



Department
of Energy &
Climate Change

Ensuring a Better Deal for Consumers

Government Response to consultation on DECC's Discussion Document



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1. Introduction

- 1.1 We know consumers already feel hard pressed by their gas and electricity bills and global energy prices are predicted to keep rising in the future. As we set out in our Discussion Document, 'Ensuring a better deal for energy consumers', the Government has focused on 4 key areas to help consumers
- - Help for consumers, particularly the vulnerable, to make their homes more energy efficient
 - Additional direct help for the most vulnerable through the direct rebates provided through the Warm Home Discount
 - Raising awareness of the help available to people to reduce their bills through initiatives such as Big Energy Saving Week.
 - The provision of clearer information to consumers about the best tariffs and the savings they can make by changing payment method and tariff
- 1.2 Since the publication of that document, we have continued to build on existing activities to support consumers in managing their energy bills.
- 1.3 The Green Deal enables homes and businesses to pay for energy efficiency improvements like insulation with some or all of the cost paid for from the savings on their energy bills.
- 1.4 The Energy Companies Obligation (ECO), which started on 1 January 2013, works alongside the Green Deal to provide additional support for packages of energy efficiency measures for low income households and those living in harder to treat homes – providing additional finance for measures - which are unlikely to be fully financeable under the Green Deal.
- 1.5 In November 2012, the Government consulted on, in its discussion document, a package of proposed measures designed to:
- deliver the Prime Minister's commitment to ensure consumers get the cheapest tariff offered by their supplier that meets their preferences;
 - simplify and reduce the overall number of tariffs;
 - ensure consumers receive clear information so they can compare tariffs more easily;
 - enhance overall consumer protection.
- 1.6 Our proposals sought to strike the right balance between helping consumers in a market in which the majority currently do not engage, whilst maintaining consumer choice and incentives for suppliers to compete and innovate. They built on Ofgem's Retail Market Review proposals, published in October 2012. Ofgem's proposals followed a consultation they held in December 2011 and are part of their Retail Market Review which was launched in late 2010. We signalled our intention in our discussion document to legislate in the Energy Bill to ensure Ofgem is not frustrated or delayed in implementing its reforms of the domestic retail energy market.

- 1.7 Since then, the Government has included clauses in the Energy Bill that would allow us to take action to deliver a market with the above characteristics by enabling it to:
- require suppliers to move customers on poor value “dead” tariffs¹ to their cheapest standard variable rate tariff for them;
 - limit the number of tariffs each supplier can offer, to simplify them so that the market is more manageable for consumers;
 - require suppliers to offer particular types of tariff, such as a standard variable rate tariff; and
 - require suppliers to provide information to enable customers easily to assess and compare tariffs, including
 - identifying their cheapest tariff for an individual consumer,
 - providing a standard metric for each of their tariffs for comparison with other suppliers and
 - requiring energy suppliers to provide their customers with tariff and consumption information in a format that would allow it to be easily used with electronic devices such as smartphones, to help consumers quickly and easily compare deals across the market.
 - enabling Ofgem to introduce a licensing regime for third-party intermediaries (TPIs) such as switching websites, should this be needed to protect consumers and ensure trust in the TPIs
- 1.8 The responses received helped shape the clauses in the Energy Bill.
- 1.9 At the end of March 2013, Ofgem published its final proposals to be introduced into licence conditions by the summer. The Government welcomes Ofgem’s clear commitment to a reform of the market that will effectively deliver the key principles set out above and the Prime Minister’s commitment. We look forward to working with Ofgem to monitor the impact on the operation of the market.
- 1.10 Collective switching and purchasing is an innovative way for consumers to group together and drive better deals on their energy bills by combining market power. Our £5m Cheaper Energy Together programme supported 31 projects, covering 94 local councils and eight third sector organisations in Great Britain and we will be evaluating these projects to determine their impact, particularly in encouraging the most vulnerable consumers to get involved.
- 1.11 Even with an effective competitive market and all the measures Government has in place to help people improve their energy efficiency, vulnerable consumers will need extra help and advice to engage with the energy market and to give them the confidence to take decisions that will reduce their bills. That is why we also set out proposals in the discussion document to build on the work of Government, Third Sector, Ofgem and energy suppliers to deliver help and advice on energy issues directly to vulnerable consumers. We are

¹ A “dead” tariff is one that is closed to new customers and lasts indefinitely. Fixed term contracts are not included.

today announcing the creation of the DECC funded Big Energy Saving Network, a coordinated Network of Third Sector organisations dedicated to provide outreach advice for vulnerable consumers.

