

David Hunt
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Ofgem
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23 April 2013

Dear David,

THE RETAIL MARKET REVIEW – FINAL DOMESTIC PROPOSALS

I am writing in response to above consultation published on 27 March 2013, seeking views on the policy effect of Ofgem's final proposals and on the draft licence conditions.

We welcome the general thrust of the RMR proposals; although we remain concerned that the tariff simplification element may prove counterproductive and may need to be lifted in future, we are now focussed on the effective implementation of the policy. We recognise the benefits that clearer customer communications will bring in making the market more transparent and consumer-friendly and we agree that rebuilding consumer trust will play a vital role in enhancing consumer engagement with the energy market. We are keen to work with Ofgem to deliver effective and workable RMR outcomes, and have suggested in this response a number of areas in which we think the detailed proposals need to be improved.

However, we would like to highlight here one issue of particular concern to ScottishPower. Our understanding of Ofgem's proposals is that we will be required to bring all our pre-existing fixed term contracts into compliance with the tariff simplification rules and the rules around fixed term product price increases. We cannot see any realistic way of achieving this without breaking promises to our customers, and it appears that we will not be allowed to offer compensation to customers who lose out as a result. As a matter of principle (and law) we believe that it is wrong to put suppliers in the position of having to disregard their contractual obligations to their customers. Given the seriousness of this particular issue, should Ofgem continue on this path without taking steps to address our concerns, we would need to consider whether this aspect of the proposals should receive independent review.

We welcome Ofgem's decision to provide an opportunity for comment on the draft licence conditions ahead of the statutory consultation. We have provided in Annex 3 a list of specific suggestions which we hope will be helpful. We have also indicated a few areas of drafting where we were still unclear as to the meaning or intent of the licence conditions. We understand and support Ofgem's wish to implement the RMR licence conditions as quickly as possible, but we would note that some aspects of the drafting could still benefit from further work, and it will be quicker in the long run to invest

sufficient time at this juncture to make sure the licence conditions are fully fit for purpose.

Our response is organised as follows:

- Annex 1 provides our comments on the policy effect of the final proposals;
- Annex 2 provides our comments on the draft guidance on standards of conduct key terms;
- Annex 3 provides detailed drafting suggestions on the draft licence conditions;
- Annex 4 is a separate confidential annex containing additional information on the transitional issues we will face with our fixed term products;
- Annex 5 provides details of certain tariff and metering arrangements used for electric heating, whose particular features will need to be accommodated in the drafting of relevant licence conditions. Some of these tariff arrangements are dictated by the differing physical installations on customers' properties and it would be useful to arrange a meeting of experts at an early date to find a solution.

I would be pleased to discuss further any of the points raised above or within the detailed annexes and provide further information that may be required.

Yours sincerely,

A handwritten signature in blue ink that reads "Rupert Steele". The signature is written in a cursive style and is positioned above a horizontal line that serves as a separator between the signature and the typed name below.

Rupert Steele
Director of Regulation

RMR FINAL DOMESTIC PROPOSALS CONSULTATION
SCOTTISHPOWER COMMENTS ON POLICY EFFECT

1. Transitional arrangements for fixed term tariffs

We currently supply a significant proportion of our customers on fixed term tariffs with an end date after 31 December 2013 (the implementation date for the RMR tariff simplification rules). The majority of these are fixed price tariffs, but some are discounted tariffs, which means that they have a discounted price that tracks our domestic standard prices.

Although we have argued in previous consultation responses that existing fixed term tariffs (fixed price and discounted) should be allowed to run their course, it appears from the final RMR proposals that this is not Ofgem's intention¹, and that these tariffs will be required to comply with the tariff simplification rules which come into effect on 31 December 2013 and (in the case of discounted tariffs) with the prohibition on adverse unilateral price variations which comes into effect on 31 March 2014.

A significant proportion of these services are currently provided on a no standing charge (NSC) basis and would need to be converted to a standing charge (SC) basis to comply with the tariff simplification rules. Furthermore, a number of these tariffs are available on a cash payment basis as well as direct debit, and would need to be amended to remove the prompt payment discount and to make the payment method differential uniform across different regions.

We cannot see how we could realistically make these changes without leaving at least some of our customers worse off. For example, if we convert our NSC tariffs into an equivalent SC tariff, we estimate that around 3% of our customers have sufficiently low consumption levels that they would pay more². In the case of discounted tariffs, it would be necessary to radically change the agreed deal, and this might put at risk our ability to continue to pay support to our charity partners.

It therefore appears that our only option under Ofgem's current proposals would be to breach our contractual obligations to at least some of our fixed term customers. In the case of fixed price tariffs we would be breaking our guarantee to keep the prices fixed, and in the case of discounted products we would be breaking our guarantee to offer a discount relative to our standard tariff (and in some cases to make charitable donations on the customer's behalf). Even if we were able to rely on contractual small print to break these commitments, we do not think it is right that suppliers should be forced to break their promises to their customers in this way³

¹Although the consultation document is largely silent on this issue, draft licence conditions 22A, 22B and 22C apply to all relevant supply contracts, including pre-existing fixed term (fixed price and discounted) contracts.

² The only way we could avoid disadvantaging any customers would be to waive the standing charge element entirely, which would be disproportionately expensive.

³ Our domestic product-specific terms and conditions state that we will meet our guarantee unless prevented from doing so by the actions or requirements of Ofgem. However, in the absence of express requirements from Ofgem to amend our tariffs in a way that disadvantages our customers, it is unclear whether such a condition would be enforceable – particularly given that courts are likely to make an interpretation in favour of the customer.

Our difficulty is compounded by Ofgem's proposed discount rules which would prevent us compensating customers who had lost out financially as a result of these changes (unless such compensation is ordered by Ofgem, the courts or a formal redress scheme).

