Appendix 8.2: Impact of the Retail Market Review

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Introduction

1. Ofgem launched the Retail Market Review (RMR) in late 2010 due to concerns that the retail energy markets were not working effectively for consumers. The stated purpose of RMR was to promote customer engagement in energy markets in order to improve the competitive constraint provided by customer switching.[1]

2. The RMR showed that while there had been some improvements since the 2008 Energy Supply Probe, many of the barriers to effective customer engagement remained. These barriers, according to Ofgem, included the complexity of tariff options, the poor quality of information provided to customers and low levels of trust in energy suppliers.[2]

3. On 20 June 2013, Ofgem published a statutory consultation setting out its final proposals to modify domestic supply licence conditions in order to make the retail markets simpler, clearer and fairer.[3] Following the publication of this consultation, Ofgem notified stakeholders of its decision on 27 August 2013 to give effect to its domestic RMR proposals on simpler tariff choices and clearer information.[4] Ofgem implemented the domestic RMR proposals between August 2013 and July 2014.

4. The purpose of this appendix is, first, to summarise the provisions of RMR, and secondly, to consider the impact of RMR on consumers and competition. In particular, we examine:

[1] Ofgem (27 March 2013), *The Retail Market Review – Final domestic proposals*.
[2] Ofgem's website.
[3] Ofgem (20 June 2013), *The Retail Market Review – Statutory consultation on the RMR domestic proposals*.
[4] Ofgem (27 August 2013), *The Retail Market Review – Implementation of Simpler Tariff Choices and Clearer Information*.

(a) evidence on the impact of RMR on customer engagement;

(b) evidence on the impact of RMR on the Six Large Energy Firms' tariff offerings, tariff structures and discounts, and how this may affect their ability to compete;

(c) evidence on the process of derogation from the RMR rules; and

(d) evidence in relation to the ability and incentives of TPIs to be price competitive under RMR.

5. The main sources of information are *(a)* hearings with the Six Large Energy Firms and mid-tier suppliers, *(b)* the 'Pricing strategies' working paper published on 2 March 2015,[5] *(c)* responses to the pricing strategies working paper, *(d)* responses to our information request on the number of tariffs withdrawn as a result of the RMR rules and the number of customers on these tariffs, *(e)* suppliers' responses to our information request about cashback websites and *(f)* various submissions we received on RMR in the course of the investigation.

6. We also considered the evidence collected so far by Ofgem as part of its monitoring of the impact of the RMR reforms on customer engagement. This includes:

(a) Customer surveys. Ofgem commissioned TNS BMRB to conduct a nationally representative face-to-face survey of 6,151 energy customers in Great Britain to establish a baseline of customer attitudes and behaviour.[6] The fieldwork took place between 13 March and 5 April 2014.[7] Ofgem intends to repeat the survey for a further three years to guide Ofgem's review of the RMR package, planned for 2017. The year one survey took place between 20 February and 17 March 2015. This was a face-to-face survey of 5,934 energy customers in Great Britain. Ofgem gave us access to the survey results, which it plans to publish in July 2015.

(b) A call for evidence on the impact of RMR. Ofgem is currently reviewing the responses from the industry and other stakeholders to their call for evidence. We have not seen those responses,[8] but have discussed with Ofgem the broad messages that are coming out of this exercise.

[5] *Energy market investigation: The pricing strategies of the Six Large Energy Firms in the retail supply of electricity and gas to domestic customers over the specified period (January 2006 to end 2014)*, 2 March 2015.
[6] TNS BMRB (July 2014), Retail Market Review Baseline Survey, Report prepared for Ofgem.
[7] Some RMR reforms had already been introduced which may have impacted on the results.
[8] uSwitch sent us its response to Ofgem's call for evidence, which we have reviewed.

The provisions of the Retail Market Review

7. Two key elements of the domestic RMR reforms package are:

   (a) simpler choices – designed to make it simpler for customers to understand and compare the energy tariffs offered by suppliers and, accordingly, to encourage customer engagement; and

   (b) clearer information – to help customers understand the information they receive from suppliers.

8. The 'simpler choices' component includes the following measures: *(a)* the ban of complex tariffs; *(b)* a maximum limit on the number of tariffs that suppliers will be able to offer at any point in time; and *(c)* the simplification of cash discounts. Each of these measures is explained in detail in Annex A.

9. The 'clearer information' component was designed to provide customers with the relevant information, particularly in relation to their tariff and consumption. Ofgem introduced a number of requirements on suppliers which include: the provision of the tariff comparison rate (TCR), personal projections, the cheapest tariff messaging and a tariff information label (TIL). Ofgem also introduced new rules concerning routine communications with customers such as bills and annual statements. A more detailed description of the 'clearer information' measures is provided in Annex A.

10. Along with the RMR reforms, Ofgem implemented temporary arrangements for white labels that existed on 1 March 2013.[9] These arrangements exempt white label providers and their partner suppliers from some of the RMR rules (in particular, the four-tariff rule and information rules) and are due to expire at the end of December 2015. On 3 June 2015, Ofgem adopted a decision to implement, through the modification of licence conditions, new arrangements for both existing and new white labels in the domestic retail energy markets. The temporary and new arrangements concerning white labels are briefly explained in Annex A.

