

The **co-operative** energy

21st December 2012

Retail Market Review

– updated domestic proposals

Consultation response

CHAPTER: Two	
Question 2.1:	<p data-bbox="450 177 2051 209">Do you agree with our characterisation of the problems in the retail energy market?</p> <p data-bbox="450 248 2051 352">The unrestricted number of energy tariffs has led to overly intricate product offerings by the large incumbent suppliers. The consequence is consumer disengagement and apathy. This works to the consumer’s detriment and strengthens the market dominance of the major incumbent suppliers at the expense of the new entrant suppliers.</p> <p data-bbox="450 392 2051 456">We therefore support the Regulator using its powers to force suppliers to simplify product offerings. We believe this will remove one barrier to consumer engagement with the energy market.</p>
Question 2.2:	<p data-bbox="450 480 2051 512">Do you agree with the findings of our evidence base?</p> <p data-bbox="450 552 1267 584">Yes, we do. Our own evidence base has led us to similar conclusions.</p> <p data-bbox="450 624 2051 727">We are most troubled by the continuing practice of tariff cross-subsidisation by the big suppliers. This results in loyal customers effectively paying significantly more than new customers, which we believe is unfair. It also creates an unfair competitive advantage for the incumbent major suppliers and acts as a barrier to market entry by new suppliers, to the detriment of consumers.</p>
CHAPTER: Three	
Question 3.1:	<p data-bbox="450 788 2051 820">Do you agree with our rationale for the proposed RMR package?</p> <p data-bbox="450 860 2051 963">We agree with the rationale for the proposed RMR package for the most part. We believe that the proposed structural remedies, such as tariff simplification, will be more effective than the proposed informational remedies, which have been proven to have a relatively limited impact on consumer engagement.</p>
Question 3.2:	<p data-bbox="450 987 2051 1019">What are your views on the proportionality of the proposed RMR package in the light of the evidence we have presented?</p> <p data-bbox="450 1059 2051 1163">Yes, we believe the RMR package is proportionate. However, we would point out that the costs of amending customer communications fall disproportionately on small suppliers who by and large are not responsible for the tariff confusion which the remedies are designed to address.</p>
Question 3.3:	<p data-bbox="450 1211 2051 1243">Do you agree with our reasons for not proceeding with the alternative options set out below?</p> <p data-bbox="450 1283 506 1315">Yes.</p>

CHAPTER: Four

Question 4.1:

Are our rules to reduce the number of tariffs appropriate? Have we set the cap on 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?

Yes, we agree that the rules to reduce the number of tariffs are appropriate.

Yes, we believe that the cap on the number of core tariffs is set at the right level.

No, there should not be a different cap set for Time of Use tariffs.

There should not be any derogation for collective switching schemes as this would undermine the simplicity of the four core tariff proposal. The hazard with even a limited derogation for collective switching schemes is that permitting only one additional core tariff would not be sufficient for all the collective switching schemes that are emerging around the country. The effect would be that suppliers would reserve their one additional tariff for one, large collective switching scheme. This will discriminate against the many smaller community and social schemes. Instead, suppliers should bid one of their four core tariffs in collective switching schemes. This is consistent with the proposal in paragraph 4.13, namely that any tariff open to a new customer must be open to existing customers. This will have the effect of making collective switching schemes focus more on reaching previously disengaged consumers rather than on “negotiating” special deals for the already engaged consumer.

<p>Question 4.2:</p>	<p>What surcharges should suppliers be able to offer without this counting as an additional core tariff, and why? How could these be defined in a licence?</p> <p>In paragraph 4.21, there is a proposal to ban loyalty discounts on evergreen tariffs. This strikes at the heart of our business model: rewarding customers for their loyalty through membership points on our Pioneer tariff. Through membership of a co-operative, consumers receive a share of the profits and thus, where a co-operative energy supplier performs well, there is a means of passing savings directly back to the customers. We believe that customers should be rewarded for their loyalty, and offering loyalty discounts on evergreen tariffs is the most effective way of achieving this.</p> <p>The charges associated with the later stages of indebtedness should be variable irrespective of tariff. Suppliers may take a very different stance with respect to their Social Obligations to support customers who are in financial difficulty, who experience a change in welfare and/or who have a transitory vulnerability. The scope to engage with, educate, provide options to and generally support the consumer must not be restricted. These could be defined in a licence condition using short-term [narrow] and long-term [wide] paths to overcoming the supplier's financial risk of domestic indebtedness.</p>
<p>Question 4.3:</p>	<p>Are our rules to simplify tariff structures and discounts appropriate? Should they only apply to open tariffs or be extended to cover dead tariffs too?</p> <p>Yes</p> <p>The rules should extend to cover dead tariffs to ensure there is no ambiguity about the circumstances in which an open evergreen tariff becomes cheaper than a dead tariff.</p>

