



Making a positive difference  
for energy consumers

To all interested stakeholders

Date: 5 September 2017

Dear Stakeholders

### **Reforming our rules related to domestic supplier-customer communications**

It is critical that consumers can engage more easily and actively with the retail energy market – they must be able to quickly and easily access and understand the information they need to effectively manage their consumption and costs. The way in which suppliers communicate with their customers is critical to delivering these outcomes, and we believe there is considerable scope for improvement.

As a regulator, we want to regulate supplier-customer communications in a manner that best enables suppliers to deliver positive consumer outcomes while also ensuring consumers are protected from harm. Improving supplier communications can help to increase the effectiveness of prompts to engage, particularly when delivered through existing regulated communications.

This open letter sets out our approach for reforming our domestic supply licence rules related to supplier-customer communications.<sup>1</sup> This includes all rules relating to what, when and how we expect suppliers to communicate with consumers.

Smart meters, demand-side pricing models and new technologies and digital services are increasingly enabling consumers to better engage and take control of their energy bills. For these reforms to deliver maximum benefit, it is critical that our rules protect consumers, ensuring suppliers provide them with all the information they need – at the right time and in an engaging format – so they can take action where they need to. It is also critical that our rules are flexible enough to enable suppliers to innovate and find new and better ways of meeting these customer needs in the most efficient and engaging way possible. For example, some customers may prefer to receive most information via an app with 'push' updates than via traditional paper-based channels.

We invite stakeholders to read this letter and engage in our rulebook reform work over the coming months. Customer communications is a broad and cross-cutting policy area – in order to assess our options and take forward reforms at pace and to scale we'll need significant stakeholder input and support. We will also look to industry to give us assurance that they are ready to operate under a more flexible regulatory framework by putting the customer at heart of all that they do, and we stand ready to act where this is not the case.

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<sup>1</sup> For now we are focused on the domestic retail supply market, where there is lots of prescription and the biggest scope for change. Where there are opportunities to make parallel changes to the non-domestic rules we will consider how best to do this but our focus will remain on our domestic rules.

## Why we're relying more on principles and less on prescription

In regulating the retail energy market we have committed, over time, to rely more on enforceable principles rather than detailed rules about how suppliers should run their businesses. We are committed to this regulatory approach, and consider it will provide consumers with comprehensive protection in a fast-changing market, promote innovation and competition and put responsibility firmly on suppliers to deliver positive consumer outcomes.

The rules related to domestic supplier-customer communications have consistently been identified by stakeholders as a priority area for reform, and will be a key focus for our rulebook reforms over the months ahead.<sup>2</sup> While they were put in place for good reason at the time, we no longer consider that having a significant volume of prescriptive customer communications rules in our supply licences is the best way to deliver positive outcomes for consumers. While there will continue to be areas where prescription is appropriate, we have increasing evidence that our existing prescriptive framework cannot keep up with market developments. The market has evolved and so too must our rulebook.

To strengthen our ability to protect consumers and enable innovation, we'll be removing unnecessary prescriptive rules from the supply licences and relying more on principles to help ensure consumers are getting what they need from supplier-customer communications. This includes relying more on the Standards of Conduct (including the new informed choices and vulnerability principles<sup>3</sup>) and on the five narrow informed choices principles<sup>4</sup> we introduced earlier this year. We are also considering where further narrow principles may be appropriate to protect consumers as we look to remove prescription.

To be clear, there will continue to be areas where it is appropriate to retain prescriptive customer communications rules. These will be areas where we feel that there is only one acceptable way of doing things, where there is a clear minimum standard we expect to see, or where consistency is needed in order to deliver wider market objectives.<sup>5</sup> Where we expect suppliers to take specific actions and steps to achieve an outcome, we will be clear about this. Where good outcomes can be delivered in different ways, however, we will remove prescription and instead rely on enforceable principles to protect consumers.

## Scope and approach

The scope of this work includes all rules related to supplier communications with their domestic customers. Nevertheless, we will prioritise those rule changes that will deliver the greatest benefits to consumers and consider how to take forward key reforms as quickly as possible.

Please see Annex 1 for a list of existing rules that relate to what, when and how a supplier must communicate with their customers, noting that we will focus our efforts on priority reforms. A number of prescriptive rules are derived from European Union directives and UK legislation, and we will consider how or whether to address these within our proposals.

