

Dear David Hunt, as "Contact Name" at Ofgem,

I have just read your proposals for a Tariff Information Label for standard electricity tariffs (Fig. 2 of "The Retail Market Review: Draft Impact Assessments for Domestic Proposals": www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=72&refer=Markets/RetMkts/rmr).

I protest at the distortion of the cost of electricity that such a Label would convey. The "Standard Equivalent Rate" is stated, in bold type, to be "10p/kWh". But the actual costs per unit for the three illustrative examples are 17.27 (Low user), 13.63 (medium user) and 11.42 (high user) p/kWh. The simplest, most easily understood and fairest charge rate would be one where there is no standing charge, and a single tariff - a flat rate for everyone. Why should high users pay less per unit than low users? What a perverse incentive not to decrease consumption! If simplicity and ease of comparisons are the aims, as you say, then charge for electricity at a single rate for all users, and do not introduce a misleading "Standard Equivalent Rate".

Consumers need to devote their efforts when considering the costs of their energy not to comparisons between suppliers but to reducing their consumption. The best way to do this is to price the use of the next additional unit consumed at the margin the same as or higher than the previous one. Pricing the marginal units more cheaply than the first units and hiding the true price by applying a standing charge makes no sense at all. It provides no incentive to saving energy. It is also socially unfair.

In the future, as smart metering and time-of-day pricing comes in, it will be even more difficult to compare prices if there is a standing charge.

For simplicity's sake, do away altogether with standing charges: set the "Variable" rate at zero.

I have focussed on electricity, but the same arguments hold for gas supply.

If you are irrationally wedded to the idea that there must be standing charges, at least make them reflect no more than the suppliers' fixed costs, and allow suppliers who want to, to set tariffs without standing charges. With mobile phones there are PAYG tariffs and Contracts: why are you proposing that all energy consumers must be on the equivalent of a Contract?

Your proposals need rethinking.

I am copying this letter to the editor of Which? (via their website), to the Managing Director of Ebico (the only supplier that has no standing charge), and to my MP. I am a member of Which? and a customer of Ebico.

Sincerely,

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