

RMR policy intent and legal drafting workshop – Tariffs and Information Remedies

<p>To explain where changes to policy proposals have occurred to better reflect the policy intent for key substantive RMR topics. To highlight where legal drafting has been amended and to seek views on drafting improvements to achieve greater clarity and simplicity.</p>	<p>From Date and time of Meeting Location</p>	<p>Ofgem 31st May, 2013 9:30-17:00 Mary Sumner House, 24 Tufton Street London</p>
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1. Attendees

Alun Rees – Energy UK	Mark Sommerfeld – LoCO2
Andrew Dolan - EON	Matt Cole - nPower
Barry Coughlan – Ofgem	Maxine Frerk – Ofgem
Chris Poland – nPower	Pamela Mowatt – Scottish Power
Cesar Coelho – Ofgem	Paul Delamare - EDF
Charles Wigoder – Utility Warehouse	Paul Huffer – Ofgem
Dan Hopcroft - EDF	Roger Hutcheon - SSE
Daniel Layfiel – Ecotricity	Richard Sweet – Scottish Power
David Hunt – Ofgem	Richard Wallace – British Gas
Diane Cook – British Gas	Ruben Pastor – Vicedo – Ofgem
Fariha Sikondari - Ofgem	Sarah Bradbury - Ofgem
Fiona Lunn – Ofgem	Sarah Cardell – Ofgem
Gillian Cooper – Consumer Focus	Stephen Veal – Utility Warehouse
Jemma Baker - Ofgem	Sweta Deb – Ofgem
Lesley Queripel - EON	Vaughn Harris – First Utility

2. Introduction on Licence drafting

- 2.1. Ofgem informed attendees that amendments had been made following feedback from consultation responses to our March 2013 consultation document and the stakeholder workshop held early in May.
- 2.2. Changes included amendments to cross referencing, repetition and complexity. In some instances we have introduced new overarching conditions to help with providing greater clarity. We have also numbered and labelled sections where possible and have included new defined terms in some instances.

3. Information Remedies – presentation of VAT in the Tariff Information Label

- 3.1. To achieve consistency and comparability of the information provided by suppliers on Tariff Information Labels (TILs), Ofgem’s current thinking is that it is important to prescribe the treatment of VAT in the TIL.
- 3.2. Views from stakeholders on this position and on whether figures presented in the TIL should be inclusive or exclusive of VAT were sought after at the workshop.

- 3.3. There was broad agreement that, to ensure a consistent approach is taken by suppliers, the treatment of VAT in the TIL should be prescribed by Ofgem. A requirement to state whether figures in the TIL are inclusive or exclusive of VAT may not be sufficient as consumers may not notice this text.
- 3.4. With regards to whether figures in the TIL should be inclusive or exclusive of VAT, key comments from stakeholders were:
- Legislation requires suppliers to present consumers with charges inclusive of VAT at the point of sale and hence the Estimated Annual Cost must be inclusive of VAT. Figures used in the calculation of charges do not need to be inclusive of VAT.
 - Consumers are only interested in what they need to pay and therefore there is a preference from consumer groups to have figures inclusive of VAT.
 - Products and services are usually advertised inclusive of VAT and this includes bundled products and services, which appear in the TIL. They often have a different VAT rate than gas and electricity.
 - If the presentation of VAT is not consistent with the bill (where charges are calculated by adding VAT at the end) it might confuse consumers.
- 3.5. One option discussed would be to create wider consistency through mandating that VAT be included in charges everywhere they appear. This would however result in the following issues which were raised at the workshop:
- It will trigger a price increase notice each time VAT changes.
 - Requires significant system changes to allow suppliers to bill differently from current practices.
 - VAT HMRC rules and amounts vary for different discounts and bundles and for some different meter types/consumers. This drives the need for VAT to be added to the end of the Bill, rather than being included throughout.
- 3.6. There was acknowledgement that there is no neat solution for achieving simplicity and consistency in the display of figures in the TIL. The proposed way forward was:
- If this is a legal requirement, then figures in the TIL should be displayed including VAT. Otherwise they should be displayed excluding VAT to ensure consistency with the display of charges on the bill (acknowledging that some bundles will have different VAT rates).
 - Elsewhere, where there is no legal requirement to present figures inclusive of VAT, there should be a clear statement on the treatment of VAT.

4. Information remedies – display of bundles in the Tariff Information Label

- 4.1. Ofgem's proposed TIL provides a section for 'Additional products or services included'. Given the potential for large volumes of bundles, Ofgem is currently considering that this should be limited to tied bundles. At the workshop Ofgem asked stakeholders for their views on this proposal.
- 4.2. There was general acknowledgement that to include all bundles in the TIL would undermine its purpose. It was then agreed that all tied bundles should be displayed and that information on optional bundles should be brief.
- 4.3. With regards to optional bundles, suggestions from stakeholders included:

- Suppliers could have a statement noting that other bundles may apply.
- Suppliers could have discretion for which bundles are displayed– concerns were raised with this option that some suppliers may provide an excess of information on what is designed to be a concise and digestible summary of key information.
- The TIL could include a line item saying 'other optional bundles available with this tariff - yes/no'.

