

# **RMR policy intent and legal drafting workshop**

## **Retail Market Review**

31 May 2013

# Agenda

- **Introduction**
- **Information remedies**
- **Tariff simplification**
  - **Discounts, bundles and reward points**
- **TCR and Personal Projection**
- **Tariff Simplification – Tariff cap**
- **Dead Tariffs**
- **Fixed term contracts and Unmetered supply**



# Introduction

- **Brief reminder of RMR policy goals for Tariffs**
- **Workshop objectives**
  - explain policy intent/effect for key substantive RMR topics and policy brief for legal drafting
  - highlighting areas of change since the 27 March RMR consultation and previous legal drafting workshops
    - No discussion on merits of policy
  - explain latest legal drafting
- **Policy brief for legal drafting**
  - Full transposition of policy intent covering complex interactions and hierarchy between policies
  - Avoiding loopholes

## **Reminder of previous workshop on the 10<sup>th</sup> of May....**

### **Participants discussed potential approaches to;**

- consolidating requirements of the SLC's
- simplifying the content requirements and schedules SLC 23 and 31A
- specific areas of licence drafting for Annual Statement and the Cheapest Tariff Messaging (CTM) for pre-payment customers

### **There were open discussions on the legal drafting for:**

- The Clearer Information proposals
- The TCR and Personal Projections specifically

# Summary of workshop views on licence drafting

## Cross-referencing

- Cross-references should include a brief description of the thing to which they refer, not just the number of the licence condition.
- Cross references should be “worth the flick” and substantial paragraphs, rather than small line items
- No consensus on where definitions used in only one SLC should appear.

## Repetition

- Overarching requirements should be in separate conditions (e.g. plain & intelligible, CTM)
- Some repetition between conditions and schedules is useful

## Clarity, complexity and length

- Longer SLCs are acceptable if they result in greater clarity.
- Multiple issues can be with in one condition, as long as these are grouped and clearly defined
- Schedules to standard conditions should be labelled with a brief description of their content
- Definitions relating to calculations should be presented as mathematical formulae

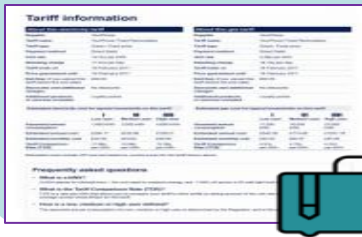
Proposal	SLC	March 2013	Current approach
CTM	Various	Appeared in each relevant SLC	New, overarching CTM condition
Plain & Intelligible language requirements	Various	Appeared in each relevant SLC	New, overarching condition, (subject to decision on 'fairness' requirement.)
Cross referencing	Various	Numbers only	<ol style="list-style-type: none"> <li>1. Numbered and labelled where possible (especially where reference is to a provision outside relevant SLC)</li> <li>2. New defined terms where there are 3 or more cross references</li> </ol>
Info Remedies Schedules	23, 31A, 31B	Numbered only	Numbered and labelled
Bills and Annual Statements	31A	Requirements for Bills and AS interweaved throughout 31A	Rearranged condition: all Bill requirements appear first, followed by all AS requirements
Calculations (e.g. TCR, Personal Projection)	Various	Presented verbally, no formulae	<i>Still being considered</i>
Annual Statement	31A	Definition required the amount of consumers energy <u>paid for</u> over a 12 month period	Definition requires what a consumers <u>energy cost has been</u> over a 12 month period



Reflecting **contract terms in T&C's** is difficult within the implementation timeframe and burdensome



Ofgem clarified end of fixed term notice uses **different CTM definition** because it is used as the default tariff.



Ofgem clarified that we expect the default position of the **filters for TILs** to be 'show all' or related wording



Where the only difference in **TIL's** is the **payment type**, duplicating TILs could overload the consumer

# Where are we currently considering policy changes?



## Overarching requirements

**CTM** - white labels and parent companies will be excluded from including each others tariffs in both the narrow and wide CTM messaging until July 2014

- alongside this messaging PPM customers will be made aware they may be subject to a credit check