Question 4.4:	<p>What categories of dead tariffs should be derogated from our proposals, if any? Are any other measures required to avoid any consumer harm?</p> <p>We think that there should be no derogation from the proposals for dead tariffs. The specific proposal “that, where it would save them money, consumers on dead tariffs should be transferred to the supplier’s cheapest evergreen tariff given their payment method, meter type and whether their access is offline” is excellent and will improve trust in the energy supply industry.</p> <p>It may not always be obvious when an alternative open evergreen tariff would save the customer money. Due to the tariff complexity which the RMR is intended to eliminate, a dead tariff might have a two tier tariff structure, making any estimate of saving dependent on an estimate of the customer’s future consumption. Therefore, to aid comparisons, dead tariffs should be simplified in the same way as the four core tariffs.</p>
Question 4.5:	<p>What would be the implementation issues and costs of our proposals?</p> <p>We anticipate increased hardware, software, business continuity, training, quality assurance, call centre and correspondence costs. Detail to be provided on or before 18th January 2013.</p> <p>We are of the strong opinion that a rigorous and independent verification of the costs associated with the implementation of the proposals should be undertaken. A trend has emerged this year of suppliers blaming price increases on regulatory policies such as environmental and social obligations. This obscures the true cause of price increases and contributes to the lack of transparency in energy prices which is one cause of consumer disengagement.</p>

Question 4.6:	<p>Is our proposed timeframe for implementation appropriate?</p> <p>The proposed time-frame is in the interest of the consumer. However, acknowledging the disproportionate impact of the proposals on small suppliers, a phased approach to implement prioritised parts of the RMR proposals over one year would mitigate the cost disadvantage suffered by new suppliers.</p>
CHAPTER: Five	
Question 5.1:	<p>What are your comments on the degree of prescription proposed, and on the design of the documents and messaging?</p> <p>The degree of prescription is extensive and detailed. We feel that it does add to consumer protection in the wider market and we would be pleased to take on a number of the standards as Best Practice even without licence obligation.</p> <p>However, the degree of prescription may have the unintended consequence of limiting innovation and of providing too much information which may overload the customer.</p> <p>For example, at Co-operative Energy, we provide a rolling annual statement as part of the quarterly bill, such that at the end of any one quarter the customer has a comprehensive record of their last year’s cost and consumption. We feel this has the benefit of keeping the information in the annual statement current and more likely to be to-hand when a consumer wishes to switch. We would like to continue this practice.</p> <p>Guidance as to whether the personal projection in the annual statement is the same as for a price comparison would be appreciated, as would a few notes from your Office on what would constitute ‘key contractual terms’.</p> <p>We welcome a standardisation of Price Increase Notification along with the fair engagement enabled by the End of Fixed Term Notification.</p> <p>As part of an Industrial and Provident Society we would need the scope to describe the key differences with respect to the mutuality and membership of our organisation compared to the accountability of listed companies to investor- shareholders. We need to be able to continue to explain to our customers that they can become a member of our Society, giving them democratic rights and thereby making us directly accountable to them.</p>
Question 5.2:	<p>What are your views on the appropriateness of content requirements for each of the communication channels?</p> <p>The objectives of standardising language and making communications simpler and clearer are very appropriate.</p> <p>However, we believe there is a risk of over prescribing and thus limiting innovation. Unintended circumstances may arise where licence obligations would prevent suppliers from being flexible enough to meet a reasonable adjustment at the behest of the</p>