4.4. Ofgem noted these suggestions and also clarified that suppliers could provide additional information about bundles and tariff type (i.e. fuel mix) in the 'additional questions' section.

5. Tariff structure – Discounts and Bundles

5.1. Ofgem presented revised rules on discounts for new exceptions on having to 'apply continuously' and now being able to offer contingent discounts based on a consumer's behaviour. The relaxation of the applied continuously rule allows for more flexibility on non-cash discounts which better reflects our policy intent.

5.2. Questions raised from stakeholders included:

- Greater clarity of what is meant by 'distinct' was requested.
- Suggested that Ofgem allows suppliers to be able to restrict consumers from choosing only a defined number of options for commercial reasons.
- Can options within a bundle be provided?
- Whether 'surprise' gifts are allowed.
- Dual fuel discounts and how we define it. It was questioned whether Ofgem could change the requirements for a DF discount as some suppliers see this as a problem. It was raised that there are occasions where this was not technically possible to identify when a customer has taken two fuels and therefore it is a problem, particularly for PPM customers. It was requested that the definition be linked to DF accounts.

5.3. Ofgem requested further information/evidence from suppliers where they have found it difficult to identify dual fuel customers.

5.4. Concerns were raised with regard to having to provide all optional bundles to consumers when certain product/service offers are not appropriate for some customers.

5.5. A supplier questioned whether they would have to abide by Ofgem's bundles/discounts rules when a customer takes up a bundle, i.e. boiler cover, sold independently. It was confirmed that if the bundle was linked to the energy supply contract then bundle and discount rules will apply.

5.6. Discussion was generated by stakeholders on Ofgem's white labels policy. Suggestions included that Ofgem increase the number of exceptions for white labels.

5.7. A question was raised as to whether using an access criteria for a tariff, i.e. a tariff for over 60s, whether there would be only 3 tariffs left to create for non over 60 year old people. It was confirmed that this was correct and that having an access criteria for a tariff would count towards the tariff cap as one core tariff.

5.8. With Ofgem's revised exceptions to the continuously applied rule it was questioned whether a supplier could wait until the cooling off period when a customer signs a new

contract to provide the free good/service, for example a free TV. It was confirmed that a supplier could do so and would not be required to provide it upfront before the start of the supply contract as was required before.

5.9. Comments on licence drafting included:

- Consideration of differentials in payment prices. It was requested that we make clearer that the difference is reflected in the unit rate or standing charge, i.e. it is one or the other not both.

5.10. Ofgem also highlighted that we have changed our legal drafting with regard to representatives and discounts/bundles. The change reflects that we expect suppliers to take all reasonable steps to ensure that representatives comply with our rules on discounts and bundles.

6. Information remedies – Tariff Comparison Rate (TCR)

6.1. Ofgem highlighted the changes in TCR requirements since 27 March 2013. This included:

- Our requirements for filtering of TCRs on websites.
- For a given TCR, suppliers can list applicable payment methods rather than separate (identical) TCRs.
- Clarification that where a tied bundle can't easily be expressed in p/kWh or £/year it should be excluded from the TCR and PP.

6.2. Stakeholders raised questions as to whether:

- Our rules stop national claims.
- Tariffs need to include region in the tariff name.

6.3. It was discussed that caveats need to be clear when prices are advertised and that if suppliers make comparative claim in more than one region they should display TCRs for that tariff in all regions in which the comparative claim is made. For example if a supplier claims that their tariff is the cheapest in GB they will be required to provide TCRs for that tariff for all their regions in GB. Discussions on whether the customer needs to see the region on the tariff name was questioned as customers can't access tariffs for other regions. Ofgem will be looking into this request further.

6.4. One supplier suggested that it was difficult to provide accurate personal projection estimates to customers without knowing the consumption data for new customers. Ofgem hopes that with the information requirements for the bill and annual statement which are key parts of the RMR this will provide customers with possession of key pieces of information on hand which should help suppliers with new customer's consumption data in the future.

7. Personal Projection (PP) - Breakout groups

7.1. Three options for calculating personal projections were presented to attendees. They were asked to discuss these options [see workshop slides for details of the options] in breakout groups. Groups were asked to determine which of these options was most appropriate in calculating the PP and which posed the most difficulties. Groups were also asked to discuss whether they were in favour of providing consumers with the PP and or an explanation of the calculation on demand.