Being in a position where we have to break promises (or even legally binding undertakings) to our customers is not something we would ever wish to do. For that to happen in the first few months of RMR implementation, which we see as a once in a decade opportunity to rebuild trust with consumers, would be particularly damaging. Respect for existing contracts is an important part of the UK's international reputation as a place to do business and vital in the context of the Government's EMR programme. To the extent that this element of RMR may signal a lack of respect for pre-existing energy contracts on the part of Ofgem, this could also be detrimental to wider policy objectives. We believe Ofgem's proposals in this respect are ill-considered and risk being counter-productive to the interests of customers.

As an alternative, we would suggest that existing fixed term products should be allowed to run their course. If Ofgem were to create such an exemption, it would of course be open to Ofgem to limit that exemption to contracts entered into before a specified date in the near future, so as to avoid any attempt to circumvent the restrictions by selling non-compliant products for the next few months.

We have provided more information on our fixed term tariffs in confidential Annex 4.

2. Fixed term tariffs switching window

Ofgem is proposing that for fixed term tariffs, suppliers will be required to apply a switching window starting with a notification letter sent between 42 and 49 calendar days before the end of the fixed term period (SLC 22C.5 and Transitional SLC 22CA).

We have two concerns with this proposal:

- i. the notification window of 7 days is too short and risks causing serious operational problems for suppliers;
- ii. the period of advance notice is too long, with the result that information provided to customers will be subject to unnecessary uncertainty and is unlikely to be acted upon.

We explain our concerns below.

Window too narrow

Under the current proposals all customer notifications will have to be received within a 7 day window. This is operationally difficult for suppliers as it effectively limits the time in which a supplier has to post communications to its customers. This might be manageable for a small communications programme. However, if a supplier has a large number of customers to send letters to, or more than one fixed term period coming to an end at the same or similar times, this will be operationally very difficult to manage. Such a tight window also does not allow for any contingency letters which may be required, such as having to post a letter with the information to online customers where the email was not able to be delivered. Typically more than one day is assigned for email notification to allow further delivery attempts and a manageable level of "bounce-back" data for our email servers. Therefore it may not be logistically practicable to complete this activity within such a narrow window in every case.

Notice period too long

Our concern is that if we are required to write to customers between 49 and 42 calendar days in advance of the end of the fixed term period, we may not have reliable cheapest tariff information for that customer, and therefore this will be less useful for the customer than if we were allowed to provide the information closer to the end date. Suppliers will need to have all communications prepared and ready at least 50 days before the end of the fixed term period, in order to have all the letters sent within the window. It is highly unlikely that a supplier will have a definitive view of all the core tariffs that will be available to that customer at least 50 days in advance and therefore the cheapest tariff information provided to the customer may not be reliable.

We also have a concern that consumers are unlikely to focus on something six or seven weeks away.

Alternative proposal

As an alternative, we would suggest aligning the end of fixed term notification requirements broadly to the current process for unilateral variations including price increases. We would suggest requiring suppliers to notify customers between 45 and 30 calendar days before the end of the fixed term period. This would give suppliers more operational freedom to manage any communication processes, while ensuring a clear minimum protection for consumers. It would also make any cheaper tariff messaging more reliable and relevant for the customer.

3. Ability of customers to confirm decisions by telephone

The proposed drafting of SLC 22C (and the transitional provisions of 22CA) require that customers confirm their agreement to renewal of fixed term contracts in writing (including writing sent by electronic communication). This precludes the customer agreeing to the renewal over the telephone and may also exclude use of IVR.

A significant proportion of our customers contact their supplier by phone on receipt of the Statement of Renewal Terms to discuss and understand the options open to them, and very often confirm their decision at that point. Others opt to use our telephone IVR systems.⁴ It seems unduly onerous for the customer to prevent them using these channels and to require them to follow up that conversation by confirming their decision in writing.

The proposed provisions for mutual variation (SLC 23A.2) allow for customers to agree to mutual variations “in Writing or by any other means”, and we see no reason why SLC22C should be different. In many cases the original contract will have been concluded over the telephone. We therefore suggest that SLC 22C.5(a)(v) & (b) and transitional 22C.5(b) are amended so that agreements can be reached in writing or by telephone. We have set out the detailed drafting suggestions in Annex 3.

4. Discounts

We are concerned that the proposed rules on discounts will restrict the ability of suppliers to offer products that incentivise or reward socially positive customer behaviour. For example suppliers might wish to provide an additional incentive for their customers to reduce energy

⁴ We have analysed the channels used by our customers to opt in to new fixed term products during 2012: 66% used our website, 16% completed a paper mandate and posted it to us, and 19% used telephone (of which 14% spoke to an agent and 5% selected an option by means of IVR).

consumption year on year. Although the cost of energy itself is an incentive to reduce consumption, the challenge of reducing consumption relative to the previous year may prompt greater awareness of consumption patterns and stimulate customers to think more actively about energy saving measures.

In the absence of smart meters, suppliers' ability to measure a customer's reduction in energy consumption is limited by the frequency of meter readings, so it may only be practical to make year on year comparisons of energy consumption on an annual basis, or at most quarterly. This means that even if a year's worth of historic consumption data is available (which will not be the case for all customers), there will be a lead in period of at least three months and possibly a year before a discount or reward can be applied. This does not appear to be compatible with the proposed discount rules. Furthermore, once this lead in period has elapsed, it is not clear whether it is permissible to make discounts or rewards contingent on behaviours such as energy consumption reduction.

Another possible unintended consequence of the discount rules is that suppliers may no longer be able to act on a discretionary basis to assist customers who are in particular hardship, eg waiving charges for moving a meter.

We believe that providing incentives for behaviours such as reducing energy consumption, is an important aspect of market innovation with wider social and environmental benefits, and would encourage Ofgem to consider adjusting the RMR arrangements to accommodate such incentives. The same goes for discretionary assistance to customers in hardship.

5. Changing discounts and payment method differentials

Ofgem is proposing to require that dual fuel discounts, online discounts and payment method price differentials are the same amount across all regions and tariffs.⁵ The consequence of these rules, in combination with the prohibition on price increases for fixed term products, is that it will be very or disproportionately expensive for suppliers to adjust these discounts or differentials, once they have initially been set, particularly if they have a high proportion of fixed term customers.