	<p>customer. Repetition of the same information in a number of correspondences may have the effect of disengaging the consumer. Effective prompts to engage are, however, an excellent idea. We already encourage engagement and accuracy of billing with our customers through incentive: - membership points are allocated to members who provide their own meter readings, thus reducing cost, improving efficiency and increasing their share of profits.</p>
Question 5.3:	<p>Should Ofgem explore further ways in which suppliers might increase the effectiveness of online/paperless communications?</p> <p>Yes, but we would ask you to be mindful that online/paperless communication will not be suitable in all cases.</p>
Question 5.4:	<p>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?</p> <p>We believe the bill should include a rolling annual statement to keep the customer up to date and informed of their most recent consumption information and predictions. To make the annual statement as important to the consumer as a P60 is a laudable aim but would require a high profile national advertising campaign which ultimately could add significant cost to the consumer. Co-branding of envelopes is a good idea and a cost effective starting point but a measure of success must be defined beforehand. Indeed recognition or accreditation across the industry by regulators and consumer groups could significantly improve trust and engagement in a co-ordinated fashion.</p>
Question 5.5:	<p>Do you agree with the view additional contractual information can be included on an additional page on the Annual Statement?</p> <p>No, we do not agree. The standard label describing key features should fulfil this requirement. Suppliers are obliged to provide a copy of the terms and conditions of supply contracts upon request. Stipulation of freepost address, 0800 (free telephone) service, and direct and accessible online direction should be given to the customer instead.</p>
Question 5.6:	<p>What are your views on the classification of dual fuel for the purposes of the template designs?</p> <p>We note that, for the annual statement, gas and electricity should be separated out but combined for the purpose of the Price Increase Notification. We feel that this may be confusing and therefore disengaging for the customer. The classification should include separate gas and electricity information, with any dual fuel discounts stated in the product label.</p>
Question 5.7:	<p>What are your views regarding including energy efficiency advice in Annual Statements?</p> <p>Energy efficiency advice is vital to tackling climate change. Standard tips on saving energy can act as a useful reminder but directions to more bespoke services are possibly most appropriate.</p>

CHAPTER: Six

Question 6.1:

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. This is the best proposal to assist disengaged consumers in achieving value for money.

Question 6.2:	<p>Do you agree with the approach to tariff eligibility criteria proposed for supplier's cheapest tariff?</p> <p>No, because this is a potential loophole which suppliers could exploit to avoid having to offer a cheaper existing tariff to existing customers. If a tariff which is one of the supplier's four core open tariffs is cheaper than a customer's existing tariff, it should be offered to the customer.</p>
Question 6.3:	<p>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.</p> <p>We appreciate that consideration has been given to suppliers who offer only one tariff. We agree that should such a supplier make available new products which are cheaper for existing customers, those customers should be informed of the new tariff.</p> <p>The value of Time of Use (ToU) tariffs depends on the differential between individual supplier's day and night rates and the consumer's behaviour. Once consumers are equipped with SMART metering, which provides for a record of half hourly consumption, suppliers will be in a position to better support their customers through education and information as to the rolling benefit of their consumption pattern. Suppliers could provide tools for consumers to determine from SMART data if their ToU tariff is of benefit to them or not. Alternatively, the supplier could adopt a practice to alert the consumer should their ToU tariff be disadvantageous. We would therefore agree that SMART and ToU combinations should be given separate consideration.</p>
Question 6.4:	<p>Do you have any suggestions regarding additional rules which they consider relevant for the construction of the cheapest tariff messaging?</p> <p>We would like to see the messaging include an assurance that the customer will be at no risk of being cut-off by switching tariff or supplier. We would like to see advice given to the customer on how to calculate if they qualify for the Warm Home Discount Scheme. We would appreciate example text if the domestic supply contract is deemed and thus addressed to The Occupier. We would like to see a caveat on the Customer Calculation / Personal Projection to explain regional differences due to distribution and transmission costs.</p>
CHAPTER: Seven	
Question 7.1:	<p>Do you agree with our proposal to introduce a price comparison tool?</p> <p>Yes, a price comparison tool is likely to improve market engagement and value.</p>

Question 7.2:	What is your view about the terminology we are proposing for the two price comparison metrics? Are they clear and easy for consumers to understand? We believe the preferred option should be based on the results of customer pilots and market testing.
Question 7.3:	In your view, does our proposal for the TCR strike an appropriate balance between different trade-offs in terms of simplicity, accuracy, confusion and saliency? Please explain the reasons for your view. We support the simplicity of a TCR based on low, medium and high consumption.

Question 7.4:

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.

The proposed calculations are well intended and show a great deal of thought has gone into their development.

We are concerned that the weightings which are to be applied to a supplier's regional rates in order to derive a national TCR for that supplier are the supplier's own customer numbers in each region. This will not give a nationally representative figure for that supplier and could lead to TCRs being distorted by a supplier's tactical regional pricing. Instead, the weightings used to derive TCR should be the number of MPANs and MPRNs installed in each region across all suppliers.

