

Workshop

Removal of RMR rules

Protecting Consumers in a world of less tariff prescription

Confidence Code: Interdependencies and potential areas of change

25th May 2016

TODAY'S AGENDA	
Session 1	RMR Simpler Removal
Session 2	RMR Clearer
Coffee Break	
Session 3	Principle Development (I)
Session 4	Principle Development (II)
Lunch	
Session 5:	Confidence Code
Coffee Break	
Session 6	Confidence Code

Part 1

Removal of aspects of RMR Simplifier

Clem Perry

- The CMA has provisionally recommended that Ofgem removes a number of Standard Licence Conditions (SLCs) relating to the ‘simpler choices’ component of the RMR rules. These include:
 - the ban on complex tariffs (SLC 22A.3(a) and (b));
 - the four-tariff rule (SLC 22B.2(a) and (b));
 - the ban on certain discounts (SLCs 22B.3-6 and 22B.24-28), reward points (SLCs 22B.17-23 and 22B.24-28) and bundled products (SLCs 22B.9-16 and 22B.24-28)
 - the ban on tariffs exclusive to new/existing customers (SLC 22B.30-31)
- Ofgem supports these recommendations and has recently published an open letter, setting out our intention to deprioritise the enforcement of these rules
- *Note, the RMR Simpler rules that the CMA has not targeted for removal are:*
 - *The recovery of charges (SLC 22A.2)*
 - *Tariff name (SLC 22B.2(c))*
 - *Charges for different payment methods (SLC 22B.7(a) & 27.2A)*
 - *Fixed-term tariffs (SLC 22C)*
 - *Dead tariffs (SLC 22D)*

- Removing the ‘simpler choices’ component of the RMR rules will have an impact on other licence conditions. We are currently minded to make consequential amendments where necessary, including to:
 - Definitions in SLC 1
 - Language in SLC 22A
 - Other parts of SLC 22B
 - SLC 22F.5 (bespoke heating system arrangements)
 - 22B.7 (treatment of adjustments for payment methods)
 - 22CB (transitional provisions for certain existing fixed term supply contracts)
 - 31D (white labels)
- The handouts in your Delegate Packs set out our current thinking on these consequential amendments in more detail

Questions

1. Do you agree with our proposed list of consequential amendments? Is there anything we have overlooked?
2. SLC 22B.7 (treatment of adjustments of payment methods) was inserted to allow more flexibility around the 4 tariff cap. It allows suppliers to charge different amounts for different payment methods without this counting towards the tariff cap. Without the cap, is this provision still necessary?
3. SLC 22CB (transitional provisions for certain existing fixed term supply contracts). In light of changes to 22A&B, is this condition still necessary? (noting that it only provides an exception to 22C.9)

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Part 2

Implications for RMR Clearer tools

Fiona Cochrane-Williams

The RMR

- The RMR was developed and implemented as a package structured around *Simpler, Clearer, Fairer*, with direct connections between different elements of the package
- The removal of aspects of RMR Simpler has implications for a number of the RMR Clearer information tools
- The RMR Clearer tools we have identified that are likely to be substantially impacted by the changes to RMR Simpler are:
 - The Personal Project (PP)
 - The Tariff Comparison Rate (TCR)
 - The Cheapest Tariff Messaging (CTM)
- The Tariff Information Label (TIL) is also impacted but minimally

The purpose of the affected RMR Clearer tools

Tool	Requirements	Policy Intent
PP	Suppliers must estimate the consumer’s projected cost for the next year using a standardised methodology set by Ofgem. The PP must be included in bills, annual statements, PINs and EFTNs.	Enable an accurate comparison of tariffs by providing a common means of projecting the estimated annual cost for individual consumers.
CTM	Suppliers must provide consumers with a personalised estimate of how much they would save if they switched their current tariffs to an alternative(s) tariffs. The CTM must be included in regular communications.	Help (disengaged) consumers identify cheaper tariffs and prompts them to engage.
TCR	Suppliers must calculate a comparison rate for all tariffs (and variant of) based on consumption of a medium user and using a methodology set by Ofgem. The TCR must be included in all regular communications.	Prompt engagement by facilitating at a glance comparisons of different tariffs .