The impact of the Retail Market Review

Some introductory remarks

11. The domestic RMR reforms took effect in 2014. However, many of the Six Large Energy Firms had already made changes prior to RMR to rebuild trust

[9] SLC 31D.

in the energy markets as part of the 'trust agenda' (see Appendix 7.3: The pricing strategies of the Six Large Energy Firms). In particular:

(a) E.ON said that in 2011 and 2012 it significantly reduced the number of live tariffs available to new and existing customers;[10]

(b) Centrica said that the number of tariffs it offered peaked in 2011 at around 12 but was down to six pre-RMR;

(c) SSE said that in 2012 it reduced the number of live tariffs from 68 to four;[11] and

(d) EDF Energy said it was already near four so did not have to remove too much to be RMR compliant.

12. The Six Large Energy Firms suggest that the trust agenda was in part a response to market developments. Centrica said that the market was self-correcting before RMR. EDF Energy said it had already implemented a number of changes before RMR so it was hard to see the impact of RMR.

13. Littlechild said that most suppliers had adjusted their tariff range before RMR took effect. He said that suppliers naturally chose to keep their most popular and profitable tariffs and phase out their tariffs preferred by only a minority of customers.[12]

14. Suppliers generally understood the rationale for the implementation of the RMR. However, as set out in the rest of this paper, suppliers had concerns over some of the individual RMR provisions and their impact. In particular:

(a) EDF Energy said that it understood the type of concerns of Ofgem at the time of RMR and the rationale for its implementation.

(b) SSE said that it understood the rationale behind why Ofgem wanted to introduce the RMR, but have concerns over unintended consequences caused by the reforms.

(c) E.ON said that it understood the concerns of Ofgem at the time of RMR and agreed with the general principles behind its implementation.

(d) First Utility said that it was generally supportive of RMR.

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[10] Pricing strategies working paper.
[11] Pricing strategies working paper.
[12] Promoting or restricting competition? Regulation of the UK retail residential energy market since 2008, Stephen Littlechild, 15 August 2014.

(e) Co-operative Energy said it understood and supported the principles behind RMR.[13]

Evidence on customer engagement

Survey evidence on engagement

15. Table 1 compares the results from Ofgem's baseline survey, which was carried out in February and March 2014,[14] and the year one survey which was carried out a year later. We focused on the evidence related to various measures of customer engagement and barriers to engagement.

Table 1: Comparison of RMR baseline year and the year one survey results

	Engagement measures	*Year one (%)*	*Baseline year (%)*	*Difference*
Activity	Switched supplier in last 12 months	13	14	–1
	Changed tariff with an existing supplier in last 12 months	17	16	1
Awareness	Aware possible to switch supplier	90	88	2
	Aware possible to change payment method	85	82	3
	Aware possible to change tariff	83	80	3
Views on complexity	Customer views on range of tariffs – too much choice	30	32	–2
	Customer views on range of tariffs – about the right amount	44	45	–1
	Customer views on range of tariffs – too little choice	11	14	–3
	Comparing tariffs – believe it is easy	38*	37*	1
	Comparing tariffs – believe it is difficult	36**	39**	–3
Experiences	Found it easy to decide which deal to switch to	72	73	–1
	Found it easy to find the information they wanted	76*	78*	–2
	Found it easy to understand the information they found	73*	70*	3

Source: RMR Year One survey debrief, TNS, 27 April 2015.
* These figures are aggregate figures of respondents saying very/fairly easy.
** These figures are aggregate figures of respondents saying fairly/very difficult.
Note: Bases is all respondents except 'Found it easy to decide which deal to switch to' (all who have ever switched supplier), 'Found it easy to find the information they wanted' and 'Found it easy to understand the information they found' (both all who switched supplier, changed tariff or compared in past 12 months). Year 0 survey conducted in March/April 2014. Year 1 Survey conducted in February/March 2015.

16. The comparison of the results indicates that there are no material differences in various indicators of engagement between the two surveys. All changes are within three percentage points.

17. We also note that the above results are consistent with the results from our own survey which was conducted in the period between the two RMR surveys. We had broadly similar findings across a number of measures of engagement to the RMR surveys.[15] The results of our survey are described in detail in Appendix 7.5: CMA domestic customer survey results.

[13] Energy Market Investigation (18 February 2015): *Case studies on barriers to entry and expansion in the retail supply of energy in Great Britain*.
[14] The RMR rules came into force in phases from August 2013 through June 2014. Some individual RMR remedies were therefore introduced in the months before the baseline survey fieldwork.
[15] Our survey did not include questions on the perceived complexity of the range of tariffs or of comparing tariffs.

Suppliers' views on engagement

18. RMR included a number of requirements on suppliers to make the information customers receive on routine communications – such as their bills – clearer in an attempt to increase customer engagement.