Simply put, our approach to reforming the rules will involve reviewing evidence and engaging stakeholders to ensure we are:

- articulating clearly the outcomes suppliers must deliver via their supplier-customer communications;

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<sup>2</sup> Our 2017-18 [Forward Work Programme](#) (p.12) sets out the activities we will take to ensure a better functioning retail market, including our work to transition to principles.

<sup>3</sup> Ofgem (2017) [Final decision: Standards of conduct for suppliers in the retail energy market](#).

<sup>4</sup> Ofgem (2017) [Final decision: Enabling consumers to make informed choices](#). These new principles focus on how suppliers sell and market tariffs to their customers.

<sup>5</sup> Ofgem (2015) [The future of retail market regulation](#) (p.13).

- identifying where existing prescriptive rules may limit innovation that would result in better consumer outcomes;
- developing and introducing any new principles, where appropriate;
- removing unnecessary prescription, where appropriate; and
- confident that industry will deliver positive consumer outcomes under any new framework and that we are ready to act where this is not the case.

This work is already underway. We've begun reviewing the large amount of rules regulating how suppliers communicate with consumers. And we have begun a dialogue with stakeholders about the necessary consumer outcomes and making sure we have the right form of rules in the right places to protect consumers and deliver these outcomes.

We are aware that stakeholders will have strong views on which areas they think should be changed (and in what way) and that these views are unlikely to align in all cases.

### **Timing, next steps and what we need from you**

We encourage you to engage with us bilaterally, and have already had a number of useful conversations to date. We are particularly interested in evidence of specific consumer information needs and how these are best addressed, as well as evidence of harm where things have been communicated poorly and there is clearly a 'right' way to communicate to minimise or avoid this harm.

This engagement will inform our policy thinking and development of a package of new principles to supplement the Standards of Conduct and informed choices principles. We intend to publish a working paper on our thinking in the autumn, and aim to consult on proposed reforms in early 2018.

We have been crystal clear that the onus is on suppliers to think hard about consumer needs and how they will meet them.<sup>6</sup> To that end, earlier this summer we asked Energy UK to drive forward supplier thinking about:

- the positive outcomes that consumers should expect as a result of supplier-customer communications;
- the specific information consumers need to understand and manage their consumption, costs and market engagement; and
- which information must be provided in a consistent format and which information could be provided more flexibly to better meet consumers' needs or preferences.

Following on from a number of workshops with their members, and engagement with wider stakeholders, including consumer bodies, Energy UK have published their report which consolidates their views and provides a useful platform on which to progress further discussions – you can access the report [here](#). This report was produced independently by Energy UK – the findings of the report, and views expressed within it are that of Energy UK and are not verified or endorsed by Ofgem.

We have also asked Energy UK to consider what industry can do to give us greater visible assurance that they are putting consumer needs at the heart of all their customer communications activities and that consumers are experiencing good outcomes as a result.

To continue this dialogue, we have asked Energy UK to host a workshop – [open to all stakeholders](#) – to discuss the report and seek constructive views, challenges and suggestions on their proposals. The purpose of this workshop is to discuss customer needs,

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<sup>6</sup> This [speech](#) by Rachel Fletcher at an industry event is just one example of how we have set out our expectations of suppliers under principles.

how best to deliver positive consumer outcomes through specific supplier-customer communications, what risks there are to manage, what this could mean for our rulebook reforms and what industry can do to provide assurance they are treating customers fairly.

**We are keen to see a range of stakeholders attend the workshop, which will be held on 3 October 2017 at the St Bride Foundation, Bride Lane, Fleet Street, London EC4Y 8EQ.** Please get in touch with Energy UK directly to signal your interest in attending [here](#). Places are available on a first-come, first-served basis.