If the supplier wishes to change any of these quantities, the only way of doing so will be to reduce prices for a subset of fixed term customers. So, for example, if the supplier wishes to increase the differential between direct debit and credit payment methods, perhaps in the context of a general price rise which leads to higher working capital and bad debt costs for credit customers, it will need (if it has any fixed term customers on credit terms) to reduce the prices for all its fixed term customers who pay by direct debit.

Apart from creating an undesirable inflexibility into the market, this could have unintended consequences, for example disincentivising suppliers from making fixed term products available to a wide range of different payment methods. This could be mitigated if the requirement that discounts and differentials are the same across all tariffs is amended to that it applies only to non-expired fixed term tariffs (ie tariffs which are open to new customers).

6. Obligation to offer Dual Fuel discount

⁵ "Dual fuel discounts and online discounts will have to have ... the same terms and conditions across the tariffs and regions where they apply" (conduc para 2.11). "Any adjustment made to account for differences in the cost of providing a specific payment method must be the same for all of a supplier's tariffs where that payment method is offered, and must also be the same across all regions" (conduc para 2.25).

The effect of SLC 22B.5(b) is that if a supplier offers a dual fuel discount at all, it must offer and make available a dual fuel discount with all its tariffs. Dual Fuel Discount is defined as:

“a Discount which complies with Paragraph 22B.5 of Standard Licence Condition 22B and which the licensee may apply to a Tariff on the basis that the Domestic Customer is supplied with both electricity and gas from the licensee or the licensee and an Affiliate Licensee;”

This suggests that (assuming the supplier offers any dual fuel discounts) it will be obliged to offer a dual fuel discount to any customer to whom it supplies both gas and electricity. This is in contrast to the current model whereby suppliers apply a dual fuel discount only where the customer purchases electricity and gas on a dual fuel basis – which means that the customer has to purchase gas and electricity under the same tariff and the same agreement.

In ScottishPower’s case a significant number of customers purchase electricity and gas not on a dual fuel basis. Such customers will typically have separate agreements and receive separate bills for each fuel, so there is no cost saving in providing them with both fuels. They may be on prepayment for one fuel and direct debit for the other. In some cases we are able to recognise that it is the same customer behind each agreement (eg because the name and address match), but in others we are unaware that this is the case (and if the addresses do not match sufficiently closely, we may have no way of telling).

If it is Ofgem’s intention that we should start to offer dual fuel discounts to all customers who purchase electricity and gas from us, regardless of whether they do so on the same tariff or under a single agreement, this will have major systems and commercial implications – and would be exceptionally challenging in cases where we did not know that that a customer was purchasing both fuels from us. We hope that this interpretation is wrong and have suggested a drafting amendment in Annex 3 to provide a more flexible definition.

7. Specialist heating tariffs

We are concerned that some aspects of the licence drafting may not be compatible with certain electric heating/metering arrangements used by our customers. In these households the meter measures consumption on two separate circuits, a main circuit and a circuit which is used for electric storage heaters. The main circuit is typically subject to a two period time of use tariff, and the heating circuit (which is energised at particular times of day either through radio teleswitching or static/semi-static time clock switching) is charged at a third unit rate.

We have suggested two drafting amendments in Annex 3 (to the definitions of Alternative Cheapest Tariff and Time of Use Rates) to reflect these arrangements, but it is possible that there are other incompatibilities which we have not detected. We have provided full details of the relevant arrangements in Annex 5, in case this is of assistance to Ofgem, but would suggest an early discussion with the relevant specialists to ensure that there are no unintended consequences.

RMR FINAL DOMESTIC PROPOSALS CONSULTATION

SCOTTISHPOWER COMMENTS ON DRAFT STANDARDS OF CONDUCT GUIDANCE

We welcome Ofgem's proposed guidance on Standards of Conduct key terms and believe it will generally be helpful in clarifying the scope of Licence Condition 25C and Ofgem's proposed interpretation of it.

As a general point, we would note that with a licence condition such as SLC25C, which is couched in extremely general terms, the associated guidance gives Ofgem much greater scope to vary the effect of the licence condition than would be the case for a more prescriptive condition. In other words, Ofgem may be able to make changes to supplier obligations through amendments to the Standards of Conduct guidance, which might otherwise have required a formal licence modification. Ofgem is proposing that any changes to the guidance will be subject to formal consultation, which is clearly essential, but this still provides less protection than for licence modifications, where there is a right of appeal to the Competition Commission. This creates regulatory risk for suppliers, particularly in the event of political change or personnel change within Ofgem. As a minimum we would suggest that Ofgem should set out clear rules around the consultation process associated with any changes (minimum consultation period, need for impact assessment, etc).

Our comments on the draft guidance are as follows:

- Many of the concepts introduced in the draft guidance are highly subjective. Behaviour which is judged as aggressive, condescending or in poor taste by certain customers may be completely unobjectionable to others. We think it would be helpful to include an umbrella statement in the guidance that all value-based concepts are to be interpreted in an *objective* manner, ie based on the assessment of a reasonable person rather than the individual in question. Ofgem says it plans to use a "reasonable person" test in its bespoke enforcement approach, which seems to be consistent with this request, but we nevertheless feel it would be helpful to spell it out as part of the guidance.
- The guidance should make it clear whether the Standards of Conduct are intended to address systemic or serious concerns with supplier behaviour, or to be used as a means to resolve individual customer complaints. We understand from the consultation document that the policy intention is the former. However, the draft guidance could be read to imply the latter, for example, suggesting that an individual case of agent rudeness would be contrary to the Standards of Conduct. We cannot imagine that any supplier would tolerate agent rudeness, however by the same token, it is impossible for a supplier to control every agent's behaviour at all times.
- The guidance on transparency and honesty states that a supplier must not "whether deliberately or unconsciously" take advantage of various customer weaknesses (desperation, lack of knowledge etc). We agree that a supplier should not take advantage of a customer, whether deliberately or through a lack of care in presenting information. However, we are concerned about the implications of 'unconscious'. The word 'unconscious' implies that the supplier was not aware that they were taking advantage of the customer. Hence, if a supplier takes all steps it thinks relevant and appropriate to the case but is unaware of (or unable to identify) particular problems for a customer, it could still be in breach of the Standards of Conduct. This strikes us as an

inappropriate standard to place on suppliers, and it also seems to take behavioural requirements over and above those of a reasonable contracting party. Beyond this, it is not clear how a supplier would demonstrate that it was not unconsciously taking advantage of a customer. This would suggest a very high burden of proof on suppliers.