**Personal Projection** – revising the minimum information requirements

**VAT** – wherever charges are provided to the consumer, it must be clear if VAT is included or excluded

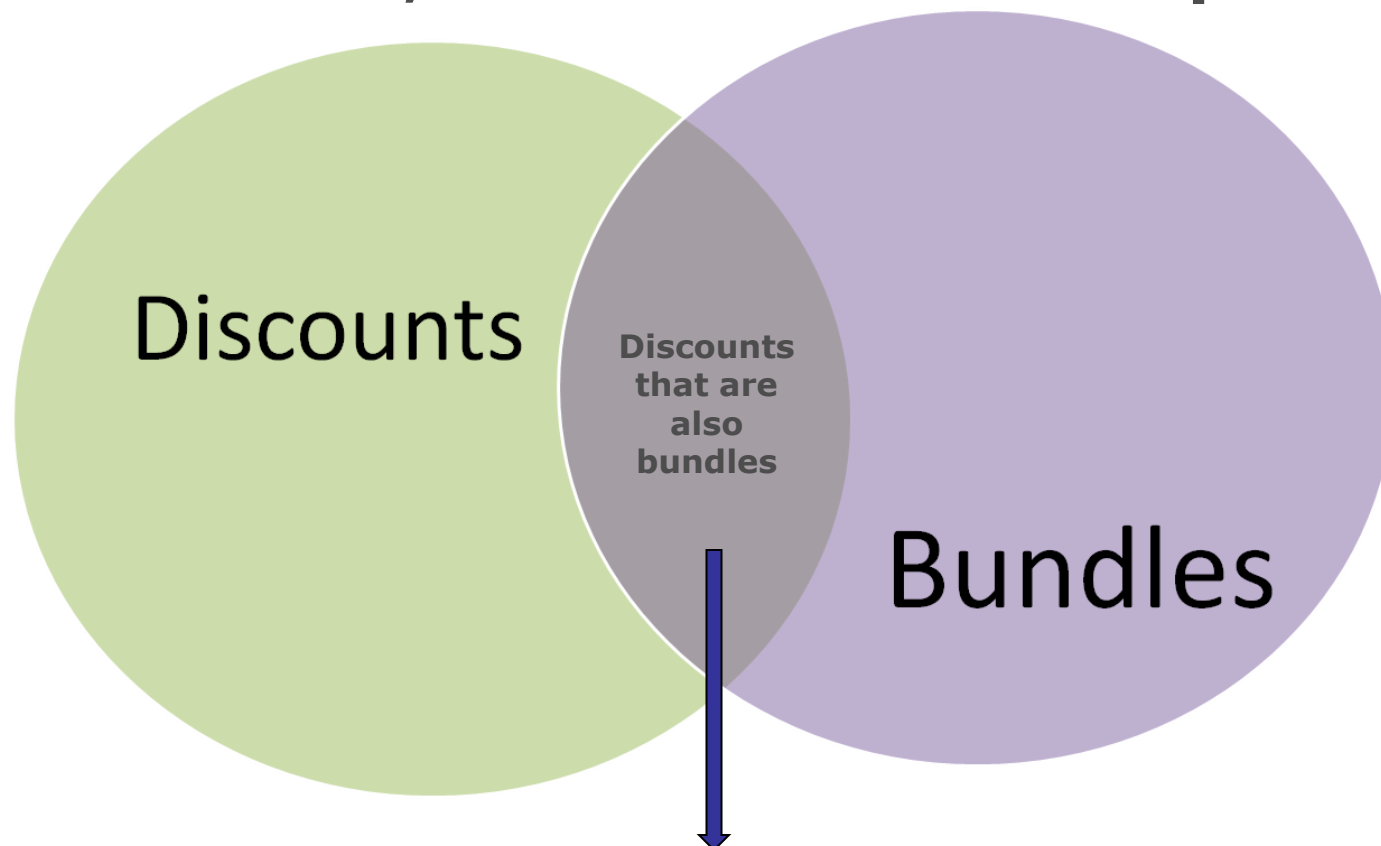


## We would like to seek your views on the Tariff Information Label

- (a) To achieve consistency and comparability of the information provided by suppliers on Tariff Information Labels, our current thinking is that it is important to prescribe the treatment of VAT within the Label. *We would like to seek your views on whether this should be inclusive or exclusive of VAT?*
- (b) Our proposed Label provides a section for “Additional Services”. Given the potential for large volumes of bundles, we are currently considering that this should be limited to only those included within the TCR and Personal projection, and/or paid for upfront. *Do stakeholders have views on this proposal?*

