

Delivering a simpler and more competitive energy market

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Ofgem is proposing a package of proposals to deliver a simpler and more competitive energy market. Our aim is to improve the way suppliers communicate with consumers and to introduce simpler tariffs so people can find a better deal more easily.

Issue

Ofgem has found that many consumers see the energy market as complex and hard to navigate with only a small number actively seeking out better deals. Therefore many people may be paying more for their gas and electricity than they need to.

By making tariffs simpler and requiring clearer communications from suppliers we hope to increase the number of consumers who actively engage in the energy market and help them get a better deal.

Ofgem research also shows that consumers do not trust energy suppliers or the information they receive from them. Our proposals for new standards of conduct which are backed by financial sanctions will help rebuild confidence in suppliers.

Ofgem's role

Ofgem's role is to protect the interests of all future and existing energy customers. It carries out this function, where appropriate, by promoting competition in the energy sector. In March we identified that competition was being stifled by a combination of complex tariffs, poor supplier behaviour and a lack of transparency.

In November 2011 Ofgem published its detailed proposals to reform the domestic energy market. A range of reforms

aim to help restore confidence through simpler tariffs, better communications and new enforceable standards of conduct. Our proposals are also designed to promote competition between suppliers and to support innovation and choice.

Our proposals

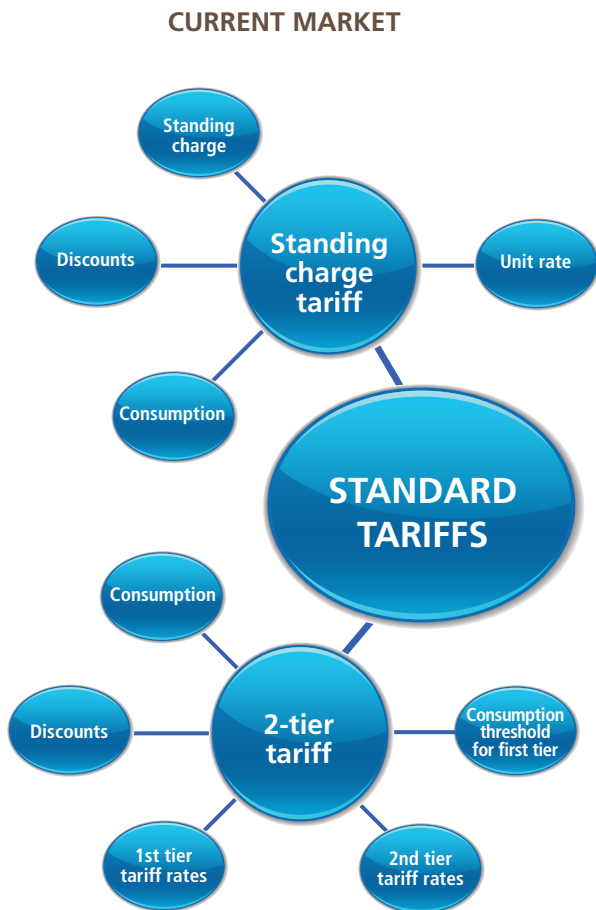
Our proposed retail reforms cover three key areas:

- simplifying tariffs.
- improving customer information including bills, annual statements and price increase notifications.
- enhancing standards of conduct.

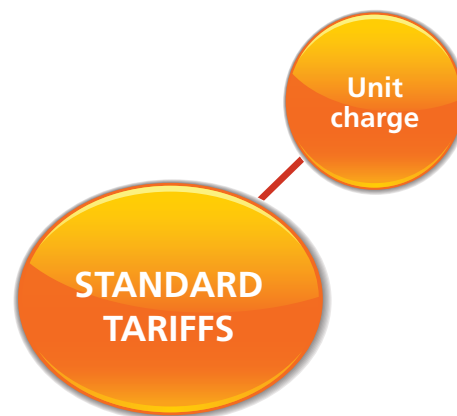
Ofgem is also proposing to break the power the Big Six energy suppliers in the electricity market to encourage new entrants.

Our role is not to regulate retail prices and profits. We want to increase transparency of the companies' profits and their wholesale energy costs so that consumers and potential entrants are able to understand how retail prices relate to wholesale costs. We have appointed independent accountants to look at the financial information companies are required to provide, including profits and how they report wholesale energy costs. We plan to report back on their findings in the New Year.

Information you currently need to work out the cheapest standard tariff



UNDER NEW PROPOSALS



*note: this diagram represents standard offers only, it does not include fixed term or other tariff options that may be available in the current market or under new proposals.