RMR FINAL DOMESTIC PROPOSALS CONSULTATION
SCOTTISHPOWER COMMENTS ON DRAFT LICENCE CONDITIONS

REFERENCE	SUGGESTED AMENDMENT	RATIONALE
GENERAL	Remove definitions from individual conditions and include all definitions in SLC 1	To improve clarity and ease of reference, we would suggest that all definitions are maintained in SLC 1, and that defined terms are consistent across all Conditions as far as possible. This is becoming more of an issue as the number and complexity of licence conditions increases.
SLC 22B.1(a) (p10)	Consider whether this sub-paragraph (and associated definitions) can be redrafted to make it clear what it means and is intended to achieve.	The meaning and intent of SLC22B.1(a) is unclear, in particular what is meant by “on the basis of the Relevant Arrangements”. (The answer may be to amend the definition of Relevant Arrangements, but without knowing what this sub-paragraph is intended to achieve, it is difficult to suggest how this might be done.)
SLC 22B.1(b) (p10)	“subject to paragraph 22B.2, in any Region, the licensee must not use <u>offer</u> (or, where there are any Affiliate [Electricity/Gas]Licensees, the licensee and any Affiliate [Electricity/Gas] Licensees must not collectively use <u>offer</u>) more than four Core Tariffs at any time in relation to the Relevant Arrangements;”	For consistency with policy intent that dead evergreen and expired fixed term tariffs are not included in the tariff cap. (Alternatively, this could be achieved by the amendment to SLC 22B.2 suggested below).
SLC 22B.2 (p10)	Insert a new sub-paragraph “(a) apply to a Dead Tariff” and adjust numbering of subsequent sub-paragraphs	For consistency with policy intent that Dead Tariffs are not included in the tariff cap. (Alternatively, this could be achieved by the amendment to SLC 22B.1(b) suggested above).
SLC 22B.8 – 22B.23 (pp12-14)	Consider redrafting to improve clarity.	The drafting of the Licence Conditions on Bundles and Reward Points is complex, difficult to understand and open to different interpretations. For example, paragraphs 22B.11 and 22B.19 which suggest that a Tied Bundle or Reward Points Discount could be defined as a Tariff despite neither of them including any Charges for electricity or gas.

REFERENCE	SUGGESTED AMENDMENT	RATIONALE
SLC 22B.11 (p12)	Clarify the intent of this Condition.	In particular, it is unclear whether it is intended to allow a supplier to offer a tied bundle in addition to one of the 4 core tariffs, or whether it is simply trying to allow a tied bundle as one of the core tariffs.
SLC 22B.15(a)	Clarify the meaning/intent of sub-paragraphs (i), (ii) and (iii)	Even if sub-paragraphs (i), (ii) and (iii) were omitted, SLC 22B.15(a) would appear to reflect the key policy intent, that bundled products should have the same price and T&Cs throughout GB. The purpose of these sub-paragraphs is obscure but appears to hinge on the distinction between “similar features”, “distinct additional features” and “unique features” – terms which are not defined or discussed in the condoc.
SLC 22B.19 (p13)	Clarify the intent of this Condition.	In particular, it is unclear whether it is intended to allow a supplier to offer a particular mandatory Reward Points discount with one of its core tariffs in addition to that core tariff, or whether it is simply trying to allow a tariff with a mandatory Reward Points Discount as one of the core tariffs.
SLC 22B.31 (p16)	Add a new sub-paragraph “(a) a Dead Tariff” and adjust numbering of subsequent sub-paragraphs	The requirement for tariffs to be available to new and existing domestic customers should not apply to ‘dead’ evergreen tariffs.
SLC 22C.5(a)(v) and (b) (p23)	Insert the words “or by telephone” after the words “in Writing”.	A significant proportion of our customers contact their supplier by telephone on receipt of the Statement of Renewal Terms to discuss and understand the options open to them, and very often confirm their decision at that point. Others opt to use our telephone IVR systems. It seems unduly onerous for the customer to prevent them using these channels and to require them to follow up that conversation by confirming their decision in writing. (See also Annex 1, section 3.)
SLC 22C.12(b) (p26)	Replace the word “Relevant” with “Alternative” between “and/or” and “Cheapest”	The Relevant Cheapest Tariff has been used twice, the second one should be Alternative Cheapest Tariff.