19. The Six Large Energy Firms have said the following in relation to the impact of those requirements on them and on customer engagement:

(a) E.ON said that it had simplified bills to one sheet of A4, which differentiated it, but then had to comply with certain bill standardisation requirements. Although, E.ON recognised that keeping the terminology standard and simple was a positive outcome of RMR.

(b) EDF Energy said that some of the requirements were very prescriptive, which had implications for the regulatory burden, particularly on smaller players, and created compliance risk.

(c) SSE said that prescriptive bill requirements had created complicated bills, a major source of customer complaints, and it thought that suppliers were best placed to listen to customers and decide what customers wanted.

20. Ofgem said to us that the responses to its call for evidence on the impact of RMR said that while the information remedies implemented as part of RMR may be good, they would take time to embed. Ofgem said most responses felt it was too soon to judge the effect of the RMR generally.

21. RMR also requires suppliers to tell customers on bills, annual statements and other routine communications which tariff from their existing supplier is cheapest for them.

(a) Scottish Power said that cheapest tariff messaging had had an impact with customers calling and switching to the cheaper tariff.

(b) RWE said that RMR could have the following effects: customers being more likely to transfer internally on to discounted propositions due to cheapest tariff messaging on bills; this increased transfer propensity making current discount levels uneconomic leading to price convergence between standard and discounted propositions; and customers less likely to switch supplier as savings from switching were reduced (from about £200 to perhaps about £50).[16]

[16] Pricing strategies working paper.

(c) First Utility said that it thought the cheapest tariff messaging was good. However, it did not go far enough in terms of providing the market-cheapest tariff or prescribing the frequency of communications, so one supplier may communicate their cheapest tariff once a year and others 14 times a year. It also said that it was arguable whether it should be on the bill given that a significant number of customers did not open their bills.

(d) Utility Warehouse said that the cheapest tariff messaging was a good introduction in terms of making customers aware of cheaper alternative tariffs from their supplier. However, it said that in many cases suppliers could get round it by producing bills less often.

(e) Ovo Energy said that the provision of information on bills may help around the margins but it would not have a substantive impact since it was not just lack of information that contributed to customer disengagement. It said that the cheapest tariff messaging had not imposed an economic penalty on the Six Large Energy Firms, so more information was clearly not leading to competitive pressure on standard-variable tariffs.

22. Ofgem's year one RMR survey results show that 34% of customers recall seeing a message about savings they can make by changing their account, tariff or payment method (61% do not recall seeing this information and 5% do not know). A minority of these customers are prompted to take action as a result of seeing the message; 38% of customers check their existing tariff, 31% compare tariffs and 25% switch tariffs.

23. Comments were made to us about the rationale and impact on customer engagement of the 'simpler choices' components of RMR. For example:

(a) Littlechild said the following:

(i) Switching was heavily influenced by the size of prospective gains, hence Ofgem's suggestion that increased customer disengagement since 2008 was a consequence of the increased number of tariffs was implausible.

(ii) Whether customers would actually perceive the energy markets as simple is debatable – citing the availability of 480 tariffs in each region.

(iii) None of the non-switchers reported complexity of tariffs as a reason for not switching in Ofgem's tracking survey.

(iv) The Australian state that had the highest customer switching rate was also where electricity suppliers had the highest diversity in retail product offers.[17]

(b) Waddams said that tariff simplification might reduce barriers to engagement, and encourage engagement, but three factors might limit this:

(i) The removal of complex tariffs might have little effect if there were other barriers such as inattention or lack of confidence, and survey evidence indicated that few customers volunteered complex tariffs as a factor preventing switching, and experimental evidence suggested that simplifying tariffs might have limited effect.

(ii) The levelling of prices through stronger competition would mean there were fewer gains available, and since gains strongly affected activity, switching was likely to be deterred.

(iii) It was not clear that reducing the number of choices for each customer was going to increase activity significantly.[18]

(c) However, Waddams said that simpler tariffs might improve the quality of decisions.[19]

(d) Waddams also said that it was difficult to see how the reduced number of tariffs would make a huge difference in terms of helping customers cope in the market.

(e) The University of Exeter said it believed that the market had been far from simplified, noting that the RMR rules created hundreds of different versions of the basic four tariffs. In addition, it said it was unclear what the benefits were to consumers because the problem was the difficulty in comparing tariffs, not the number of tariffs.[20]

24. The mid-tier suppliers made the following comments:

(a) First Utility said that it was supportive of the four-tariff rule and thought customers had a better understanding of tariffs now.

(b) Utility Warehouse said that restricting the number of live tariffs at any point in time did not make it any less confusing, as suppliers' three fixed tariffs changed all the time. It was difficult to see how the four-tariff rule

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[17] Stephen Littlechild (15 August 2014), *Promoting or restricting competition? Regulation of the UK retail residential energy market since 2008*.
[18] Submission to the EMI prepared by Professor Catherine Waddams, 20 October 2014.
[19] Submission to the EMI prepared by Professor Catherine Waddams, 20 October 2014.
[20] Response to Statement of Issues, University of Exeter, Energy Policy Group, 14 August 2014.

would increase customer engagement because customers who were switching were switching as a result of using a price comparison website (PCW) and customers using a PCW looked at the tariffs listed on the first page, so whether there were 50, 500 or 5,000 uncompetitive tariffs was not confusing to a PCW user.