Tariff complexity

To help consumers get a fairer deal we aim to address the complexity of the market by:

- reducing the number of standard tariffs.
- introducing a single unit price so consumers can choose the cheapest standard tariff more easily.
- ensuring suppliers make information for consumers a lot clearer and easy to understand.

Based on evidence from our research among consumers, Ofgem and most consumer groups believe that tariffs need to be simpler to help consumers to compare and switch.

Tariff proposals

Standard tariffs – or no frills tariffs - are defined as any tariff that doesn't have a fixed end date. The supplier normally has the right to alter the price – although we have now ensured that suppliers write to consumers at least 30 days before their prices rise. We propose:

- each supplier can only have one standard tariff per payment method per fuel. The three payment methods are direct debit, pre-payment meter and standard credit, such as cash, cheques etc.
- consumers will get a fixed standing charge set by Ofgem and a simple unit price – enabling them to choose the cheapest standard tariff more easily.

These changes will offer more transparent and comparable information about energy prices. They will address the confusion about the number of tariffs and enable people to tell at a glance whether they can save money by switching supplier or moving to a new deal. It represents major reform as increased transparency will help all customers.

More innovative tariffs – We propose that all other tariffs must be fixed term with a specified end date and fixed terms and conditions. We propose:

- no restrictions on the number, type, structure or duration of fixed term contracts, including exit penalties.
- terms and conditions, including the price, are set at the start of the contract and cannot change for the duration of the fixed term contract. (Although price would not be fixed for certain limited tracker-type tariffs).
- automatic roll-over at the end of the contract will be banned. So, customers who do not sign up to a new or extended deal when their fixed term contract ends will default to the standard tariff. They will still be free to switch.
- strict rules on clear information and ensuring the customer understands the terms.

Fixed term tariffs would also enable suppliers to continue to innovate and give their customers genuine choice.

Making comparisons and choices

We propose:

- displaying all energy prices in pounds and pence, for example '£/month' as well as 'p/kWh'. Our consumer research tells us that consumers can relate better to information presented this way. It will be the equivalent of an 'APR' comparison for gas and electricity.
- suppliers will have to publish the price of all their tariffs in the same way so consumers can compare between standard and fixed term tariffs.

This will ensure greater transparency so that customers can compare standard tariffs with more innovative fixed term tariffs.

Enhancing standards of conduct

To improve supplier conduct and increase consumer confidence we are proposing stronger and broader Standards of Conduct. These will apply to all interactions between suppliers and consumers and to make them legally binding by incorporating them into an overarching licence condition. The enforceable standards of conduct will ensure that:

- suppliers behave in a fair, honest, transparent and professional manner towards consumers.
- all information given to consumers is complete, accurate and not misleading and is communicated in plain and intelligible language

- suppliers do not market products or services which are inappropriate to consumers.
- suppliers act promptly and courteously to put things right for the consumer and ensure consumer service arrangements are fit for purpose.

Improving bills, annual statements and price increase notifications

We have developed a package of proposals to improve the quality of information provided to consumers to help them understand the energy market better. We also propose to tighten licence conditions to ensure consistent interpretation and that our expectations of suppliers are met. Proposals include:

- a requirement on suppliers to separate bills and annual statements and to send them to consumers separately.
- annual statements will have to follow a common format with a new Tariff Information Label setting out the consumer's tariff in a prominent way.
- we will also require standard language to be used for key information in all three documents.

Vulnerable consumers

We are particularly concerned about vulnerable consumers who are unable to engage with the energy market due to their particular circumstances. They may include those with limited literacy or numeracy skills, the frail elderly and those without internet access. Consumers who are disabled, on lower incomes or elderly are less likely to be online.

Our proposal to limit standard tariffs and having a set standing charge should help these consumers. Additionally, we intend to explore with government whether we need more radical protections for vulnerable groups.

We will actively monitor the impact of our remedies on the vulnerable when they are put in place. If we find they are still disadvantaged we will consider what further action is required to protect these customers.

Further actions

Ofgem is proposing that it takes on the Confidence Code from Consumer Focus to inspire consumer trust in switching sites and improve customer engagement with them. We are also looking to step up our role in monitoring suppliers by collecting and publishing data on their performance and complaints.

Next steps

Ofgem published detailed consultation proposals for reform of the domestic energy market in November. The deadline for responses is 20 February 2012. After reviewing the consultation responses we expect to publish our final proposals and to consult on changes to suppliers' licence conditions in the summer with a view to a final decision being taken in autumn. This means that some of our proposals could be implemented by winter 2012.

For further information

Full details of our proposals are contained in the Retail Market Review – Domestic Proposals on the Ofgem website.

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