**Do participants wish to seek any further clarifications on how policy intent for Clearer Information has been proposed to be translated into licence conditions?**

## Discounts, bundles and reward points



- **Discounts that are also bundles:** Where the bundle product/service is provided for free or at a discounted price – this would include all reward points schemes. E.g.:
  - Free supermarket voucher
  - Boiler cover at a discounted price when you take energy supply

## Rules on Discounts [SLC 22B]




RMR proposal	March	Now
<ul style="list-style-type: none"> <li>▪ <b>Ban on cash discounts</b>, except DF &amp; paperless <b>&amp; Warm Home Discount, (writing off bad debt allowed)</b></li> </ul>	✓	✓
<ul style="list-style-type: none"> <li>▪ DF &amp; paperless <b>presented in £ per year</b>; same T&amp;Cs across tariffs &amp; regions</li> </ul>	✓	✓
<ul style="list-style-type: none"> <li>▪ <b>Non-cash discounts are allowed</b> (bundles provided for free or at a discount)</li> </ul>	✓	✓
<ul style="list-style-type: none"> <li>▪ Discounts are <b>continuously applied</b></li> </ul>	✓	✓
<ul style="list-style-type: none"> <li>▪ <b>Exception to applied continuously</b> rule for:                             <ul style="list-style-type: none"> <li>▪ Non-cash discount</li> <li>▪ Discount is provided upfront</li> <li>▪ Consumer does not have to pay back</li> </ul> </li> </ul>	✓	✗
<ul style="list-style-type: none"> <li>▪ <b>Exception to applied continuously</b> rule for:                             <ul style="list-style-type: none"> <li>▪ Non-cash discount</li> <li>▪ Consumer does not have to pay back</li> <li>▪ If consumer terminates contract earlier will be compensated for future goods/services they did not receive</li> </ul> </li> </ul>	✗	✓
<ul style="list-style-type: none"> <li>▪ <b>Non-cash contingent discounts allowed</b> – but only if there is no access criteria</li> </ul>	✗	✓

<b>Reward Points (RP) and Bundles</b>		
RMR proposal	March	Now
▪ <b>Bundles presented in £ per year or p/kWh;</b> same T&Cs across regions. Exceptions apply	✓	✓
▪ <b>RP &amp; Bundles cannot be:</b> <ul style="list-style-type: none"> <li>▪ Cash, or directly redeemed (rather than sold) for cash</li> <li>▪ Applied to the SC and/or UR</li> </ul>	✓	✓
▪ <b>Mandatory (tied) RP &amp; Bundles can be tied to no more than one core tariff</b>	✓	✗
▪ <b>A core tariff can have only one mandatory RP and/or Bundle</b>	✓	✓
▪ <b>Optional RP &amp; Bundles must be available and have same T&amp;Cs across all core tariffs</b>	✓	✓
▪ <b>Bundles must be distinctive from each other</b>	✓	✓

• **Some effects of our rules:**

- Relaxation of the exception to the applied continuously rule allows for more flexibility on non-cash discounts – these are allowed as long as compliant with the exception to the applied continuously rule - E.g. RP
- RP and other non-cash discounts can be contingent (contingent on consumer behaviour, but no access criteria, and not contingent on time)

## Examples

Example	March Option	Now
 <p><b>Product example:</b> Customer receives their boiler at a reduced price (i.e.£140 lower) if they sign to an energy contract at the same time as purchasing a boiler</p>	<p><b>Possible</b> for offers where the boiler is provided upfront</p> <p><b>Not possible</b> to offer the boiler on a 'continuous' basis</p>	<p><b>Possible</b></p>
 <p><b>Service example:</b> Free mobile phone protection scheme phone replacement if mobile handset is lost, damaged or stolen</p>	<p><b>Not possible</b> to offer it on a continuous basis</p>	<p><b>Possible</b></p>
 <p><b>Reward points example:</b> earn 100 points per meter reading submitted</p>	<p><b>Not possible</b> for points with regard to meter reads</p>	<p><b>Possible</b></p>