REFERENCE	SUGGESTED AMENDMENT	RATIONALE
SLC 22C.12(c)(iii) (p26)	Insert the words “or as a result of credit search results” after the words “Outstanding Charges”.	When deciding to change a prepayment meter to a non-prepayment meter, outstanding charges are not the only factor we take into consideration. In particular, we may undertake a credit search on the customer, which may result in us refusing to change the meter, or we may require a security deposit before we will change the meter. It would be misleading to the customer to suggest that the only circumstances where there may be restrictions on changing a prepayment meter are where there are outstanding charges. The suggested amendments would also make the customer aware that they may be asked to agree to a credit check and this may result in them being asked to provide a security deposit.
SLC 22CA (pp29-30)	Replace all references to “31CA” with “22CA”	Incorrect numbering.
SLC 22CA.2/ Transitional SLC 22C.5(b) (p30)	Insert the words “or by telephone” after the words “in Writing”.	A significant proportion of our customers contact their supplier by telephone on receipt of the Statement of Renewal Terms to discuss and understand the options open to them, and very often confirm their decision at that point. Others opt to use our telephone IVR systems. It seems unduly onerous for the customer to prevent them using these channels and to require them to follow up that conversation by confirming their decision in writing. (See also Annex 1, section 3.)
SLC 23A.2(e)(i) (p41)	“is not an <u>a non</u> -Expired Fixed Term Tariff; or”	The current drafting would include any tariff which is not an Expired Fixed Term Tariff (so, for example, a dead evergreen tariff would be included). We think the intention is to refer to non-expired, ie live Fixed Term Tariffs.
SLC 25C.3(b) (p43)	“give rise to a likelihood of <u>undue</u> detriment to the Domestic Customer.”	As drafted, the Licence Condition might be interpreted as prohibiting certain routine industry practices which are not to the benefit of individual consumers. For example, disconnecting customers for unpaid debt significantly favours the interests of the supplier and could be considered as detrimental to the consumer in question. However, where the supplier has done all it can otherwise do to collect the debt, and the customer has not co-operated, disconnection is necessary as a last resort. We do not believe it is Ofgem’s intention to prohibit such actions, and we suggest that this could be clarified by inserting the word “undue” in relation to the detriment to the customer. This would provide a reasonable balance for suppliers without undermining the intended definition of ‘fair’.

REFERENCE	SUGGESTED AMENDMENT	RATIONALE
SLC 25C.4(c)(iii) (p44)	Replace the word “transparent” with “easily understood”.	We think the key consideration for customer service arrangements and processes should be that they are easy for customers to understand, rather than that they are ‘transparent’.
SLC 1 definition of “Affiliate Licensee” (p74)	There are two definitions for effectively the same term, one for Affiliate [Electricity/Gas] Licensee and one for Affiliate Licensee. We suggest removing one of these definitions.	For clarity and to avoid confusion.
SLC1 definition of “Alternative Cheapest Tariff” (p74)	“(b) where the Domestic Customer is not subject to a Prepayment Meter, the cheapest Tariff compatible with the [Electricity/Gas] Meter <u>and heating system</u> installed at the Domestic Customer’s premises;” [This applies to the electricity supply licence condition only]	In the case of certain electric heating tariffs a particular alternative tariff may be compatible with the meter in question but may not be compatible with the heating system. The supplier would not necessarily know what changes would required to the heating system to use the alternative tariff or how much they would cost. (See Annex 1, section 8 and Annex 5 for further details of these tariffs.)
SLC1 definition of “Alternative Cheapest Tariff” (p74)	“(c) where the Domestic Customer is subject to a Time of Use Tariff, either a Time of Use Tariff <u>for which appropriate consumption data is available</u> or a Non-Time of Use Tariff; and”	To reflect the policy intent with regard to Time of Use (ToU) tariffs (condoc para 3.68) which states that “suppliers should include in the calculation of the cheapest tariff message only those tariffs for which consumption data is available to calculate the personal projection.”
SLC 1 definition of “Dual Fuel Discount” (p76)	“on the basis that the Domestic Customer is supplied with both electricity and gas from the licensee or the licensee and an Affiliate Licensee <u>under a single arrangement</u> ”	To reflect current commercial practice, that where suppliers offer a dual fuel discount, they generally do so only where the customer purchases gas and electricity under a designated dual fuel arrangement. (See also Annex 1, section 6.)
SLC 1 definition of “Discount” (p77)	Consider inserting the word “Non-Contingent” before the word “Discount” and replace the word “dependant” with “dependent”.	There are two definitions for “Discount”. We believe this one is meant to be “Non-Contingent Discount”.

REFERENCE	SUGGESTED AMENDMENT	RATIONALE
SLC 1 definition of "Time of Use Rates" (p81)	"the Charges for the Supply of [Gas/Electricity] include two or more Unit Rates in circumstances where no more than one Unit Rate applies to any <u>one circuit at any</u> given period of time and no Unit Rates vary by the level of consumption; and" [This applies to the electricity supply licence condition only]	The current definition is incompatible with certain electric heating tariffs in which a single meter controls two different circuits, with different unit rates applying to the two circuits. (See Annex 1, section 7 and Annex 5 for further details of these tariffs.)
SLC 23.3(b) (p84)	Retain "significant" before the word "disadvantage"	The consequence of removing "significant" is that any change whose impact could be regarded as adverse - however slight and however few the customers affected - would potentially trigger the full process requirements of SLC23. We think that 'significant' strikes the right balance between consumer protection and minimising unnecessary costs and bureaucracy.
Schedule 1 to SLC 31A S1.13 (p113)	Replace "Remember – you always have the right to switch your tariff or your supplier" with "Remember - it might be worth thinking about switching your tariff or supplier".	A different form of words has been used here compared to other licence conditions. (There are seven examples of the alternate variant in the draft licence conditions document.) We think the suggested wording is the more appropriate variant and the change would provide a consistent message to consumers across all the Licence Conditions.
SLC 23.4(s) and Schedule 1 to SLC 23 S1.11, S2.15, S3.14 and S4.18 (p99)	Remove the requirement that the new and old prices should be provided exclusive of VAT	Requiring the licensee to provide charges exclusive of VAT for price change notifications may be confusing for the customer, particularly as all other presentations of costs are required to be inclusive of VAT (for example in the Estimated Annual Costs definition in SLC1 p76).

RMR FINAL DOMESTIC PROPOSALS CONSULTATION

DETAILS OF SPECIALIST TARIFFS

1. Introduction

We drew attention in Annex 1 and Annex 3 to possible conflicts between the draft licence conditions and certain specialist tariff and metering arrangements used for electric heating. This Annex provides additional background information on these electric heating arrangements and other specialist tariffs used in our ScottishPower and MANWEB areas.