- 1.12 This document gives a summary of the responses we received on these issues as set out in our discussion document and the Government's response.

2. Simpler tariffs and cheapest tariff for you

Consultation Question	
1.	Is four the right number of core tariffs?
Consultation Question	
2.	Have we got the balance right between tariff comparability and opportunities to innovate for suppliers?
Consultation Question	
3.	Do these proposals go far enough in stimulating competition in this market?

- 2.1 The majority of respondents to the discussion document welcomed the Government's proposals to prohibit poor value dead tariffs. There was a general recognition by respondents that the proliferation of complex tariffs over the last few years had resulted in a market that consumers find extremely difficult to navigate.
- 2.2 Although there was general support for a cap on the number of tariffs that suppliers are able to offer, there was a range of views on the number at which tariffs should be capped. Some suppliers expressed concern that a cap of four tariffs would restrict innovation and reduce consumer choice to an unacceptable level. There was little support for the proposal to require suppliers to offer fixed term, fixed price tariffs. Suppliers thought it would increase companies' exposure to wholesale price rises and could be particularly damaging for small independent suppliers.
- 2.3 The majority of domestic consumers that responded were concerned that the proposed cap on open tariffs would mean an end to time of use tariffs such as economy 7, 10 or 18. Some domestic consumers were also opposed to reducing the number of tariffs to four, as there was concern that this would lead to suppliers removing their best tariffs, offering less choice, less competition and higher tariff prices.
- 2.4 On the other hand, the majority of consumer groups were in favour of a reduction in the number of tariffs on the basis that this would reduce complexity and, as a result, lead to increased engagement in the energy market.

2.5 The responses from local authorities were all in favour of reducing the number of tariffs but they wanted to retain flexibility for consumers who are on time of use tariffs.

Government response

2.6 The Government has included clauses in the Energy Bill to enable it to:

- **Move customers off poor value dead tariffs onto the cheapest open standard variable tariff offered by their supplier, so no customers will be left on poor value out of date tariffs; and**
- **Limit the number of open tariffs suppliers may offer.**

2.7 Once these measures are put in place, either through Ofgem's Review or, should it be necessary, through Government action, customers will be on the cheapest tariff their supplier offers for someone with their preferences. These provisions will achieve our twin goals of helping the vast majority of currently unengaged consumers onto their supplier's cheapest tariff and delivering a simpler, clearer tariff framework that will enable them to shop around more easily for even better deals.

2.8 The Government agrees with respondents that it is important to maintain sufficient consumer choice, including ensuring that current time of use tariffs remain available, and to incentivise suppliers to compete and innovate, whilst providing a simple and clear tariff framework.

2.9 We do not currently see a need to use the powers immediately, but we will be ready to do so should Ofgem's proposed reforms be unduly delayed or frustrated. If the Government decides that this action is needed, the clauses in the Energy Bill require it to consult on the detail of any proposals it takes forward under these powers. In line with the Coalition Commitment the powers are subject to a sunset clause in 2018.

3. Clearer Information

Consultation Question	
4.	Will these proposals encourage those customers who currently don't switch to engage in the market?
Consultation Question	
5.	Are the proposals likely to promote greater competition between suppliers in both the fixed term and the standard variable rate segments of the market?
Consultation Question	
6.	Will a tariff comparison tool enable consumers to compare tariffs sufficiently well to encourage them to shop around and to compare tariffs across the market?
Consultation Question	
7.	What would be the most helpful metric to allow consumers to compare tariffs more easily?