The Impact on these RMR Clearer tools

- The removal of the RMR Simpler rules will, for example, enable the introduction of an increasing number of tariffs, the development of more complex tariffs, as well as new discounts and bundles

However...

- Multi-tier tariffs, tariffs with a duration of less than a year or discounts and bundles that are not related to consumption or which are 'one-off' payments have the potential to provide significant challenges to the PP methodology
- Cheapest Tariff Messaging currently relies on PP calculations
- The TCR methodology stems from the PP methodology and as such is subject to similar issues. Its reliance on medium consumption levels may result in it being increasingly less accurate for consumption sensitive tariffs

Options for managing the impact

- We have identified a number of options that include:
 - Making no changes to the tools
 - Amend the methodology
 - Removing these Tools

Proposed approach

- Remove PP, TCR and CTM in its current form; amend the TIL
- Introduce a new principle(s)

Why

- Mitigates the risk of the information tools being inaccurate or becoming increasingly irrelevant
- Aligned with the move to a more principle based approach to regulation
- Supports innovation and provides suppliers with greater flexibility

Next steps

- Consultation published in the Summer
- Development of testing and RCT programme

Questions

1. There will be an opportunity to give full and more considered views through the consultation, but what are your initial views?
2. What could be the impact? And unintended consequences?
3. Are there any other aspects of the RMR or other license conditions that are impacted by the removal of the RMR simpler rules?

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Part 3

Protecting consumers in a world of less prescription

Clem Perry

Context

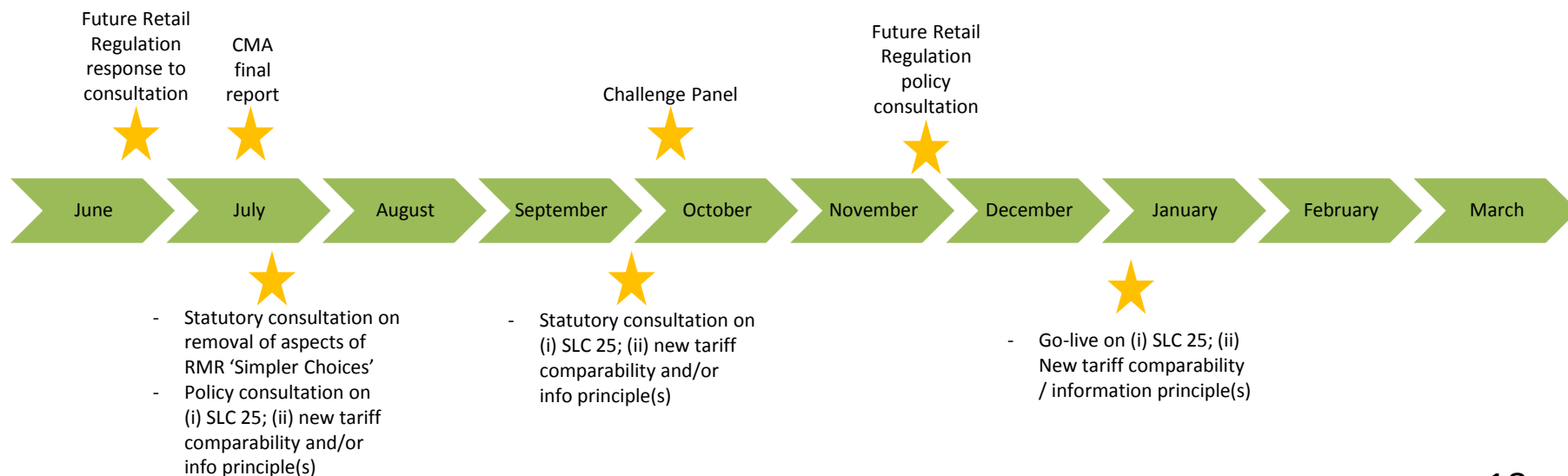
A Changing Retail Landscape

- CMA investigation coming to a close
 - Removal of aspects of RMR Simpler (consequential impacts on RMR Clearer)
 - Introduction of a new Standard of Conduct / principle that would “...**require suppliers to have regard, in the design of tariffs, to the ease with which customers can compare value for money with other tariffs they offer**”
- An increasingly competitive retail market
- An increasingly vibrant TPI market
- An increasing emphasis on innovation as an important driver of competition
- Smart meter roll out on the horizon
- A broader regulatory shift away from prescription towards principles