We have concerns that the treatment of discounts and penalties will be problematic. Suppliers could contrive to show their TCR in a favourable light by offering a low headline rate with a very high penalty for early cancellation, thus discouraging switching.

The value of all discounts and penalties that are payable if the customer does nothing within twelve months should be accounted for. This is what the Consumer Confidence code presently requires of switching sites.

The term Actual Consumption in generating the Personal Projection or Customer Calculation is a misnomer. The past is not a guide to the future and there are many uncertainties, as alluded to in note 154 of the consultation, such as weather, personal / household circumstances and energy efficiency improvements. Predictions of consumption can only ever be estimates. The use of the word Actual implies some level of guarantee.

We believe that Time of Use (ToU) tariff should not be included in the proposed measures. Without a widely available historic dataset of hourly or half hourly domestic consumption, ToU tariffs will not easily be accommodated.

Question 7.5:

In your view, should suppliers be required to make available up to date information on 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?

Yes.

We believe the barrier to publication of best buy tables is the reticence of switching sites to list products from suppliers with whom they have no contract for commission. Best buy tables should show the whole market.

Regulation of Third Party Intermediaries and Brokerages is essential to facilitate better publication of the whole market.

Question 7.6:	<p>Do you have any concerns regarding the implementation of this proposal? How long after a decision has been made would you take to implement this proposal? What drives those timescales?</p> <p>The interests of independent suppliers and their customers would be best served by a phased and prioritised approach to delivering the RMR proposals. New market entrants are unable to absorb the costs of making the necessary developments as readily as the larger suppliers who have the benefit of economies of scale.</p>
CHAPTER: Eight	
Question 8.1:	<p>Do you agree that the revised Standards of Conduct (SOC) will help achieve our objectives?</p> <p>We welcome the Standards of Conduct. Our reading of the SOC licence conditions is that they offer the same protections to the domestic customer throughout the term of their contract as are mandated at the point of making the contract. It is unusual for the explicit text of licence conditions to be repeated.</p>

Question 8.2:	Is there a different name for the SOC that will have more meaning to consumers and can be used by stakeholders across the industry?
	Fair play
Question 8.3:	Does our approach to enforcement mitigate stakeholder concerns about clarity and regulatory risk?
	Yes.
Question 8.4:	Do you have any information regarding potential costs this may impose on suppliers?
	The proposed Standards of Conduct will not impose any additional costs on Co-operative Energy as treating customers fairly is embedded in our structure, philosophy and operation.
CHAPTER: Nine	
Question 9.1:	Do you agree with our proposal for rules to be applied to fixed term offers in the domestic retail market?
	Yes.
Question 9.2:	Do you agree with our proposed strategies to mitigate concerns regarding increases in network charges?
	<p>No. Measures to smooth transmission and distribution costs have the effect of obscuring the true level of those costs. We believe that the transmission and distribution network operators are not as accountable to consumers as they should be. Also, consumers should be made aware of the significant losses of energy resulting from the nation's distributed generation infrastructure, both line losses and friction factors. Local, efficient, renewable generation schemes should be encouraged to compete on equal terms.</p> <p>Fixed price tariffs are no justification for smoothing network charges. If a supplier wants to offer a fixed term tariff, they should price all the uncertainty into the tariff rate and let the consumer decide if they are prepared to pay the premium for certainty.</p>
Question 9.3:	Is 30 days the appropriate notification period for mutual variations? Should there be any exceptions to our proposals for mutual variations (e.g. direct debit amount variations)?
	Yes, 30 days is the appropriate notification period.
Question 9.4:	Are there any expected implementation issues or costs associated with this proposal?

	None which are any more significant than launching any other new product to market.
Question 9.5:	Do you agree with our proposed timetable for implementation of our proposal?
	Yes.
CHAPTER: Ten	
Question 10.1:	Do you agree that we should trial a Market Cheapest Deal initiative?
	Yes, but for customers who have been inherited or have been with their supplier for 5 years, not 3, and most definitely for vulnerable customers. We would also like your Office to extend this practice to PPM indebted consumers.
Question 10.2:	Do you consider there are other approaches we should consider to address the particular issues with engaging sticky and/or vulnerable consumers? If so, what are they?
	High tech methods of reaching sticky and vulnerable customers will not necessarily work as these customers may not have access to technology. We support the involvement of trusted providers such as local councils and the Post Office as channels for informing consumers about their energy supply options.
Question 10.3:	Would you be willing to work with us in conducting the trial?
	Yes, we are always willing to work with your Office.