- 3.1 The majority of respondents across all stakeholder groups welcomed the Government's aim to provide consumers with clear information about their energy consumption to enable them to compare their tariff with others in the market and to see what savings they could make by switching. The metric most commonly identified as the most helpful for this was the total cost of a tariff in pounds per year.
- 3.2 There was broad agreement that a message on consumers' bills on the supplier's cheapest tariff with personalised estimates of any savings would help drive engagement and switching. Suppliers however would prefer flexibility in how they implement this.
- 3.3 There was general support for a market comparison tool. There was, however, no clear consensus on what this tool should look like. There was concern at the time about the formulation of Ofgem's proposed Tariff Comparison Rate (TCR) where tariffs are expressed as a single number that captures the tariff's relevant price elements for low, medium and high users. Some respondents made suggestions for how it could be modified to be clearer and more accurate. Suggested modifications included using regional

prices and only using a figure for the average consumption level rather than high, medium and low consumption figures. There were few suggested alternatives to the TCR but these included relying on price comparison websites and abolishing standing charges and replacing them with a single unit rate.

Government response

3.4 The Government has included clauses in the Energy Bill to enable it to:

- **Require suppliers to provide personalised estimates on bills of the savings consumers can make by moving to the cheapest tariff their supplier offers;**
- **Require suppliers to provide information on each of their tariffs in a way that enables easy comparison with other suppliers.**

3.5 The Government has concluded that both the inclusion of a cheapest tariff message on bills and the introduction of a tariff comparison metric would add value and are likely to encourage engagement in the market.

3.6 The Government considers that personalised estimates of the savings which can be made from moving to the supplier's cheapest tariff would complement measures to simplify tariffs by showing consumers what they could save if they selected a different set of preferences. The Government is pleased to note the support for this measure which builds on the previous voluntary agreement brokered by the Government with energy suppliers to inform customers of the best tariff.

3.7 Introducing a tariff comparison metric would also complement tariff simplification proposals by facilitating market wide comparisons of energy prices so that consumers can more easily shop around for the best deal. The Government recognises the concerns around the current TCR proposal but notes that the concerns on the level of complication and the potential to mislead form a key trade off in the design of the TCR. We welcome Ofgem's continued work with the industry and consumer groups to refine this important proposal so that it can provide the greatest possible benefit to consumers. The Government stands ready to assist with this, should such an outcome not be possible and has included provisions in the Energy Bill to allow the Secretary of State to set the format of a tariff comparison metric.

4. Support for Vulnerable Consumers

Consultation Question

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| 8. | Are there appropriate networks already in place that could deliver the proactive approach we are seeking to working with vulnerable consumers to help them engage in the energy market? |
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Consultation Question

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| 9. | Taking into account the limited resources available, is the approach outlined above the best way to reach vulnerable consumers or are there different approaches that could be more effective? |
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- 4.1 There was consensus from respondents that vulnerable consumers could benefit from additional support to enable them to engage in the market. The difficulty in reaching vulnerable consumers through proactive outreach was, however, widely recognised and many therefore advocated better targeting and maximising each contact made by providing advice on a range of energy issues, including energy efficiency measures as well as on tariffs, switching and payment methods.
- 4.2 Many respondents felt that existing support networks, such as those involving Citizen's Advice, Age UK and Local Authorities, were adequate in terms of their ability to reach vulnerable consumers. Many Third Sector organisations were keen that duplication of existing structures be avoided and there was support therefore, for building on existing initiatives which offer consumers face to face advice, such as Big Energy Saving Week.
- 4.3 A number of Third Sector respondents, in particular, stated there would be benefit from greater coordination, communication and sharing of best practice between organisations dealing with vulnerable consumers, to ensure a bigger impact for their work. Some also felt there was a need for improved training and information to ensure Third Sector advisors had the confidence necessary to help consumers understand the tariff options available to them.