(c) The Co-operative Energy said that there were too many tariffs, so it agreed that action needed to be taken. But it said that four tariffs multiplied by the number of payment methods was still quite a wide selection.[21]

25. We consider that there are still lots of tariff options available to customers, as illustrated by the number of tariffs listed on a PCW when a customer uses one for search. Options include payment method; how the customer manages their account; and, for customers who use both fuels, whether to take both fuels from the same or from different suppliers.

Evidence on the impact of RMR on the Six Large Energy Firms' tariff offerings, tariff structure and discounts

26. We asked the Six Large Energy Firms what tariffs they had to withdraw as a result of the RMR rules, and how many customers had been on these tariffs. The Six Large Energy Firms also provided information about the changes that they made to tariff structure and discounts as a result of RMR.

27. Their responses are summarised below.

Centrica

28. Centrica said that it removed two tariffs in order to comply with RMR:

(a) Clear & Simple was introduced in May 2012 as an interim measure until the final RMR decision for new customers. It was a variable evergreen tariff with a standing charge/single-tier structure and percentage-based discounts. In November 2013, Clear & Simple customers [✂] were moved to Centrica's other evergreen tariff, Standard, with Standard also changing to a RMR-compliant standing charge structure.

(b) Sustainable Energy – a green electricity tariff priced at a premium to standard to reflect the additional cost of purchasing renewable obligation

[21] *Case studies on barriers to entry and expansion in the retail supply of energy in Great Britain*.

certificates. This tariff was based on a two-tier structure. In November 2013, Sustainable Energy customers [✂] were moved to Standard.

29. Centrica also closed Future Energy, another green electricity tariff, to new customers in May 2011. In November 2013, Future Energy customers [✂] were moved to Standard.

RWE

30. RWE said that the following types of discount tariffs were removed from sale in 2013:

(a) Variable discount tariffs which offered a percentage discount to the SVT. In 2013 there were [✂] accounts on these types of tariffs.

(b) Tariffs which included one-off introductory discounts.

(c) Tariffs offering an annual discount to customers who exercised particular options, such as Go Save which offered an annual discount for customers who opted for paperless billing and managed their energy account online. During 2013 RWE had [✂] accounts on its Go Save tariff. It was withdrawn from sale on 30 June 2013 and existing customers were transferred to RWE's SVT at the end of 2014 and a final discount was applied to their account.

31. RWE withdrew its green energy tariff, Juice, on 23 October 2013. Existing customers were allowed to remain on the tariff but it is no longer available to new customers. As at January 2013 [✂] customers were on this tariff, [✂] by January 2015.

32. RWE also exited its relationship with Telecom Plus as the tariffs offered by the affiliate companies Electricity Plus and Gas Plus would have counted towards RWE's four-tariff limit. As at December 2013 this accounted for [✂] domestic accounts (meters).

Scottish Power

33. Scottish Power said that at the time of the RMR it offered seven tariffs across all regions. Three of these tariffs were removed as a result of RMR, two were modified to make them compliant and two were replaced in the normal course of business. The three tariffs removed as a result of RMR were:

(a) Online Energy Saver 22 – a discounted variable tariff which tracked at a stated percentage below Standard prices for a fixed-term period. This was

removed as discounted variable tariffs no longer permitted. Weekly sales averaged [✂] and weekly conversions averaged [✂].

(b) Simply Green Energy June 2015 – a fixed-price fixed-term tariff. The dual fuel discount that a customer would normally receive was given instead to the Green Energy Trust on the customer's behalf. This was removed as inadequate sales to justify using it for one of the four available tariff slots. Weekly sales averaged [✂] and weekly conversions averaged [✂].

(c) Platinum Fixed Price Energy April 2015 – a fixed-price fixed-term tariff which included boiler cover. This was removed as inadequate sales to justify using it for one of the four available tariff slots. Weekly sales averaged [✂] and weekly conversions averaged [✂].

34. Scottish Power also said that before RMR, cashback had been used to gain prepayment customers. New prepayment electricity customers were from October 2009 to November 2012 offered cashback of between £25 and £35 after six months.[22]

EDF Energy

35. EDF Energy said that one tariff was removed as a result of RMR. EDF Energy removed its Green Tariff. The consumption of electricity customers on the Green Tariff was matched with an equivalent amount of renewable energy. Customers contributed a little extra which went directly into the EDF Energy Green Fund. This contribution was matched by EDF Energy. The fund was then used to support the installation of renewable energy technologies for community and non-profit organisations. In September 2013, [✂] product accounts on this tariff.

SSE

36. SSE said the process of making tariffs RMR compliant was undertaken in three phases:

(a) SSE discontinued the sale of non-standing charge tariffs in February 2012 and undertook significant simplification and tariff restructuring – towards RMR compliance.