## Discounts, bundles and reward points – SLC Drafting

- Broad definition of Discount – SLC1 *[page 8]*
- Prohibition on cash discounts – SLC22B.3 and SLC22B.4 *[page 23]*
- Dual Fuel and Online discount – SLC22B.5 and SLC22B.6 *[pages 23 to 24]*
- Treatment of Bundles – SLC22B.8 to SLC22B.16 *[pages 25 to 26]*
- Treatment of Reward Points – SLC22B.17 to SLC22B.23 *[pages 26 to 28]*
- Continuous Applied rule – SLC22B.36 *[page 26]* 22B.37 *[pages 31 to 32]*
- Exemption to Continuous Applied rule – SLC22B.28 *[pages 28 to 29]*

## Tariff Comparison Rate (TCR)

### Areas of change since 27 March

Filtering of TCRs on websites	Available with post code/address, but suppliers have freedom to provide additional filters
Payment methods in TCR information	For a given TCR, suppliers can list applicable payment methods, rather than separate (identical) TCRs
Reflection of certain types of bundles	Clarification that where a tied bundle can't easily be expressed in p/kWh or £/year it should be excluded from TCR/PP
Legal drafting	Aiming to express methodologies as formulae Clarification of other definitions such as 'Time of Use Periods'
Calculation methodology	Breakout groups

## TCR - Breakout session

3 options for calculating Personal Projections for fixed term tariffs

- **March proposal:** Prices across the entire duration of the tariff to be weighted and annualised, taking into account seasonal consumption patterns where relevant
- **Remainder of tariff:** Prices across the remaining duration of the tariff to be weighted and annualised, taking into account seasonal consumption patterns where relevant
- **Next 12 months approach:** Assume no action on the part of the consumer, and use annual consumption to project their costs over the next 12 months, taking into account automatic rollover tariff prices where relevant

**Questions:** Which of these options is most appropriate and which poses the most difficulties?

Are groups in favour of providing consumers with the Personal Projection and/or an explanation of the calculation on demand?



## TCR - Breakout groups

<p>Group 1 – Jemma Baker</p>	<p>Daniel Layfiel – Ecotricity          Stephen Veal – Utility Warehouse          Alun Rees – Energy UK          Pamela Mowatt – Scottish Power          Roger Hutcheon - SSE          TBA – British Gas</p>
<p>Group 2 – Cesar Coelho</p>	<p>Mark Sommerfeld – LoCO2          Dan Hopcroft – EDF          Andrew Dolan – EON          Matt Cole – nPower          TBA – Utility Warehouse          TBA – Scottish Power</p>
<p>Group 3 – Ruben Pastor-Vicedo</p>	<p>Gillian Cooper – Consumer Futures          Richard Wallace – British Gas          Paul Delamare – EDF          Lesley Queripel – EON          Vaughn Harris – First utility          Chris Poland – nPower</p>

## Tariff simplification – Tariff cap

- Tariff simplification objective is to make consumer choices easier and less complex. The tariff cap aims to reduce a consumer’s tariff options, helping to simplify this area of the market and increase consumer confidence

	March	Now
<b>Cap on number of tariffs:</b> four core tariffs per fuel and meter type	✓	✓
<b>Meter definitions based on meter type and tariff type:</b> Non-ToU – Standard and PP meter; Non-ToU - E7, E10 & Variants, DTS, Other ToU	✓	✗
<b>Meter definitions based only on type of tariff:</b> Single unit rate, single period; 2 unit rates, 2 periods of time; 2/3 unit rates, up to 3 periods of time; DTS; Other ToU	✗	✓
<b>Excluded from cap:</b> DF & online discounts, specified surcharges, payment methods, bundles	✓	✓
<b>Exemption from cap:</b> Closed fixed term tariffs; Fixed term tariffs for collective switching; White labels to July 2014; Dead tariffs	✓	✓
<b>Standardised tariff structure:</b> standing charge and unit rate	✓	✓
<b>VAT:</b> Requirement that treatment of VAT is clear when presenting price information (including discounts and bundles linked to energy supply contract)	✗	✓
<b>Transitional arrangement to close and open evergreen tariffs</b>	✗	TBC

## Tariff Cap – SLC drafting

- **Standard Licence Condition 22B** *[pages 21 to 35]*
  - **22B.2 – Limit of four Core Tariffs for Relevant Metering Arrangement Categories (in any Region)** *[page 21]*
  - **Definitions in SLC1**
    - **Core Tariff** *[page 7]*
    - **Region** *[page 11]*
    - **Metering Arrangements Categories A-E** *[pages 6-7 (and pages 21 to 22 purely for workshop)]*
- **For discussion: any areas of clarification?**

