

# Press Release

**December 1 2011**

## **CONSUMERS BACK OFGEM REFORMS TO SIMPLIFY THE ENERGY MARKET**

- Consumer research shows that simpler tariffs will help most consumers
- Growing recognition among energy suppliers that problems Ofgem has identified need to be tackled
- Ofgem is now calling on all suppliers to work with it to deliver reforms as quickly as possible

Ofgem today published its proposals for a simpler, more competitive energy market for householders, including plans for tariff simplification announced in October.

Ofgem's tariff proposals include a no frills tariff with a single standing charge set by Ofgem and a simple unit price. Alongside this will be more innovative tariffs with protection against price rises for the duration of the deal.

Consumer research suggests that consumers would find it much easier to compare tariffs under Ofgem's proposals. Ofgem's quantitative research explored a range of options for presenting tariffs and found that **85 per cent** of consumers tested were able to identify the cheapest deal in less than a minute when the standing charge is set by Ofgem, leaving just a single unit rate to compare. This compares to only **44 per cent** of consumers tested being able to select the cheapest tariff under a simplified version of the current arrangements.\*

Ofgem's research found that over **70 per cent** of consumers tested said they would be more likely to switch if tariffs were made simpler.

Consumer research shows that consumers are disillusioned and therefore Ofgem considers that only a radical break with the past will restore consumers' confidence in suppliers. There is also increasing recognition from energy suppliers that such a change is needed.

Ofgem's Chief Executive Alistair Buchanan said: "Encouragingly, we are seeing that major energy companies like British Gas, E.on and SSE are recognising the problems that Ofgem has identified and there is a growing sense of consensus forming behind the need for a simpler, more competitive energy market.

"Ofgem is now calling on all suppliers to back its reform programme, which gives energy suppliers a chance to draw a line under the past and an opportunity to restore consumer trust."

Restoring consumers' confidence in the energy market is also vital at a time when high global energy prices and the need to invest £200 billion to secure supplies and achieve carbon targets is putting pressure on consumers' bills.

Along with simpler tariffs, Ofgem is proposing clearer bills and information and enforceable standards of conduct. Ofgem will be publishing its plans to increase liquidity in the wholesale electricity market and will be publishing the findings of an independent review of suppliers' accounts in the New Year.

*\*Ofgem's quantitative research looked at how consumers would behave when faced with a standing charge set by Ofgem, a single unit rate and comparison information in pounds and pence. All of these features are part of Ofgem's proposed reforms for the retail market. See notes to editors 1 for more information.*

## Ends

### Notes to editors

#### 1. Summary of Ofgem's quantitative research into consumers reactions to tariff comparability

The table below shows the results for non-vulnerable consumers not on an Economy Seven tariff. It shows that 85 per cent of consumers tested were able to identify the cheapest deal in less than a minute when a standing charge is set, leaving just a single unit rate to compare.

Overall, vulnerable consumers delivered slightly lower scores. For example, on the option of Ofgem setting the standing charge, along with a single unit rate for the energy and providing a price comparison chart, the results for vulnerable consumers were 76 per cent for the number of consumers able to identify the cheapest tariff. However, this still represents an improvement on the result for a simplified version of the current arrangement (status quo), which was only 40 per cent. More details are available in Ofgem's Retail Market Review – Domestic Proposals published today on Ofgem's website.

Alternative tariff structures	Correctly identify best deal (% of all)	Speed of making choice (secs)	Ease of use (rated easy)	Preferred option (%choosing)	% more likely to switch
Ofgem sets standing charge, single unit rate for energy	81	28	86	28	71
Ofgem sets standing charge, single unit rate for energy +comparison chart	85	41	82	39	74
Status quo	44	87	45	6	59
Status quo +comparison chart	50	58	61	14	67

## **2. Ofgem's Consumer Research**

The quantitative element of the research, shown in the table above, involved a survey of 2000 online consumers. In addition to this, 202 individuals were interviewed via a face to face 'hall test' format, to ensure that more vulnerable and 'offline' consumer attitudes were captured and collected. The objective of this research was to quantitatively assess and understand how many consumers could make the right tariff decision for them, and the relative ease of doing so. This research has also been informed by qualitative research carried out across the country and by earlier deliberative research undertaken by Ofgem's Consumer First Panel.

## **3. Standards of Conduct**

Today's new initiative proposes backing Ofgem's reforms with enforceable standards of conduct to ensure that:

- suppliers behave in a fair, honest, transparent and professional manner towards consumers
- information given to consumers is complete, accurate and not misleading and is communicated in plain and intelligible language
- suppliers do not market products or services which are inappropriate to consumers, and
- suppliers act promptly and courteously to put things right for the consumer when things go wrong, and that customer service arrangements are fit for purpose.

## **4. Better bills and clearer communication**

An expert review of the language suppliers use to communicate with consumers also found that some of the language used to explain contract terms show almost the same complexity as the Harvard Law Review.

To tackle this confusion, Ofgem is proposing increased standardisation of the presentation of bills, annual statements, price rise notifications and contract renewal information. Under our proposals, all suppliers will also be required to use the same consistent language for key terms in communications with consumers to remove confusion. The proposals would also require suppliers to produce a Tariff Information Label for all tariffs setting out the key details of the deal.

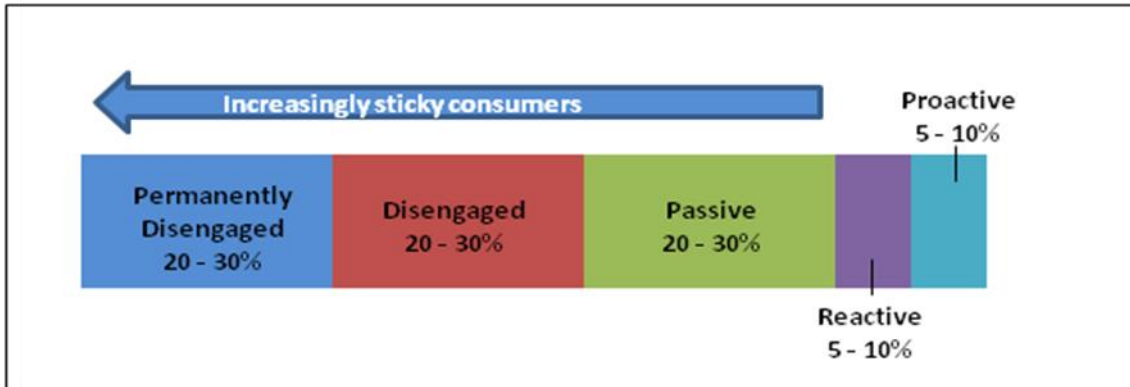
## **5. Vulnerable consumers**

Our research shows the RMR package of measures should help vulnerable consumers through improved information and the consolidation of standard tariffs. However, some vulnerable groups may struggle to secure the best deals so Ofgem will continue to monitor consumers' experience of the market. If we believe that certain customers, particularly vulnerable customers, may require additional support, we will consider what further measures might be needed and we will keep open the option of further interventions.

We are particularly keen to discuss protection for vulnerable consumers with government which also has overall responsibility for policy to tackle fuel poverty and social policy issues more broadly.

## 6. Lack of engagement with the energy market

Results from Ofgem's qualitative and quantitative research shows that between 40 and 60 per cent of consumer are not taking part in the energy market.



7. More information on Ofgem's proposals are available from the Factsheet "**Delivering a simpler, more competitive energy market**" which can be found in the media section of Ofgem's website: [www.ofgem.gov.uk](http://www.ofgem.gov.uk).
8. 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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