2. ScottishPower

White Meter No. 1 (WM1)

This tariff has a Daily Service Charge which applies regardless of usage and two different kWh rates: these apply to all electricity used during Day and Night times respectively.

'Night' is formally defined as any period of 8.5 hours at ScottishPower's discretion between 2200 and 0830 GMT, but in practice should be one of the following:

2300 to 0730 GMT (i.e. 0000 to 0830 BST in summer),
2345 to 0815 Local Time (i.e. same clock time all year), or
0000 to 0830 Local Time

at the choice of ScottishPower

'Day' means at all other times.

Compared to Domestic Tariff, the WM1 Daily Service Charge and the Day kWh rate are slightly higher. The Night kWh rate is, however, significantly lower. WM1 is intended for customers who make substantial use of electricity at Night. About 35% of the electricity used by continuously operating appliances such as freezers is automatically taken at night. Early morning use of lighting, heating and cooking is also likely to occur in the Night period, and other appliances such as washing machines and dishwashers can be deliberately operated at Night to take advantage of the low price.

Prior to 1991 customers could choose WM1 for operation of storage heaters, which were normally arranged to only use electricity at Night. Customers who choose WM1 following its re-introduction in 2004 may not use it for storage heating. WM1 customers who did use storage heaters prior to this may continue to do so, but a better option would be to request a transfer to ScottishPower's ComfortPlus White Meter tariff (CPWM) – described below.

CPWM gives enhanced heater performance combined with a lower kWh price. For customers who are supplied on the "No Standing Charge" option, there is a primary block rate which is applied to the first 900 'day' kWh used per annum. The "No Standing Charge" option will be of financial benefit to customers who use up to the primary block limit per annum.

ComfortPlus White Meter (CPWM)

This tariff has a Daily Service Charge which applies regardless of usage and three different kWh rates. These are the 'Day', 'Night' and 'Controlled Circuit' rates and are applied as follows:

- Day and Night rates apply to electricity used for general purposes, excluding storage space heating, during Day and Night times respectively.
- Night is formally defined as any period of 8.5 hours at ScottishPower's discretion between 2200 and 0830 Local Time, but in practice would normally be 0000 to 0830 Local Time.
- Day means at all other times
- The Controlled Circuit kWh price applies to electricity supplied via a separate controlled circuit to storage space heating.

The controlled circuit operates in one of two ways according to customer's choice as described below.

ComfortPlus White Meter with Weathercall Option

The Controlled Circuit is energised for periods having an aggregate daily duration between 0 and 14 hours chosen by ScottishPower on the basis of forecast weather conditions. The intention is that the customer should be able to leave all storage heaters switched on with their charge controllers set to maximum and obtain a substantially constant daily average indoor temperature in each heated room throughout the year. For this temperature to provide acceptable comfort conditions it is essential that the heating system is correctly sized. The Weathercall Option is therefore recommended for houses with correctly sized heating systems using high capacity storage heaters.

ComfortPlus White Meter without Weathercall

The Controlled Circuit is energised for two or more periods with an aggregate daily duration of 8.5 hours. The customer must control the storage heating manually by varying the setting of individual heaters' charge controllers. As an alternative, some form of automatic controller can be installed.

CPWM without Weathercall is recommended for houses having partial or inadequately sized heating systems using high capacity storage heaters.

Compared to WM1, the CPWM Daily Service Charge is slightly higher but Day and Night kWh rates are essentially unchanged. The Controlled Circuit kWh rate, which applies to the storage heating usage, is however some 10% lower than Night rate.

CPWM is intended for customers who use storage heating - and indeed is only made available to customers who do - but it also offers the same benefits as WM1 for those customers who make substantial other use of electricity at Night. About 35% of the electricity used by continuously operating appliances such as freezers is automatically taken at night. Early morning use of lighting, heating and cooking is also likely to occur in the Night period, and other appliances such as washing machines and dishwashers can be deliberately operated at Night to take advantage of the low price. Storage water heating would normally be wired to take most or all energy at Night using either the water heating control incorporated in the metering equipment or some other time control system.

ComfortPlus Control (CPC)

This tariff has a Daily Service Charge which applies regardless of usage and two different kWh rates. These are Heating kWh rate and the Other rate and are applied as follows:

Heating rate applies to all electricity supplied by the Heating meter and is made available on three circuits which operate as follows:

- a) The controlled circuit supplies storage space heating and is energised for periods having an aggregate daily duration between 0 and 14 hours chosen by ScottishPower on the basis of forecast weather conditions. The intention is that the customer should be able to leave all storage heaters switched on with their charge controllers set to maximum and obtain a substantially constant daily average indoor temperature in each heated room throughout the year. For this temperature to provide acceptable comfort conditions it is essential that the heating system is correctly sized. CPC is only permitted where the system provides whole house heating and storage heating forms at least 60% of the total installed heating load.
- b) The storage water heating circuit supplies storage water heating and is energised for periods formally defined as being at ScottishPower's discretion totalling 4 hours per day, but in practice would normally be 0400 to 0830 Local Time.
- c) The direct space and water heating circuit supplies direct acting space and water heating and is energised 24 hours per day.

The "Other" rate applies to electricity used for all other purposes. This will include any space or water heating not supplied by the appropriate heating circuit.

CPC has an advantage over CPWM in that all heating is supplied at the same low kWh price but, on the other hand, the Daily Service Charge is higher and the Heating rate is higher than CPWM's Controlled Circuit rate. With a well sized and properly operated heating system it should be possible to achieve a lower annual cost with CPWM (with Weathercall) than CPC.

Economy 2000

This tariff is intended for medium capacity storage boilers providing space heating or both space and water heating. Electricity for all other purposes must be taken on Domestic Tariff and a combined Daily Service Charge applies. The Economy 2000 supply is made available for periods at ScottishPower's discretion totalling 18 hours per day, but with the proviso that no interruption will exceed 2 hours. It is important, therefore, that the boiler stores sufficient energy to supply space (and possibly water) heating requirements for 2 hours. Direct acting boilers without storage capacity are not permitted to make use of Economy 2000.

