

Date: 18<sup>th</sup> December 2012

Retail Markets  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Sir/Madam,

### **The Retail Market Review- Updated domestic proposals**

Below I detail our responses to the specific questions raised in the consultation.

However, it would be helpful in future not to be responding to consultation documents from both Ofgem and DECC on similar subjects in such a short timeframe.

#### **CHAPTER: Two**

***Question 1: Do you agree with the characterization of the problems in the retail energy market?***

In general we believe that complexity in the energy market is overstated. It is difficult to measure complexity in absolute terms, but in relative terms energy pricing is certainly less complex than the weekly grocery bill, or telecoms billing. Energy companies are also generally less profitable than other retailers.

However, it is clear that the industry has not presented itself well to the consumer and there have been instances when the behaviour of some representatives, especially sales staff, has been bad (although no more so than in other industries). The companies too have not performed well in some circumstances, for example in accurate billing, but here again they have been dealing with manual meter readings in a world where consumers expect precision. This can be changed, but only at a cost.

There has been a loss of trust. Some of this is due to the way consumers are treated, but the difficulty with making relative comparisons with other industries is also a factor. As previously mentioned, energy retailers are less profitable than food or telecoms companies, so it is therefore logical to suggest consumers should have more trust in them. Energy companies are also dealing with a lot of social and environmental issues that other organisations don't deal with. No one talks particularly about food poverty for example, when this is clearly more vital to life than energy (and food retailers are making higher profits).

***Question 2: Do you agree with the findings of our evidence base?***

The comparison of energy tariffs is far easier than telecoms tariffs. This is the main reason why price comparison websites have been so successful in interpreting energy costs whereas they have failed to provide a similar service to

telecoms. In order to carry out any comparison of any goods or service they use a consumer will need to make some judgments and have access to some data. The energy price comparison websites make this relatively easy, than for example car insurance. The presentation also makes it easy for customers to pick the cheapest tariff, whilst at the same time knowing there is no fundamental difference in the goods being bought (the electricity is still 240V and 50Hz and the gas is still methane, largely). Again this is different to car insurance where a cheap deal might hide the fact that some component of the service is not included.

However, there is clearly some truth in what consumers are saying about numbers of tariffs. Some Big 6 companies have clearly sought to dominate pages on the comparison sites by creating a multitude of tariffs with very similar prices but differentiated by some related offer or association.

### **CHAPTER: Three**

***Question 1: Do you agree with our rationale for the proposed RMR package?***

We welcome any action that reduces the capability of the Big 6 to indulge in differential pricing that results in squeezing the profitability of new entrants whilst at the same time creating a large inert and more profitable customer base of their own. However, it is unlikely that reducing the number of tariffs offered by the Big 6 will increase the level of consumer engagement because there will be less to choose between them, and therefore less incentive to switch.

It will create a space for new entrants to grow in a more sustainable manner, and may therefore increase their capacity to take on more customers.

These proposals will go some way towards addressing that problem, but unless there is also some attempt to control regional differentials, Big 6 operators will still be able to segment their customer base.

***Question 2: What are your views on the proportionality of the proposed RMR package in the light of the evidence we have presented?***

The key new measure appears to be the TCR. We don't believe this will deliver what consumers are saying they want. It does not seem to add significantly to the annual cost estimate that is produced by every price comparison website (based on the same estimate of the customers usage, location etc.). Furthermore, in the advent of time dependent tariffs, a key outcome for gaining maximum benefit from smart meters, it will become increasingly difficult to derive.

***Question 3: Do you agree with our reasons for not proceeding with the alternative options set out below?***

Clarity and simplicity in regulations is certainly preferable.

### **CHAPTER: Four**

**Question 1:** *Are the rules to reduce the number of tariffs appropriate? Have we set the cap on the core tariffs at the right level? Should a different cap be set for time of use tariffs? What derogations from our tariff cap would be appropriate?*

Allowing 4 core tariffs that can then be further differentiated by payment type is probably not enough to stop differential pricing that is prevalent in the market at present. There should be one variable and one fixed tariff per payment type.

If there are derogations there will effectively be no cap on tariff numbers. That completely undermines the concept of clear and simple regulatory rules.

**Question 2:** *What surcharges should suppliers be able to offer without this counting in the additional core tariff, and why? How could these be defined in a license?*

Surcharges effectively mean another tariff, why would they be allowed if the idea is reduce tariff numbers?

**Question 3:** *Are our rules to simplify tariff structures and discounts appropriate? Should they only apply to open tariffs or be extended to apply to dead tariffs too?*

We do not agree with the proposal to enforce standing charges. In our sector the majority of customers prefer not to have standing charges that reduce credit on meters whether they use energy or not.

**Question 4:** *What categories of dead tariffs should be derogated from our proposals, if any? Are any other measures required to avoid any consumer harm?*

Some tariffs are related to specific heating technologies and removal could result in the customer having to have an expensive change in heating system in their home.

**Question 5:** *What would be the implementation issues and costs of our proposals?*

We would not expect significant costs. We only operate 1 tariff in any region and therefore do not foresee major compliance issues.

**Question 6:** *Is our proposed timeframe for implementation appropriate?*

The proposed timetable is ambitious. It will depend on the level of co-operation from the Big 6.

## **CHAPTER: Five**

**Question 1:** *What are your comments on the degree of prescription proposed, and on the design of the documents and messaging?*

It is our belief that Ofgem has sufficient powers already to prevent differential pricing and any other form of market abuse. There is no need for this level of prescriptive regulation

**Question 2:** *What are your views on the appropriateness of content requirements for each of the communication channels?*

...

**Question 3:** *Should Ofgem explore further ways in which suppliers might increase the effectiveness of online/ paperless communications?*

Ofgem should focus on the primary function of encouraging competition and let innovation deliver value and benefits to consumers.