- Option 1: March proposal

- Option 2: Remainder of tariff
- Option 3: Next 12 months approach

7.2. Feedback from the group sessions included:

- All groups disliked option 1 (March proposal).
- Concerns were raised to the treatment of different payment methods, meter types, accounting for monthly payments and dual fuel discounts.
- Preferred option from the different groups included option 3 and a hybrid of option 2 and all groups agreed on a calculation for a 12 month period.
- A new option [option 2.5] was presented by one of the groups which was similar to option 2 and 3. It included an annualised calculation for 12 months at current prices i.e. suppliers are to annualise the last price of the fixed term with seasonal adjustments. They noted that consumers may still not be comparing like with like and it may be an amount that consumers will most likely not pay.
- Questions were raised as to the purpose of the PP and whether it had an overriding purpose to facilitate switching decisions or was it to provide consumers with an accurate presentation of their costs over the next 12 months. If the latter was the purpose it was presented that it would be more sensible to make the assumption that a consumer would go onto the cheapest evergreen tariff after the end of their fixed term – i.e. present a PP which illustrates your costs over the next 12 months if you 'do nothing'.
- Issues were raised with Direct Debit payments and accounting for them..
- If consumers were using the PP as a budgeting purpose it would be wrong to assume that consumers would be on the same prices for the next 12 months as suggested by option 2.5 presented by one of the groups. One group found it would be more realistic to use the cheapest evergreen for the remainder of the 12 month period after the fixed term contract ended.
- Other issues raised with regard to option 2.5 by other groups was that prices for some contracts may have been set a while ago, i.e. 5 years ago, and may be far from current market prices, extrapolating using these prices could potentially lead to PP that are very different to what consumers actually pay if they switch to the cheapest evergreen tariff or if they sign up to a new one.
- Messaging, caveats etc., will be important and it will be vital that the PP is clear to the customer.
- Some groups suggested that providing a PP on demand may be very technically challenging due to systems functionality. They think it is reasonable to be required to provide the last PP calculated for the customer, or to update the PP for an existing customer with new consumption data. Feel that it is difficult to provide a PP on demand to a new customer if they do not have their consumption data.
- All groups agreed that they would need to be able to explain to customers how the PP is calculated. This will also be in line with requirements under the SOC.
- Questions were raised as to what future the PP will play with mIdata. At the moment the requirements for mIdata are quite basic however information from the PP could be incorporated in the future.

8. Tariff simplification - Tariff cap

- 8.1. Changes to the tariff cap proposal were highlighted. This included the change in meter definitions now based only on type of tariff, requirements on VAT and transitional arrangements to close and open evergreen tariffs were also discussed.
- 8.2. It was confirmed that DTS meter type for the tariff cap was the DTS meter that uses radio technology. Ofgem stated that how heating systems would be dealt with was still under consideration with regards to the tariff cap.
- 8.3. Stakeholders felt that the drafting was better now and clearer with the new tariff types. It removed the confusion previously felt with regard to prepayment meters (i.e. whether it was classed as a payment method or a meter type).
- 8.4. It was confirmed that a supplier could have two different types of meters in the same category. For example, for the category of two rates/two time periods you could have the meter category E7 and E10.
- 8.5. As discussed earlier we are proposing to introduce an overarching requirement where the treatment of VAT is to be clear when presenting price information (including discounts and bundles linked to energy supply contract).
- 8.6. Comments on licence drafting included:
 - Whether a house would be classed as a region. Ofgem confirmed that a house can be classed as a region to allow for complex meter arrangements.
 - Further information on complex meter arrangements and multi-MPANS was requested.

9. Tariff simplification – Dead tariffs

- 9.1. If suppliers want to keep their dead tariffs amendments to the process of doing this was presented by Ofgem. This is that if the RMR compliant dead tariff is cheaper than or as cheap as the cheapest live evergreen, then the supplier may maintain the dead tariff.
- 9.2. It was confirmed that suppliers do not need to be compliant with the dead tariff rules from day 1 but that they need to be start looking at the tariffs and start the process from day 1. It was also confirmed that the cheapest evergreen tariff would first need to be RMR compliant when making the comparison to the dead tariff.
- 9.3. A question was raised as to whether a supplier could offer compensation to consumers for changing their tariff. Ofgem confirmed that if the compensation was customer service related then it would be fine to offer compensation. If for any particular reason the customer was worse off due to making a tariff RMR compliant a supplier is free to offer a compensation payment for this reason.
- 9.4. Other issues raised included, which Ofgem propose to take away:
 - When would the dead notice be triggered? I.e. when changes are made across the board and are not bespoke to dead tariffs does this trigger a notice for dead tariffs?

10. Tariff simplification – Fixed term tariffs and unmetered supply

- 10.1. Changes to our proposal was presented to which were welcomed by stakeholders. These changes included fixed term contracts being exempt from some RMR rules if

entered into before 1 May 2013. These closed fixed term contracts are exempt from rules to apply certain features in the same way across all tariffs and we have introduced provisions for unmetered supply to be exempt from RMR rules.

- 10.2. One supplier raised concerns with regards to retrospective regulations and they felt that they needed a reasonable amount of time to ensure that they were RMR compliant. Ofgem raised concerns for extending timelines and introducing further exemptions to our rules as we want to maximise the number of consumers that are on RMR compliant products.