What we need from you:

- Discuss this open letter with your colleagues and let us have any early views or reactions. We are keen to hear and discuss your thoughts, particularly on what you consider to be priority areas for reform and why.
- Participate in stakeholder workshops and discussions, and approach this dialogue constructively – be prepared to focus on priority changes that will make the biggest positive difference to consumers.
- If you're a supplier, speak to us about whether you could do a trial on how to improve consumer prompts to engage – for example new approaches to informing customers of their options at the end of a fixed-term contract. We have recently issued an open letter<sup>7</sup> setting out where supplier trials would be most useful and guidance<sup>8</sup> for running a trial. A number of suppliers have already run their own trials and this has provided useful insight.<sup>9</sup>
- Provide us with any other research or evidence you have about:
  - Where there has been greatest consumer harm (or risk of harm) as a result of poor customer communications.
  - How our current prescriptive rules may have hampered efforts by suppliers and other retail market participants to innovate and deliver better consumer outcomes.
  - Good and bad practice – including from other sectors and jurisdictions – relating to ensuring customers have the right information to help them to quickly and easily understand and manage their consumption and costs. This includes targeted evidence that sets out the information needs of diverse consumer segments and about (for example) what information customers find most useful on their bill, or through which channels and frequency they need / want this information.
  - Examples of specific requirements in other jurisdictions that enable particularly effective supplier-customer communications (we are particularly interested in evidence from comparable markets, and relating to a customer's ability to understand and engage with information relating to dynamic tariffs and load shifting, and the regulation of digital supplier communications).
- If you're a supplier, consider what more you can do to provide assurance that you are delivering good consumer outcomes and/or any further actions you may take to ensure customers are treated fairly if we do remove prescriptive rules relating to supplier-customer communications. We encourage industry to be creative in challenging itself, for example by seeking independent challenge and assessments of approach and making good use of consumer insight to inform decision-making and provide ongoing assurance.

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<sup>7</sup> Ofgem (2017) [Open letter: Finding ways to unlock consumer engagement through supplier trials](#).

<sup>8</sup> Ofgem (2017) [Guidance on running trials](#).

<sup>9</sup> For the avoidance of doubt, suppliers must adhere to the relevant standard licence conditions unless they have applied for and been granted a derogation from certain rules.

When submitting evidence to us, please summarise in one or two sentences the significance of the material for our work and specifically the key learnings or implications you would like us to consider. This will help us to analyse the evidence more quickly and progress policy thinking.

**If you want to get in touch, send us an email**

We are looking forward to progressing this work, and will be able to so at a greater pace and scale with your support and input. If you have thoughts on this letter or evidence to accelerate our thinking, please get in touch via [futureretailregulation@ofgem.gov.uk](mailto:futureretailregulation@ofgem.gov.uk).

Yours faithfully,

**Neil Barnes**  
**Associate Partner**  
**Consumers and Competition**

## ANNEX 1 – Rules relating to supplier-customer communications

The following rules specify in some way **what**, **when** or **how** suppliers must communicate with their customers. We have included existing principles, including the Standards of Conduct and the five informed choices sales and marketing principles we introduced recently. We have excluded those rules relating to government schemes.

Our review will focus on those rules which most heavily relate to supplier-customer communications – for example, those rules governing regulated supplier communication channels such as annual statements, what must be included on a bill, and communications relating to contract terms. We have included the below list of rules for completeness, and to highlight the cross-cutting nature of customer communications.

The list below does not necessarily indicate the final scope of rules that may be changed following our review, and there are likely to be several areas where we determine that continued prescription is most appropriate to meet customers' needs. We will prioritise those rule changes that will deliver the greatest benefits to consumers.

Our review will also not focus on changing the broad policy intent of existing rules, and we will only consider those aspects of the rule (i.e. sub-conditions) that relate to supplier-customer communications.

For example, while SLC 29 of the standard conditions of gas supply licence relates to gas safety only certain sub-conditions (SLC 29.4, SLC 29.5 and SLC 29.6) relate to provision of gas safety information to the customer. In this case we would continue to consider gas safety as an enduring policy area, and the provision of gas safety information as also being important. We might, however, consider whether gas safety information can only be provided in a particular way or at a particular time and / or whether an overarching principle (for example relating to provision of all customer safety information more generally) might provide more comprehensive protection for customers.

Generally we are more likely to focus our attention on reforming those licence conditions that more heavily relate to specific types of customer communications, for example SLC 31A (Bills, statements of account and annual statements).