(b) SSE stopped selling tracker tariffs in July 2012.

[22] Pricing strategies working paper.

(c) Any residual tariffs not compliant with RMR were either removed or amended to ensure compliance.

37. SSE said that for most tariffs that were not RMR compliant, changes were made to the tariffs to ensure compliance. The remaining tariffs where compliance could not be achieved through change were closed. These customers were switched to alternative tariffs. This applied to the following tariffs: energyplus care, Powerfuel, betterplan, betterplan plus, betterplan plus 2010, Oplan – SC and NCPCC.

E.ON

38. E.ON said that it decided to withdraw a number of legacy variable rate tariffs at the end of 2013. The removal of these tariffs was driven in part by changes associated with RMR but also timed to make the changes more cost-effective and simple to implement. It was also considered fairer to customers to remove a number of legacy tariffs and have all customers on one SVT.

(a) Age UK standard tariffs (around 280,000 customer accounts, including Age UK Reward, Online and Prepayment). E.ON's Age UK variable legacy tariffs offered customers a cold weather payment (the value depended on winter weather but was typically around £20) paid in cash to help the over 60s cover their energy costs when it was coldest and also a payment to the Age UK Charity. The Age UK online legacy tariff also included a discount of 2%.[23]

(b) Go Green (around 3,000 customer accounts). E.ON's Go Green tariff gave customers the opportunity to purchase energy from renewable sources, giving the reassurance that their energy use was not increasing their personal carbon footprint. The tariff also complied with the green energy supply scheme giving customers further reassurance of the tariff's green credentials.

(c) Energy Online (around 366,000 customer accounts). Customers choosing Energy Online received a 2% discount to manage their account online. Discounts given in this way for online account management are non-compliant with RMR regulation.

39. The following fixed bill tariffs were withdrawn primarily because of the experience customers would receive due to RMR changes which would require customers to renew to SVT at the end of their contract:

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[23] We note that this tariff is still available but with different terms and conditions.

(a) StayWarm tariff, implemented in October 2013 (around 198,000 customer accounts). The last customers renewed away from StayWarm in October 2014. E.ON's StayWarm tariff helped customers budget their energy payments and gave them the reassurance that costs would not rise if more energy was used during the course of the year. StayWarm offered an automatic renewal to make it simple for customers to remain on a fixed bill tariff, avoiding potential confusion and a poor customer experience.

(b) WarmAssist fixed bill tariff (see paragraph 45(d)).

40. The following tariffs which had a variable price and fixed term were withdrawn due to the difficulties in making them RMR compliant without creating a detrimental and confusing experience for customers:

(a) Energy Discount offered fixed discounts to E.ON's standard variable prices for a one-year fixed-term period. Around 562,000 customer accounts switched to Energy Discount while it was available until it was withdrawn from sale in July 2013.

(b) Prepayment Reward Tariff offered fixed discounts to E.ON's standard variable prices for a one-year fixed-term period. Around 123,000 customer accounts switched to Prepayment Reward while it was available until it was withdrawn from sale in July 2013. The product was a means of offering a discount to prepayment meter customers.

41. We note that Centrica, RWE, Scottish Power, EDF Energy and E.ON all removed green energy tariffs as a result of RMR. SSE said that green tariffs have limited appeal and thus are no longer commercially viable under the tariff cap. Utility Warehouse said that it received a number of requests for green products but was unable to offer this because of the four-tariff rule.

Prompt payment discounts

42. Scottish Power, SSE, Centrica, EDF Energy and E.ON all said that they removed prompt payment discounts in order to comply with RMR.[24]

(a) EDF Energy offered prompt payment discounts to customers up to 31 December 2013. The discounts were:

(i) until October 2009, £9.76 (inc VAT) a year for electricity and £12.96 (inc VAT) a year for gas; and

[24] RWE did not offer prompt payment discounts.

(ii) from October 2009 a 2% reduction in charges.[25]

(c) SSE has offered customers a discount off their next bill for prompt payment: 3.5% to March 2007; then 4.3% to March 2008; 3.5% to July 2008; 2.5% to September 2012; and £20 off the standing charge (per year per fuel) from October 2012.[26]

(d) Scottish Power said prompt payment discounts were available up to late 2013, and were automatically credited to a customer's next bill where the customer paid their bill within the predefined window.[27]

43. The Six Large Energy Firms said the following with regard to the removal of prompt payment discounts:

(a) Scottish Power said that its prompt payment discount was valued by many of its credit customers, including older customers. The alternative of a late payment surcharge, which is allowed under RMR, was not considered to have customer appeal.[28] Scottish Power also said that the ban on prompt payment makes it harder to incentivise efficient behaviours by people who paid by cheque, and so they ended up paying more.

(b) Centrica said the withdrawal of prompt payment discounts had limited choice for customers who paid their bills promptly. Such behaviour indicated a lower probability of debt risk and the prompt payment discount allowed suppliers to pass on the related cost benefit to consumers. Feedback from these customers suggested that they valued this discount, and removal had seen these customers receive a small increase to their bills. Centrica also said that many suppliers offered a prompt payment discount for cash/cheque customers paying their bill promptly after receipt. For British Gas, the prompt payment discount was £30 a year for dual fuel customers and a significant number of customers took advantage of this.

