ofgem.

After extensive analysis, Ofgem has decided to progress its preferred model for the reform of the retail energy market. It has also published today its latest report on prices which shows that the average dual fuel bill now stands at £1,345 and, following recent price rises, estimated suppliers' margins have peaked at around £125 per year, but are likely to fall back next year. This report on prices does nothing to alter Ofgem's findings in March that competition is being stifled by a combination of tariff complexity, poor supplier behaviour and lack of transparency and that radical change is needed.

Today's consultation is the first of four waves of reform:

- In November detailed proposals to reform the energy market to help the businesses sector
- In December further decisions on proposals on liquidity to break the stranglehold of the Big Six in the wholesale electricity market
- In the New Year the findings of an independent report into making energy company accounts more transparent.

Ofgem's Chief Executive Alistair Buchanan said: "When consumers face energy bills at around £1,345 they must have complete confidence that this price is set by companies competing in a fully competitive market. At the moment that is not the case.

"That is why a radical break with the past is needed. Ofgem's tariff reforms offer the quickest way to create a market where consumers can have confidence that prices are set by effective competition. Suppliers have told Ofgem they want to restore confidence in the industry and now they have the chance to do so.

"With £200 billion of investment needed to overhaul Britain's energy industry and the pressure this and rising energy prices puts on bills, consumers rightly demand a major improvement in the way suppliers behave towards them."

Ofgem's Tariff proposals

Ofgem is proposing to give consumers a much clearer choice than the 400 tariffs currently available. Each supplier will be required to offer just one standard tariff for each payment type. With the standing charge set by Ofgem suppliers will only be able to change the unit price, which means that consumers will be able to compare prices at a glance. For these standard tariffs all other complications like different tier prices and complex discount structures will be removed. So the lower the price the smaller the bill, with no exceptions.

Ofgem also wants to allow consumers the choice of more innovative tariffs and to encourage new firms to enter the competitive market to increase pressure on the Big Six. It is also important to build in the flexibility to support the Government's drive to promote smarter energy use, for example through smart meters. Therefore suppliers will still be free to market a range of more innovative deals, provided they are for a fixed time. We will require suppliers to express prices using standardised price information for these innovative deals so they can be easily compared with standard tariffs. However, consumers on these more innovative tariffs, will be protected from any price rises for the duration of the contract¹.

Clearer information for consumers

Ofgem is developing an Energy Label for every tariff which will give consumers all the vital information they need to make an accurate comparison. Ofgem is also proposing more prescriptive regulation of bills, annual statements and notifications about price increases. This will see the development of compulsory standard templates that suppliers have to adhere to. These will be developed through extensive testing with consumers. Better bills and annual statements will again allow consumers to better engage in the market.

More consumer powers and further protection for vulnerable consumers

Ofgem is also seeking new powers from Government to provide consumer redress so that it can award compensation if suppliers break the rules and the Department of Energy and Climate Change has confirmed that it is looking at this issue. Ofgem has also

¹ Tracker deals that comply with consumer protection law are exempted from this condition. Economy Seven tariffs will still be available as a standard tariff.

asked the Government for responsibility for running the Confidence Code for price comparison sites, which ensures that consumers get reliable online advice on changing supplier and the power to report on company performance.

Ofgem is continuing along with Government to look at whether there is a need for further protection for vulnerable consumers.

Notes to Editors

1. Next steps

Retail market reform for consumers and businesses

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

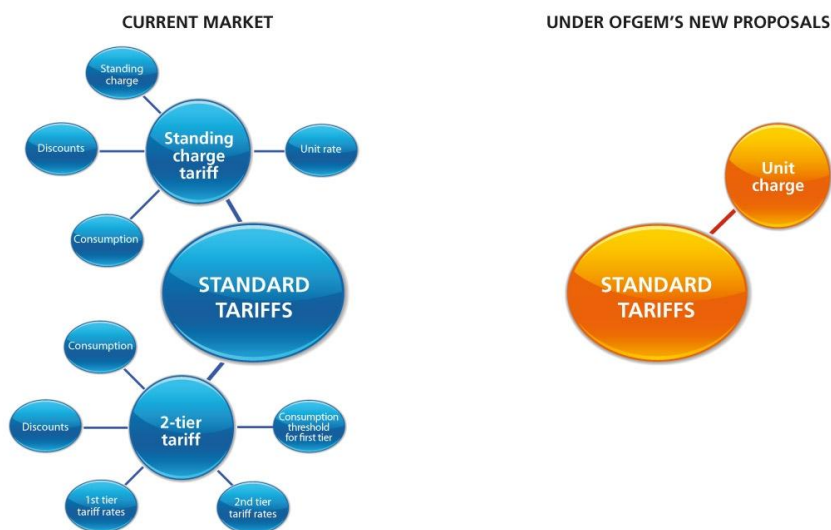
While Ofgem progresses its reforms, Ofgem looks to suppliers to engage constructively with the Government's energy summit next week to see what help can be delivered to consumers in the meantime.

Encouraging more competition in the electricity market

Proposals for reforming the electricity wholesale market will be put forward in December.

2. Simpler tariffs

Information you currently need to work out the cheapest standard tariff



For more detailed information on Ofgem's tariff proposals please see the *Simpler energy tariffs* factsheet available from the media section from Ofgem's website (www.ofgem.gov.uk).

3. Supply Market Report

Is available from home page on the Ofgem website (www.ofgem.gov.uk)

4. Rising energy bills

A factsheet *Why are energy prices rising?* is available from the Ofgem website.

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.

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