Government response

- 4.4 **The challenge of providing vulnerable consumers with the additional assistance needed to help them make informed switching decisions requires targeted and proactive advice provision, particularly over the coming winter as Ofgem's Retail Market Review tariffs and information measures are first introduced.**

- 4.5** The Government agrees there is, therefore, benefit in seeking to establish a co-ordinated network of voluntary organisations and community groups that work proactively with trained energy advisers to support vulnerable consumers to engage in the energy market, in addition to on-going initiatives such as Energy Best Deal and Big Energy Saving Week.
- 4.6** It agrees that proactive outreach through such a Network should aim to ensure each contact with vulnerable consumers is maximised, not only by providing tariff and switching advice but also by providing advice on free or discounted energy efficiency schemes available. It concludes that to be fully effective such a Network will need to involve a broad spectrum of organisations and that the Big Energy Saving Week coalition of organisations would be a sound basis on which to build.
- 4.7** The Government is therefore providing £900,000 in 2013/14 to fund the creation of the 'Big Energy Saving Network'. This Network will build on the work of existing support networks, but will seek to provide a clearer focus on encouraging vulnerable consumers to take action, by:
- developing and agreeing key messages;
 - developing the capability of advisors through training on tariffs, switching and how to access energy efficiency programmes;
 - identifying best practice in targeting and delivering outreach events to vulnerable consumers;
 - working to identify other national and local organisations to extend the reach of advice provision;
 - deliver switching, tariff and energy efficiency advice directly to consumers through suitably trained trusted intermediaries.
- 4.8** We will work with stakeholders in the coming months to fully develop the structure, aims and requirements to ensure the Network is fully effective. We are determined however, that this Network will focus on delivery and will therefore quickly develop the capability to help consumers understand tariffs and the switching options as well as how they could benefit from energy efficiency programmes available to them.
- 4.9** We will also work to evaluate the effectiveness of the Network and develop options for future advice provision, taking into account the impact of Ofgem's Retail Market Review tariffs and information reforms.

5. Helping Consumers Switch

Consultation Question

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| 10. | Will a requirement for energy suppliers to provide customers' data in a format readable by smart phones be of benefit to a wide range of consumers, through personal and third party advocacy use? |
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Consultation Question

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| 11. | What customer data, held by energy suppliers would be needed in order to fully enable development of tariff comparison and energy efficiency applications?
Many energy suppliers were supportive of the BiS led work on midata and with QR codes, involving stakeholders, including energy suppliers, on a voluntary basis. |
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- 5.1 Many energy suppliers were supportive of the BIS led work on midata and with QR codes, involving stakeholders, including energy suppliers, on a voluntary basis.
- 5.2 Energy suppliers were also generally positive about the role of innovative technology to help better inform consumers, however many also felt that as technology is fast-changing, that Government should avoid being too prescriptive about what suppliers are required to do. Some energy suppliers, were also concerned about the potential costs of implementing this proposal and supported further evaluation of this.
- 5.3 Some Third Sector organisations were concerned that the benefits of existing technology are largely seen by those already most engaged with the energy market and that there was a challenge in developing QR codes to benefit vulnerable consumers, who may not have access to or be in a position to make use of such technology.
- 5.4 Some stakeholders suggested that data to assist consumers evaluate energy efficiency options should also be included in any specification.

Government response

- 5.5 The Government believes that a lack of easily portable energy data is sometimes a barrier to switching and that facilitating access to this information could enable consumers to switch more easily. The Government therefore welcomes the broad agreement that consumers should be able to benefit from receiving their own data in a format**

which enables them more easily to make switching or tariff change decisions.

- 5.6 The Government notes the progress of the BIS led work on QR codes, begun following a voluntary agreement announced by the Deputy Prime Minister in April 2012. Under this agreement energy suppliers undertook to work with Government to investigate the possibility of putting QR codes on energy bills by Spring 2013.**
- 5.7 The Government will continue to work closely with stakeholders engaged with this process. It is, however, important that consumers have a clear timetable for action to ensure they reap the benefits of easier access to their own data, in a manner that better facilitates switching decisions. It is the Government's ambition therefore, that consumers will benefit from energy information, in usable electronic form, by summer 2014.**
- 5.8 With this in mind, the Government has introduced a broad power in the Energy Bill to require energy suppliers to provide information to consumers in a format that would allow it to be read by an electronic device, such as a smart phone.**
- 5.9 The Government recognises concerns about being overly prescriptive in identifying specific technologies through which this could be done and in drafting these powers, we have not precluded formats other than QR codes or similar technology.**
- 5.10 We will continue to work with advocacy organisations to ensure the maximum benefit for vulnerable consumers and that proposals are developed in such a way to ensure friends, family and trusted intermediaries can assist vulnerable consumers without direct access to such technology.**
- 5.11 In addition to facilitating tariff and switching decisions, we will also seek to ensure that information necessary for the development of energy efficiency applications will also be required.**