(c) SSE said that prompt payment discounts had been very popular with customers.[29]

[25] Pricing strategies working paper.
[26] ibid.
[27] ibid
[28] ibid.
[29] SSE Response to updated issues statement, paragraph 8.10.8, 9 April 2015.

Suppliers' views on the impact of RMR on their ability to compete for certain types of customers and to innovate

44. The Six Large Energy Firms have made comments in relation to the impact of RMR on *(a)* their ability to attract different types of customers – particularly their offering to low-consumption and vulnerable customers, *(b)* their ability to innovate, *(c)* the appropriateness of RMR requirements in the future, and *(d)* the process of derogation from RMR rules.

Low-consumption and vulnerable customers

45. The Six Large Energy Firms made specific comments in relation to the impact of the removal of specific tariffs on their ability to compete for low-consumption and vulnerable customers:

(a) Centrica said that the four-tariff rule had restricted its ability to offer a low standing charge tariff suitable for vulnerable domestic customers or low-consumption customers because of a focus on more mass-market segments.[30] It said that the four-tariff rule was restrictive and it would have preferred six or seven tariffs, so that it could have other tariffs including [✂].

(b) Scottish Power said it removed two-tier tariffs that benefited very low-consuming customers. It said that the ban on two-tiered tariffs meant that people who have small consumptions, now pay more.

(c) SSE said it removed nil standing charge tariffs aimed at low-usage customers.[31] These were based on a two-tier unit rate arrangement which was prohibited under RMR. SSE said that its ability to offer tariffs aimed at low-consumption/vulnerable customers had been severely curtailed. Instead, SSE had had to focus on tariffs with wider customer appeal. As part of the process of making tariffs RMR compliant, [✂] customers on low-user no-standing-charge tariffs were allowed to remain on this tariff to avoid a price disturbance and the reputational risk associated with this. SSE encouraged these customers to select an alternative tariff voluntarily through campaign activity; however the majority of the [✂] customers were migrated to an RMR-compliant tariff (which included a standing charge) in November 2013. SSE said that RMR reforms have made nil standing charge tariffs less commercially viable and thus SSE has chosen to not offer any at present.

[30] ibid.
[31] Pricing strategies working paper.

(d) E.ON said it withdrew its WarmAssist fixed bill tariff (around 23,000 customer accounts) in early summer 2014. Customers were leaving at renewal, with the last renewals expected in July 2015. A key feature of WarmAssist fixed was auto-renewal to avoid confusion and a poor experience for some of E.ON's most vulnerable customers at time of renewal. This was incompatible with the RMR requirement for renewal to E.ON's SVT.

Innovation

46. Suppliers have noted the effect on innovation of the four-tariff rule:

(a) E.ON said that it withdrew what it considered to be the most 'innovative product in the market' – its StayWarm tariff (see paragraph 39(a)).

(b) Scottish Power said that the four-tariff rule affected innovation as suppliers could not afford to use up a tariff slot to test something on a small scale.

(c) RWE said that being restricted to making only four core tariffs available to customers made it harder for npower to differentiate itself from its competitors on price and the range of tariffs offered, and the complexity of rules around this had reduced npower's incentive to launch innovative or niche tariffs due to the need to appeal to the mass market with the four tariffs on offer.[32] RWE said it could not trial more innovative offers such as Energycare and was [✂].

(i) Energycare offered a discount as standard to those dual fuel customers who took npower hometeam Central Heating Care for 12 months up until 1 January 2014. Around [✂] customers signed up for this offer.

(ii) RWE has offered three tariffs which include its Nest smart energy control system. Intelligent Fix April 2017 which had [✂] accounts (meters) subscribed to it as at 31 October 2014, Intelligent Control October 2016 which had [✂] accounts (meters) as at 31 January 2015 and In Control March 2017 which [✂] accounts (meters) as at 14 June 2015.

(e) SSE said that the restrictions on the number of tariffs imposed by RMR was limiting the ability of suppliers to innovate and provide products that

[32] Pricing strategies working paper.

customers wanted. For example, not being able to offer a prompt payment discount or discounted variable fixed-term tariffs which were very popular with its customers.[33]

(f) First Utility said that it did not believe the four-tariff rule had limited innovation. It said that although suppliers had to have an SVT, they could pull the other three tariffs at any time and "try things". Its innovation had been limited by the practicalities of getting it through billing rather than the four-tariff rule.

(g) Co-operative Energy said there was a question mark over whether the four-tariff rule restricted innovation.[34]

(h) Utility Warehouse said that the four-tariff rule had stifled innovation. It said that the four-tariff rule was restrictive if all you were doing was selling energy; if you were trying to create innovative bundles of energy with other services, it was impossibly restrictive. There were lots of innovative things it would like to do, but could not.