Off-Peak C

This tariff was originally designed for medium capacity storage heating equipment that has now been obsolete for more than 20 years. Modern high capacity storage heating can always be operated more economically on CPWM or CPC. Some systems however, e.g. under-floor storage heating, require longer availability and Off-Peak C may be suitable. The Off-Peak C supply is made available for 24 hours per day on Saturday and Sunday and for periods at ScottishPower's discretion totalling 12 hours per day on Monday to Friday. Electricity for all other purposes must be taken on Domestic Tariff and a combined Daily Service Charge applies.

Preserved Off-Peak Tariffs

Preserved tariffs are not available to new customers, but a customer with a preserved tariff may continue to use it. A transfer to a more modern tariff might be financially beneficial. It is important to note, however, that the heating equipment currently supplied on the off-peak tariff may not operate satisfactorily on a different tariff. More guidance on this is given below. If the original heating system has been replaced using adequately sized modern high capacity storage heaters a transfer to ScottishPower's ComfortPlus White Meter tariff (CPWM) would normally be preferable.

Off-Peak A

This tariff was originally designed for high capacity storage heating systems. The Off-Peak A supply is made available for 24 hours per day on Saturday and Sunday and for 8 hours at ScottishPower's discretion on Monday to Friday. Electricity for all other purposes must be taken on Domestic Tariff and a combined Daily Service Charge applies.

Unless the weekend availability is of some particular benefit, a better option would be to request a transfer to CPWM. CPWM gives enhanced heater performance combined with a lower kWh price.

Off-Peak D

This tariff was originally designed for low capacity storage heating equipment that has now been obsolete for more than 30 years. The Off-Peak D supply is made available for 24 hours per day on Saturday and Sunday and for periods at ScottishPower's discretion totalling 16 hours on Monday to Friday. Electricity for all other purposes must be taken on Domestic Tariff and a combined Daily Service Charge applies.

Some systems, e.g. under-floor storage heating, require long daily availability and if such a heating system is retained there may not be any realistic alternative to Off-Peak D. An exception to this is where substantially improved insulation has been fitted to a property since the Off-Peak D heating system was designed: in these circumstances a transfer to Off-Peak C might be justified and would reduce the kWh price. Off-Peak D was occasionally used to supply medium capacity storage boilers: in such cases a transfer to Economy 2000 would give improved heating performance and a lower kWh price.

Off-Peak 2

This tariff was originally designed for low capacity storage heating equipment that has now been obsolete for more than 40 years. The Off-Peak 2 supply is made available for 24 hours per day on Saturday and Sunday and for periods at ScottishPower's discretion totalling 20 hours on Monday to Friday. Electricity for all other purposes must be taken on Domestic Tariff and a combined Daily Service Charge applies.

Low capacity storage heating equipment designed to operate with Off-Peak 2 will not operate satisfactorily on a more modern tariff.

3. MANWEB

Economy 7

This is a two-rate tariff and designed for customers who can make use of a period of off peak electricity during the night. Typically (but not exclusively) for customers with storage heating

and/or electric water heating. Compared with Domestic 'S', daily service charge and day rate units are charged at a higher price with night unit significantly lower than the day rate prices.

Night is formally defined, as any continuous period of 7 hrs at Scottish Power's discretion between the hours of 24.00hrs and 08.00 hrs, but in practice should be one of the following.

24.00hrs to 07.00hrs GMT (i.e. 01.00hrs to 08.00hrs BST in summer)

24.30hrs to 07.30hrs GMT (i.e. 01.30hrs to 08.30hrs BST in summer)

“Day” means at all other times.

Customers with old style mechanical timeswitches may experience variation from the above times depending on clock accuracy and settings.

Economy 7 although principally designed for use with electrical heating can be to any customers benefit if they can transfer a reasonable percentage of their daily average consumption to the night rate. Typically the break-even figure has been around 15% however this is dependent on the prevailing prices. About 30% of the electricity used by continuously operating appliances such as freezers is automatically taken at night. Early morning use of lighting, heating and cooking is also likely to occur in the Night period and other appliances such as washing machines and dishwashers can be deliberately operated at Night to take advantage of the lower price rate. Storage water heating would normally be wired to take most or all energy at Night using either the water heating control incorporated in the metering equipment or some other time control system.

For customers who are supplied on the “No Standing Charge” option, there is a primary block rate which is applied to the first 900 kWh used per annum. The “No Standing Charge” option will be of financial benefit to customers who use up to the primary block limit per annum.

Economy 7 Plus Weathercall

This tariff has a Daily Service Charge which applies regardless of usage and three different kWh rates. These are the 'Day', 'Night' and 'Controlled Circuit' rates and are applied as follows:

- Day and Night rates apply to electricity used for general purposes, excluding storage space heating, during Day and Night times respectively.
- Night is formally defined as any period of 7 hours at ScottishPower's discretion between 0000 and 0830 GMT, but in practice would normally be 0030 to 0730 Local Time.
- Day means at all other times

The Controlled Circuit kWh price applies to all electricity supplied on two special circuits which operate as follows:

- a) The storage space heating circuit supplies storage space heating and is energised for periods having an aggregate daily duration between 0 and 14 hours chosen by ScottishPower on the basis of forecast weather conditions. The intention is that the customer should be able to leave all storage heaters switched on with their charge controllers set to maximum and obtain a substantially constant daily average indoor temperature in each heated room throughout the year. For this temperature to provide acceptable comfort conditions it is essential that the heating system is correctly sized.

- b) The storage water heating circuit supplies storage water heating and is energised for periods formally defined as being at ScottishPower's discretion totalling 4 hours per day, but in practice would normally be 0330 to 0800 Local Time.

Compared to Economy 7, the Economy 7 Plus Weathercall Daily Service Charge is slightly higher, but Day and Night kWh rates are essentially unchanged. The Controlled Circuit kWh rate, which applies to the storage space and water heating usage, is however some 10% lower than Night rate.