6. Facilitating Collective Purchasing/Switching

Consultation Question

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| 12. | Do you agree that collective purchasing and switching has the potential to encourage participation in the retail market and facilitate consumers in getting a better deal on their energy bills? |
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Consultation Question

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| 13. | Have you identified any barriers to operation collective purchasing and switching schemes? |
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- 6.1 The majority of energy suppliers support collective switching in principle. Several suppliers agreed that there is potential for collective switching to increase engagement, particularly amongst those who have never switched before. Several suppliers argued that the energy supply market is unlikely to provide savings through collective switching, compared to what is offered in the market, since retail margins are low and supplier prices are driven by volatile global fossil fuel markets and other costs such as transmission and distribution charges, and the cost of delivering mandated social and environmental obligations. Some suppliers noted that savings were possible from sales and marketing costs or other acquisitions costs.
- 6.2 Some energy suppliers had concerns that collective switching would enable consumers participating in such schemes to access lower rates than existing individual consumers and expressed concerns of predatory pricing.
- 6.3 Consumer groups and local authorities were in favour of collective switching, as they considered it had the potential to encourage participation in the energy market and enable consumers to secure better deals.
- 6.4 In terms of barriers to collective switching and purchasing, several energy suppliers said that the design of each particular scheme is important for whether a supplier chooses to participate or not. Design features cited as influencing the decision to participate included the length of window the offer is available for, what type of tariffs are being included in the auction, and the number of participating consumers.
- 6.5 The management of the scheme by the intermediary was also seen to be important by some energy suppliers and other respondents. Several

respondents highlighted the importance of transparency to consumers over how much they could save.

- 6.6 Consumer groups and local authorities viewed the reluctance of suppliers to engage in schemes as a potential barrier.
- 6.7 Suppliers cited regulatory certainty as to the treatment of collective switching schemes was crucial in whether they participate.

Government response

- 6.8 **The Government is encouraged by the level of positive response to the idea of collective switching and purchasing from a wide range of respondents. Collective switching and purchasing is a new development in Great Britain and the Government considers it important to monitor the impact schemes are having on consumers. To date, the impacts have been promising. For example the Which? Big Switch scheme estimated saving around 37,000 participants an average of £223 per year. Cornwall Together succeeded in attracting 10,000 consumers in Cornwall, many of whom had never switched before, and the average savings achieved were £133 per household.**
- 6.9 **The Government is doing further work to understand the impacts of collective switching and purchasing and particularly whether it is able to encourage engagement by those who are less likely to engage with the energy market. The Government will be evaluating the success of schemes supported through the Cheaper Energy Together scheme, a £5 million competition, in reaching consumers, particularly the vulnerable and fuel poor. We have commissioned external evaluation of selected case studies to learn which engagement methods have been effective.**
- 6.10 **The Government agrees regulatory certainty is important for the development of these schemes. Ofgem has been working with DECC and other interested parties since November 2011 on collective switching, when a working group was set up to look at different collective purchasing and switching models and identify any barriers preventing consumers coming together and getting a better deal. Following the group's recommendations, DECC published guidance to help consumers and organisations interested in setting up group switching schemes, and Ofgem published guidance on the relevant licence requirements for energy suppliers.**

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/66054/5368-collective-purchasing--guidance-for-consumers.pdf

<http://www.ofgem.gov.uk/Markets/RetMkts/Compet/Documents1/collective%20switching%20open%20letter.pdf>

6.11 In their final Retail Market Review proposals, Ofgem has proposed a partial exemption for collective switching schemes from the tariff cap. This will allow suppliers to offer unique fixed price tariffs to collective switching schemes. This acknowledges the innovative approach collective switching brings to the market and the value it could bring to consumers where they are given additional support and clear information.