(i) Ovo Energy said that although the four-tariff rule was well-intentioned, it prevented innovation.[35]

47. Other submissions to us also commented on the impact on innovation including:

(a) Littlechild said that since existing tariffs were tried and tested, whereas new tariffs were necessarily more risky and liable to low take-up in early years, the four-tariff rule would surely discourage innovation, and had done so already.[36]

(b) Waddams said that one form of innovation – tailored tariffs for different preferences and needs – was an obvious casualty of RMR rules.[37]

(c) The University of Exeter said that the four-tariff rule had restricted the space for innovative new tariff structures.[38]

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[33] Pricing strategies working paper.
[34] *Case studies on barriers to entry and expansion in the retail supply of energy in Great Britain*.
[35] *Case studies on barriers to entry and expansion in the retail supply of energy in Great Britain*.
[36] Promoting or restricting competition? Regulation of the UK retail residential energy market since 2008, Stephen Littlechild, 15 August 2014.
[37] Submission to the EMI prepared by Professor Catherine Waddams, 20 October 2014.
[38] Response to Statement of Issues, University of Exeter, Energy Policy Group, 14 August 2014.

(d) uSwitch said that the four-tariff limit, whilst simplifying the market for consumers, could also be limiting their choice and stifling innovation by suppliers.[39]

48. During our discussion with Ofgem on their call for evidence on the impact of RMR, Ofgem informed us that the responses received to the call for evidence have also noted the impact on innovation of the four-tariff rule and other tariff requirements.

RMR and smart metering

49. The Six Large Energy Firms made the following comments:

(a) EDF Energy said it supported the four-tariff rule at the time it was introduced because it was about bringing simplicity and transparency to the markets, but it questioned whether it was the right approach going forward. It was concerned that it might be a constraint in the future with the roll-out of smart meters.

(b) SSE said that the four-tariff rule would need relaxing in some way with smart meters.

(c) E.ON said that its concern over the longer term was to ensure that RMR did not stifle innovation around smart meters.

(d) Centrica said that as the number of smart-enabled products increased over the coming years, it expected the four-tariff cap to limit its ability to offer innovative products, eg to customers with dynamic demand profiles.

Derogation from the RMR rules and white-labelling

50. Suppliers can receive a derogation from the RMR rules on application to GEMA. According to Ofgem's Guidance for Derogation Requests,[40] Ofgem would consider the case for a derogation where a licensee is able to demonstrate that compliance with one or more relevant RMR rules would have substantial unintended or unanticipated negative consequences for consumers.

51. The following comments were made in relation to derogations:

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[39] uSwitch submission to Ofgem's call for evidence on the impact of RMR.
[40] Guidance for derogation requests from domestic Retail Market review (RMR) licence conditions, 25 September 2013, Ofgem.

(a) Littlechild said that the possibility of derogations on application to Ofgem had created the problematic situation where Ofgem was constantly required to judge which interpretations, exceptions and innovations were in consumers' interests;[41] and

(b) The University of Exeter said it should not be down to Ofgem to decide what customers wanted.[42]

52. Some suppliers have said that there has been a lack of clarity over exemptions to the four-tariff rule. In particular:

(a) Scottish Power said that while Ofgem said during its hearing with us that it was concerned suppliers had not made more use of derogations, its guidance says they will only be granted in exceptional circumstances and the guidance also suggests that Ofgem would resist giving derogations where this would give a market participant a competitive advantage.

(b) Ovo Energy said that when it sought derogations from Ofgem initially for their OVO Communities tariffs it took more than 80 days, following prompting, to get a decision, but Ofgem was now going through applications very quickly. Ovo Energy also said it thought Ofgem realised the four-tariff rule was not a great idea and while the rule was in place it would ease its negative effect on competition through opening up white-label rules and granting derogations pretty quickly.

53. Some of the Six Large Energy Firms also noted initial ambiguity over the use of white-labelling and RMR:

(a) SSE said that confusion relating to white labels with temporary provisions had been an unintended consequence of RMR.[43]

(b) RWE said that white-labelling was something that was not initially allowed under RMR, then was allowed for some suppliers and may now be allowed. It said that the initial confusion on whether or not white labels would be or were permissible under RMR meant that it had not developed a white-label offering, for example to link with charities.[44]

(c) Centrica said that when RMR was first proposed they believed the proposals would discourage suppliers from developing white label offerings. Ofgem have since reconsidered and allowed white labels to

[41] Stephen Littlechild (15 August 2014), *Promoting or restricting competition? Regulation of the UK retail residential energy market since 2008*.
[42] Response to Statement of Issues, University of Exeter, Energy Policy Group, 14 August 2014.
[43] SSE response to Pricing Strategies working paper.
[44] Pricing strategies working paper.

continue. Under RMR white-label arrangements, British Gas is able to offer an additional four tariffs for Sainsbury's Energy in addition to the four British Gas tariffs.

54. Comments were also made in relation to the cheapest tariff messaging and white labels.

(a) EDF Energy said that white labels had enabled increased segmentation as suppliers with white labels were able to offer cheap deals to new customers but did not have to display those deals to their existing customers under the cheapest tariff messaging rules.