## Dead tariffs

- The dead tariff rules try to ensure that vulnerable or less engaged consumers are not kept indefinitely on dead tariffs which are poor value for money.
- Suppliers may choose to keep dead tariffs (which are less expensive than cheapest live evergreen) or to terminate them

RMR proposal
▪ No new dead tariffs
▪ If supplier wants to keep the dead tariff:
<b>a)</b> Dead tariffs must be made RMR compliant (minimal change)
<b>b)</b> Dead tariffs must then be compared with cheapest evergreen
<b>c)</b> If the RMR compliant dead tariff is more expensive, suppliers will need to transfer the customer
<b>d)</b> If the RMR compliant dead tariff is cheaper, suppliers may maintain the dead tariff
<b>d')</b> If the RMR compliant dead tariff is <b>cheaper than or as cheaper as</b> the cheapest live evergreen, suppliers may maintain the dead tariff
▪ Customers must be notified where their dead tariff is being changed or they are being moved to another tariff
▪ Suppliers must conduct an annual check to consumers still on dead tariffs

March	Now
✓	✓
✓	✓
✓	✓
✓	✓
✓	✗
✗	✓
✓	✓
✓	✓

## Dead tariffs implementation

- **March 2012:** Staggered implementation of Dead tariff provisions – ban expensive dead tariffs by 31<sup>st</sup> March 2014
- **Now:** We are proposing a window to implement dead tariffs
  - Window would start on Day 1
  - Dead tariffs provisions will be effective from day 1 (SLC22D) – This includes information notification requirements in relation to Dead tariffs
  - Exclusively for the purposes of the dead tariff provisions:
    - The tariff rules will be applicable from Day 1
    - The Personal Projection and TIL will be applicable from Day 1
- The assessment of the dead tariff and the customer transfer from expensive dead tariffs to be completed by **30<sup>th</sup> June 2014** (window closes)

## Dead Tariffs – SLC Drafting

- Definition of “Dead Tariff” and “Live Evergreen Tariffs” in SLC 1  
*[pages 8 and 10]*
- General Prohibition of Dead Tariffs SLC 22D.1 *[page 50]*
- initial back-office review of dead tariffs:
  - SLC 22D.3 and 22D.4 *[pages 50 to 51]*
- annual review of dead tariffs:
  - SLC 22D.7 *[page 54]*
- Window for making cheap dead tariffs RMR compliant or transferring customers to cheapest evergreen
  - SLC 22D.25 *[page 60]*

## Fixed term tariffs and unmetered supply

	March	Now
<b>Exemptions:</b> Fixed term contracts exempted from some RMR rules if entered into before <b>1<sup>st</sup> May 2013</b>	✗	✓
<b>Closed fixed term contracts exempted</b> from rule to apply certain features in the same way across all tariffs	✗	✓
<b>Unilateral variations prohibited</b>	✓	✓
<b>Auto-rollovers prohibited</b>	✓	✓
<b>Mutual variations:</b> Requirement to give notify customers between 30 and 37 days in advance	✓	✗
<b>Mutual variations:</b> requirement to give “advanced notice”	✗	✓
<b>End of fixed term switching window:</b> Notice provided 42-49 days in advance. Suppliers cannot charge termination fee /require customer notice	✓	✓
<b>Price protection window:</b> requirement to charge same prices if change of supplier notification is given within 20 business days after end of fixed term	✓	✓
<b>Unmetered supply:</b> provisions for unmetered supply to be exempted from RMR rules	✗	✓

# Fixed Term Tariffs and Unmetered Supply– SLC drafting

- **New Standard Condition 22CB** *[pages 48 to 49]*
  - **Definitions in 22CB**
    - **Transitional Fixed Term Contract** *[page 48]*
- **Standard Licence Condition 22E** *[pages 61 to 62]*
  - **Definitions in 22E**
    - **Authorised Distributor; Unmetered Supply Arrangement; Unmetered Supply** *[page 62]*
- **For discussion: any areas of clarification?**



The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

*ofgem*

Promoting choice and value  
for all gas and electricity customers