7. Third Party Intermediaries

Consultation Question

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| 14. | We welcome views on whether there is a need to take a more formal regulatory approach to third party intermediaries, given their likely increased role in relation to energy consumers. |
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7.1 There was widespread support for Ofgem to be given powers to regulate Third Party Intermediaries (TPIs). Energy suppliers, other energy companies and the majority of consumer groups welcomed this move as it would protect consumers. Responses from both suppliers and TPIs suggested that such a move could also benefit the sector as a whole by providing clarity on their respective roles and responsibilities towards each other and consumers. Some respondents cautioned that it would be premature to take a formal regulatory approach to TPIs until the nature of any potential problems is better understood.

Government response

7.2 **The Government recognises that most respondents would like to see further regulation in this area and that introducing a licensing regime would be a proportionate option for Ofgem to consider. The Government, in its amendments to the Energy Bill has included a provision to extend the scope of energy-related activities that can be made subject to the licence regime governed by Ofgem. The purpose of this provision is to enable Ofgem to regulate TPIs in the energy market, such as switching websites, should this be necessary. This power can only be used at the instigation of Ofgem and the Government awaits Ofgem's review of the regulatory framework for TPIs later this year which will consider this.**

Annex 1: Complete list of questions

Consultation Questions	
1.	Is four the right number of core tariffs?
2.	Have we got the balance right between tariff comparability and opportunities to innovate for suppliers?
3.	Do these proposals go far enough in stimulating competition in this market?
4.	Will these proposals encourage those customers who currently don't switch to engage in the market?
5.	Are the proposals likely to promote greater competition between suppliers in both the fixed term and the standard variable rate segments of the market?
6.	Will a tariff comparison tool enable consumers to compare tariffs sufficiently well to encourage them to shop around and to compare tariffs across the market?
7.	What would be the most helpful metric to allow consumers to compare tariffs more easily?
8.	Are there appropriate networks already in place that could deliver the proactive approach we are seeking to working with vulnerable consumers to help them engage in the energy market?
9.	Taking into account the limited resources available, is the approach outlined above the best way to reach vulnerable consumers or are there different approaches that could be more effective?
10.	Will a requirement for energy suppliers to provide customers' data in a format readable by smart phones be of benefit to a wide range of consumers, through personal and third party advocacy use?
11.	What customer data, held by energy suppliers would be needed in order to fully enable development of tariff comparison and energy efficiency

	<p>applications? Many energy suppliers were supportive of the BiS led work on midata and with QR codes, involving stakeholders, including energy suppliers, on a voluntary basis.</p>
12.	<p>Do you agree that collective purchasing and switching has the potential to encourage participation in the retail market and facilitate consumers in getting a better deal on their energy bills?</p>
13.	<p>Have you identified any barriers to operation collective purchasing and switching schemes?</p>
14.	<p>We welcome views on whether there is a need to take a more formal regulatory approach to third party intermediaries, given their likely increased role in relation to energy consumers.</p>

Annex 2: List of respondents

Age UK

Alan Parr

Bob Youel

Brian Gerrard

British Gas

Carillion Energy Services

Centre for Competition Policy

Citizens Advice

Claire Pratley

Colchester Borough Council

Consumer Focus

Dave Hoy

Duncan Todd

Ebico Ltd

Ecotricity

EDF Energy

Energy UK

E.on Energy

First Utility

Fundraising Innovations

Graham Phillips

Greenright Homes

Good Energy

Haven Power

London Councils

National Energy Action

National Housing Federation

Northern Powergrid

Northumberland Council

Ovo Energy

Phil Harding

Richard Stone

Robert Cattle

RWE npower

Scottish Power

Smartest Energy

SSE

Stephen Littlechild

Trading Standards Institution

Trevor Lucas

Tricia Scott

Uswitch

Utilita

Which?

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URN 13D/039