Standard Licence Condition	
SLC 0 <sup>10</sup>	<b>Standards of Conduct:</b> The Standards of Conduct are a set of enforceable principles that require suppliers to treat their customers fairly. This includes behaving in a fair, honest, transparent, appropriate and professional manner, and providing information that is complete, accurate and not misleading.
SLC 13	<b>Arrangements for site access:</b> This condition outlines the steps a supplier has to take in order for them (or their Representatives) to enter a domestic customer's premises. It also highlights how it must make this information available for those who request it.
SLC 14	<b>Customer Transfer blocking:</b> This condition outlines the steps a supplier has to take to inform their customers of why they have blocked an attempted switch. It also ensures that, if the switch was blocked due to an outstanding debt, the customer is signposted to relevant advice.
SLC 20	<b>Enquiry service, supply number &amp; dispute settlement:</b> This condition ensures suppliers keep their customers informed by making their contact details and Supply Number easily accessible and letting customers know if and when these change.
SLC 21	<b>Fuel mix disclosure:</b> This condition outlines the means by which suppliers can make information regarding environmental impact of their tariff available to customers.

<sup>10</sup> The Standards of Conduct are due to become SLC 0 and 0A on 10 October 2017, providing there is no appeal of our [final decision](#). Prior to 10 October 2017, the Standards of Conduct are SLC 25C for domestic and SLC 7B for non-domestic suppliers.

<b>SLC 21B</b>	<b>Billing based on meter reading:</b> This condition outlines the information suppliers must provide to customers about how their bill has been derived, as well as how and when this information must be provided.
<b>SLC 21D</b>	<b>Tariffs with environmental claims:</b> This condition outlines the specific rules suppliers have to follow when marketing tariffs that they claim have environmental benefit.
<b>SLC 22</b>	<b>Duty to offer and supply:</b> This condition requires suppliers to provide certain information about themselves and the customer's rights in any Domestic Supply Contract.
<b>SLC 22A</b>	<b>Unit rate, standing charge and Tariff name requirements:</b> This condition requires suppliers to be clear in how they communicate specific charges and tariffs to their customers.
<b>SLC 22C</b>	<b>Fixed Term Supply Contracts:</b> This condition requires suppliers to inform customers about the expiry of their fixed term supply contract in timely fashion and specifies what information must be communicated.
<b>SLC 22D</b>	<b>Dead Tariffs:</b> This condition outlines the specific communications that suppliers must have with customers on dead tariffs.
<b>SLC 22F</b>	<b>Bespoke Heating System Arrangements:</b> This condition sets out the information that suppliers must provide to customers with bespoke heating system arrangements, as well as how and when this information must be provided.
<b>SLC 23</b>	<b>Notification of terms:</b> This condition requires suppliers to notify and provide the necessary information to the domestic customer relating to the principal terms of their contract and to do so in a plain and intelligible way.
<b>SLC 23A</b>	<b>Mutual variations:</b> This condition requires the supplier to provide a statement to the customer explaining the effects of a mutual variation if the customer has agreed to one.
<b>SLC 25</b>	<b>Informed choices:</b> This principle contains five narrow principles relating to how suppliers must act when marketing their tariffs in order to allow customers to make an informed choice about their energy supply.
<b>SLC 27</b>	<b>Payments, deposits, disconnections, final bills:</b> This conditions covers a wide range of customer communications pertaining to billing, means of payment, and disconnections.
<b>SLC 28</b>	<b>Prepayment meters:</b> This condition requires suppliers to provide certain information about the advantages and disadvantages of using a prepayment meter, where to seek assistance if there is a fault, and the procedure for removing or resetting the meter. The condition also describes the means by which suppliers must set out this information.
<b>SLC 29</b>	<b>Gas Safety:</b> This condition outlines the means by which a supplier must arrange and conduct a gas safety check and how this must be communicated to customers.
<b>SLC 31</b>	<b>General information for Domestic Customers:</b> This condition outlines the steps suppliers must take to ensure customers know how and where to obtain impartial information and advice.
<b>SLC 31A</b>	<b>Bills, statements of account and annual statements:</b> This condition outlines the specific information that suppliers must include on any bill, statement of account, or annual statement, including (but not limited to) how and when this information must be provided.
<b>SLC 31B</b>	<b>Tariff Information Label:</b> This condition outlines the exact information suppliers must include on the Tariff Information Label and how this information should be arranged and communicated.
<b>SLC 31E</b>	<b>Overarching requirements:</b> This condition contains a wide variety of different requirements relating to Customer Communications. These conditions are overarching, meaning they are general requirements in any communication sent by a supplier.