**Question 4:** *Should Ofgem consider making further recommendations, or issuing best practice for enhancing the impact of Annual Statements by looking at messaging and co-branding of envelopes?*

If Ofgem wants to run the industry, perhaps you should just propose re-nationalization.

**Question 5:** *Do you agree with the view additional contractual information can be included on an additional page on the Annual Statement?*

We believe that customers get too much information on bills and statements, In the vast majority of cases this doesn't get read. If this kind of information was effective there probably would not be such a problem with inert customers.

**Question 6:** *What are your views on the classification of dual fuel for the purposes of the template designs?*

None.

**Question 7:** *What are your views regarding including energy efficiency advice in Annual Statements?*

It is our experience that customers do not read much of the material they are sent. There have been countless information campaigns since the concept of improving energy efficiency was first mooted in the 1970s. Clearly they have been largely ineffectual.

## **CHAPTER: Six**

**Question 1:** *Do you agree with our view that the cheapest tariff message should include both supplier's cheapest tariff for their payment method, consumption and meter type, and the cheapest overall tariff from their supplier irrespective of their current circumstances, personalised by consumption?*

Yes.

**Question 2:** *Do you agree with the approach to tariff eligibility criteria proposed for supplier's cheapest tariff?*

We largely agree with the proposals.

**Question 3:** *We seek views from stakeholders on whether consumers with smart meters and any relevant time-of-use tariffs that the supplier is offering require separate consideration in relation to this policy proposal.*

Time of Use tariffs will make all tariff comparisons more complicated.

**Question 4:** *Do you have any suggestions regarding additional rules which they consider relevant for the construction of the cheapest tariff messaging?*

This should be kept as clear and simple as possible.

## **CHAPTER: Seven**

**Question 1:** *Do you agree with our proposal to introduce a price comparison tool?*

We believe that price comparison websites provide an accurate and easy to use tool. Independent of the current tariff, they will always show the cheapest deal based on the consumption figures provided (even if the quoted saving is not correct).

**Question 2:** *What is your view about the terminology we are proposing for the two price comparison metrics? Are they clear and easy for the consumers to understand?*

We do not believe the TCR calculations add significantly to the clarity provided by an estimated annual cost based on either the customer's consumption or standard values set by Ofgem (e.g. small medium and large). It essential that the figures set by Ofgem reflect genuine typical consumers.

**Question 3:** *In your view, does our proposal for the TCR strike an appropriate balance between trade-offs in terms of simplicity, accuracy, confusion and saliency? Please explain the reasons for your view.*

We don't believe the TCR adds significantly to the estimated annual cost in £.

**Question 4:** *Do you agree with our proposal for the different features of the Tariff Comparison Rate, and our related proposal on the personal projection? Do you have any thoughts on whether and how time of use tariffs should be accommodated in the TCR and personal projection? Please explain the reasons for your view.*

No further comment.

**Question 5:** *In your view, should suppliers be required to make available up to date information on the TCRs for their tariffs? What is your view on the barriers to the publication of best buy tables, and how could we better facilitate publication by third parties?*

There are many sources of information in the market already. If these are not being used it is not certain that any additional information will add further stimulus to the market.

**Question 6:** *Do you have any concerns regarding the implementation of this proposal? How long after a decision has been made would you like to implement this proposal? What drives those timescales?*

We would not want a requirement to send further written material to consumers. We do not be

## **CHAPTER: Eight**

**Question 1:** *Do you agree that the revised Standards of Conduct (SOC) will help achieve our objectives?*

We are not convinced that these qualitative measures will add significantly to the tariff proposals outlined above. There is already a wealth of legislation governing the retail relationships, and again without knowing more details it is difficult to assess if these proposals would add significantly to consumer protection.

Better policing of existing legislation would be preferable.

**Question 2:** *Is there a different name for the SOC that will have more meaning to consumers and can be used by stakeholders across the industry?*

No comment.

**Question 3:** *Does our approach to enforcement mitigate stakeholder concerns about clarity and regulatory risk?*

We would need to see how this is interpreted in practice.

**Question 4:** *Do you have any information regarding potential costs this may impose on suppliers?*

Dealing with the Ombudsman is very expensive, and it is often commercially sensible to settle in the consumers favour even if they are in fact incorrect.

## **CHAPTER: Nine**

**Question 1:** Do you agree with our proposal for rules to be applied to fixed term offers in the domestic retail market?

Yes.

**Question 2:** Do you agree with our proposed strategies to mitigate concerns regarding increases in network charges?

Derogations should be kept to a minimum.

**Question 3:** Is 30 days the appropriate notification period for mutual variations? Should there be any exceptions to our proposal for mutual variations (e.g. direct debit amount variations)?

30 Days is appropriate. Changes to direct debits are subject to the direct debit rules. I do not believe it would be wise to interfere with them.

**Question 4:** Are there any expected implementation issues or costs associated with this proposal?

We do not anticipate any exceptional costs.

**Question 5:** Do you agree with our proposed timetable for the implementation of our proposal?

As in other sections, it is aggressive and will require the full co-operation of the industry.

## **CHAPTER: Ten**

**Question 1:** Do you agree that we should trial a Market Cheapest Deal initiative?

Yes.

**Question 2:** Do you consider there are other approaches we should consider to address the particular issues with engaging sticky and/or vulnerable customers? If so, what are they?

More effective promotion of competition to support new entrants. Normal market incentives will work towards eliminating excess profits.

**Question 3:** Would you be willing to work with us conducting the trial?

We don't believe our current tariffs could facilitate a trial.

Yours sincerely,

William Bullen  
Managing Director, Utilita Energy Limited