Economy 7 Plus Weathercall is intended for customers who use storage heating - and indeed is only made available to customers who do - but it also offers the same benefits as Economy 7 for those customers who make substantial other use of electricity at Night. About 29% of the electricity used by continuously operating appliances such as freezers is automatically taken at night. Early morning use of lighting, heating and cooking is also likely to occur in the Night period, and other appliances such as washing machines and dishwashers can be deliberately operated at Night to take advantage of the low price.

Twinheat

This tariff has a Daily Service Charge, which applies regardless of usage. It is a two-rate tariff designed for customers who use electricity during the Night and Afternoon. This tariff provides 7 hrs of off peak electricity (defined as low rate) and 17 hrs on peak electricity (defined as peak rate) in each 24 hr period. The off peak (low) period is split into two segments, the timings dependant on which option is favoured by the customer.

Twinheat A

Low rate, 4hrs between 03.00hrs and 07.00hrs & 3hrs between 13.30hrs and 16.30hrs

Peak means at all other times.

Twinheat B

Low rate, 4hrs between 21.00hrs and 01.00hrs & 3hrs between 12.00hrs and 15.00hrs

Peak means at all other times.

Twinheat was principally designed for use with electric storage heating, enabling new and existing customers to benefit from two off peak charging periods in each 24 hrs. This allows storage heaters to charge more evenly whilst also allowing the customer to heat hot water on the off peak rate. It is also possible for other high cost cooking and laundry appliances to be deliberately operated on the low rate during the day. The choice of times is fixed for each option, the customer having to decide which regime is best suited to their requirements.

Compared with Economy 7 off peak unit prices are slightly higher with peak and service charges remaining the same. Existing customers switching from Economy 7 would have no difficulty with off peak heating as the off peak circuits controlled via the teleswitch would continue to function in the same way as before. However customers who control heaters via a separate contactor or whose water heating is activated via a separate timeswitch would have to ensure these devices were adjusted to reflect the new time regime.

Option 14

This tariff has a Daily Service Charge, which applies regardless of usage. It is a two-rate tariff designed for customers who use electricity during the Night and Afternoon and is

designed specifically for use with electric storage heating. The customer is charged at two rates defined as low and peak.

This tariff provides 14 hrs of off peak electricity (defined as low rate) and 10 hrs on peak electricity (defined as peak rate) in each 24 hr period.

The off peak (low) period is split into two segments, one overnight and the other during the afternoon.

At ScottishPower's discretion the times are defined as:

3hrs between 1300hrs and 1600hrs (GMT)
11hrs between 2100hrs and 0800hrs (GMT)

The Tariff is controlled via meter equipment with an electronic timeswitch and should be consistent across all sites.

Peak is defined as being at all other times.

The Daily Service Charge and unit prices are significantly higher than Economy 7.

The tariff was designed specifically for use in conjunction with specially designed storage heaters equipped with half rated elements. The principle being that the heaters would charge for twice the normal period (compared with Economy 7) but with the half rated element would only consume the same number of units.

Under normal circumstances this tariff would only be made available to customers with the appropriate heating system designed for a 14 hr charge.

Customers with high capacity storage heaters will obtain more economical operating on Economy 7 or Economy 7 Plus Weathercall.

In addition there are a small number of domestic customers with particularly high-energy requirements who may benefit from this tariff. Typically customers who have high underlying consumption (such as swimming pools) can benefit by maximising the use of such installations during the 14 hours of the low rate.

Preserved Tariffs

The following tariffs are preserved and not available to new customers.

White Meter 8

This tariff has a Daily Service Charge, which applies regardless of usage. It is a two-rate tariff similar to Economy 7 Tariff but offers an 8 hr Night period. Night is formally defined, as any continuous period of 8 hrs at ScottishPower's discretion between the hours of 23.00hrs and 08.00 hrs (GMT),

Off-Peak A

For supplies of electricity at off peak rates made available for approximately 10hrs at ScottishPower's discretion between 1900 hrs and 0700hrs(GMT) and for a further 2 hrs between 1330hrs and 1530hrs(GMT).

The off peak rate applies for storage heating and water heating. There is a charge for each kWh unit supplied and also a Daily Service Charge.

This tariff is taken in conjunction with Domestic 'S' and therefore will require separate metering for the Off-Peak and Domestic 'S' supplies.

Off-Peak C

For supplies of electricity at off peak rates made available for approximately 8hrs at ScottishPower's discretion between 2200 hrs and 0930hrs(GMT).

The off peak rate applies for storage heating and water heating. There is a charge for each kWh unit supplied and also a Daily Service Charge.

This tariff is taken in conjunction with Domestic 'S' and therefore will require separate metering for the Off-Peak and Domestic 'S' supplies.

Off-Peak D

For supplies of electricity at off peak rates made available for approximately 7hrs or 8hrs at night and 3hrs during the day according to the following criteria

Either a) 8 hrs 2300hrs to 0700hrs (GMT)

Or b) 7 hrs 0130hrs to 0830hrs (GMT)

And in addition

Either c) 3 hrs 1330hrs to 1630hrs (GMT)

Or d) 3 hrs split 1130hrs to 1300hrs(GMT) and 1500hrs to 1630hrs(GMT)

The off peak rate applies for storage heating and water heating. There is a unit charge for each kWh and also a Daily Service Charge.

This tariff is taken in conjunction with Domestic 'S' and therefore will require separate metering for the Off-Peak and Domestic 'S' supplies.

Off-Peak E

For supplies of electricity at off peak rates made available for approximately 7hrs at ScottishPower's discretion between 2200 hrs and 0930hrs(GMT).

The off peak rate applies for storage heating and water heating. There is a unit charge for each kWh and also a Daily Service Charge. This tariff is taken in conjunction with Domestic 'S' and therefore will require separate metering for the Off-Peak and Domestic 'S' supplies.

ScottishPower
23 April 2013