Links with Future Retail Regulation

- The proposed changes to the RMR rules represent fast track opportunities to move from prescriptive rules to principles and explore how to operate under principles based regulation
- In our December consultation on placing a greater reliance on principles, we identified SLC 25 as another priority area
- The Future Retail Regulation team is planning to publish a response to that consultation by the end of June. This will set out our current thinking and a roadmap for reform

Indicative timeline of 2016-17 milestones



The Challenge

Given the changing landscape and the CMA's proposed RMR remedy, how can we continue to offer effective consumer protection while promoting tariff innovation and competition?

The Approach

1. What problems are we trying to avoid?
2. What consumer outcomes are we trying to achieve?
3. What are the preconditions for these outcomes being met?

'Straw Man'

1. What **problems** do we want to avoid?

- 'Confusopoly'
- Consumers (particularly those in vulnerable situations) remaining on tariffs that do not reflect their interests

2. What **consumer outcome(s)** should we be trying to achieve?

Consumers are able to make an informed choice by understanding which of a supplier's tariffs is the cheapest based on their consumption profile and which offers other features of value to them

3. What are the **preconditions** for this consumer outcome being met?

Consumers must be able to:

- Identify their tariff (achieved through the TIL);
- Understand the principal terms of a suppliers' tariff (i.e. how charges apply);
- Compare this with a suppliers' other tariffs.

Questions for discussion

1. Do you agree with our assessment of the problems that we want to avoid?
2. Do you agree with our assessment of the consumer outcome that we want to achieve?
3. Do you agree with our assessment of the preconditions necessary for this outcome to be achieved?

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Part 4:

From outcomes to principles

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Informed Choices and Tariff Comparability

Focus of this session:

What *kind* of principle(s) most effectively strikes the balance between protecting consumers and promoting tariff innovation / competition?

Recap on what we want to achieve....

- Empower consumers to make informed choices (as per Session 3)
- Tariff comparability (as per CMA's recommendation)

2 stylised Options:

- i) A single high-level principle
- ii) A series of narrower principles

Option 1

“The licensee must ensure that Domestic Customers are empowered to make informed Tariff choices and compare value for money”

Option 2

Subject to X:

1. *“The licensee must provide each Domestic Customer with an **appropriate explanation of how the Charges for the Supply of Gas would apply** if he chose a particular Tariff, so that the Domestic Customer is able to **make an informed Tariff choice** (and must procure that its Representatives do the same)”*
2. *“If the licensee uses a Tariff containing **any terms that are conditional** on a Domestic Customer’s consumption, behaviour or on the occurrence of an event or the passing of time, the licensee must **alert** each Domestic Customer **to the relevant condition(s)**, so that he is able to **make an informed Tariff choice** (and must procure that its Representatives do the same)”*
3. *“The licensee must provide each Domestic Customer with appropriate information to enable him to **compare** its Tariffs, including by **explaining their benefits, risks and suitability for different consumer profiles**, (and must procure that its Representatives do the same)”*
4. *“The licensee must, during the **sales and marketing process**, **alert** each Domestic Customer to its **other Tariffs which may be suitable** for the Domestic Customer so that he is able to **make an informed Tariff choice**”*

X: The licensee is not required to comply with paragraphs [1-4] if it can demonstrate that, acting reasonably, it was not appropriate in the circumstances for it to provide the relevant information to the Domestic Customer.

Questions for discussion

1. What are the **relative risks and benefits** of Options 1 and 2 for **consumers**?
2. What are the **relative risks and benefits** of Options 1 and 2 for **suppliers**?
3. What evidence would be needed to **demonstrate compliance** with each option?

Potential Criteria to bear in mind...	Consumer				Supplier	
	Understand Principle Terms of Tariff	Enable accurate tariff comparison	Prompt Engagement	Protect Consumer	Enable Tariff Innovation	Provide Regulatory Certainty

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