(b) RWE said that the cheapest tariff messaging should include suppliers' white labels.

55. We recognise that Ofgem's decision published on 3 June 2015 means that as of 1 October 2015 suppliers will be required to include their white-label tariffs in the cheapest tariff messaging (see Annex A).

Evidence in relation to ability and incentives of third party intermediaries under the RMR to be price competitive

Use of cashback websites

56. Ofgem's initial view was not to allow cashback as part of RMR. In an open letter[45] on the application of the RMR rules to TPIs, Ofgem recognised concerns raised by some TPIs that the RMR rules on cash discounts (which prohibits cash discounts except for dual fuel and online account management) might constrain their ability to engage customers and could hamper competition in the TPI market. Ofgem's stated policy outcome was not to stop TPIs offering cashback where they encourage customer engagement and do not distort choice between tariffs. Ofgem decided to therefore allow cashback where the cashback is offered by a TPI and not directly from a supplier and if the cashback is not linked to a particular tariff. Ofgem have since held a roundtable discussion with stakeholders to explore their views on the way forward.[46] Ofgem's consultation on the Confidence Code and wider issues stated that Ofgem would be seeking further stakeholder views and evidence to inform policy development relating to the use of cashback by TPIs.[47]

[45] Ofgem, (19 December 2013), Open letter – Retail Market Review: application of rule in the TPI sector.
[46] Roundtable on cashback and bundled products, Ofgem, 14 August 2014.
[47] Domestic third party intermediaries: Confidence Code and wider issues, Ofgem, 7 August 2014.

57. Cashback websites (CBWs) operate on a membership basis, whereby customers become members of the website to access cashback promotions from retailers advertised on the website. CBWs fund cashback by passing a proportion of the commission they receive from retailers onto their retailers.

58. Ofgem's initial view not to allow cashback resulted in many suppliers ending their use of CBWs to acquire customers. Suppliers said the following in relation to cashback and the use of CBWs:

(a) RWE said it stopped its one-off sales incentives campaigns such as vouchers and cashback campaigns as Ofgem's initial view within RMR was not to allow cashback. Between June 2013 and October 2013 RWE offered cashback through Fundraising Innovations on 12 tariffs. RWE gained [✄] accounts as a result of running [✄] one-off voucher, cashback or discount campaigns.

(b) Centrica said it no longer worked with CBWs, having terminated all relationships in January 2014. This followed the introduction of new Ofgem restrictions preventing suppliers or their representatives from offering cashback deals to customers.

(c) SSE said it worked with CBWs from July 2010. During August and September 2013 sales from cashback affiliates [✄] of sales tracked were from cashback sites, directly attributed to the price reduction on SSE's M&S Energy Fix & Save product. To comply with RMR all cashback affiliates were instructed to remove SSE and M&S Energy assets from affiliate websites by 20 December 2013.

(d) First Utility said that it paused activity with CBWs in January 2014 due to concerns about CBWs and the application of the RMR. It said it was waiting for clear guidance from Ofgem on cashback.

(e) Co-operative Energy said it stopped using CBWs following RMR. However, it was reviewing the situation and had sought further advice from Ofgem in this respect.

59. Topcashback.co.uk said that they stopped working in the energy markets due to Ofgem's initial view not to allow cashback as part of RMR. They started working with First Utility following what they understood to be Ofgem's decision to allow cashback via TPIs. However, they said First Utility were then contacted by Ofgem saying the scheme was violating RMR rules.

Competition between PCWs

60. We consider the effect of RMR on the ability of suppliers to offer tariffs exclusively available via a particular PCW in Appendix 8.3: Price comparison websites and collective switching. We noted that the RMR requirement effectively prevents suppliers from being able to offer tariffs exclusively available via a particular PCW,[48] which limits the scope for commission negotiation and passing on savings to consumers.[49]

61. As a related point, Scottish Power pointed out that that the four-tariff rule made it difficult to offer better tariffs via different channels, hence there was no need for most favoured nation clauses in contracts.[50]

Collective switching

62. Components of RMR appear to be providing an environment that promotes the organisation of collective switch schemes, including: the four-tariff rule, derogations from the four-tariff rule for tariffs offered via collective switch schemes and the fact that derogations from the four-tariff rule do not apply to tariffs offered via PCWs. We consider the effect of the exemption from the four-tariff rule for collective switches in Appendix 8.3: Price comparison websites and collective switching.

Summary

63. The stated purpose of RMR was to promote customer engagement in the retail energy markets in order to improve the competitive constraint provided by customer switching. However, some of the RMR measures restrict the behaviour of suppliers and constrain the choice set for customers in a way that may have an adverse impact on competition and consumer welfare.

64. The RMR has not been in place long enough for us be able to assess with full confidence its overall impact on consumer engagement and competition. That said, the evidence in hand at this stage is not particularly encouraging. There are few if any signs that consumer engagement is improving materially, either in terms of direct consumer activity (eg switching, shopping around) or their experience and perception (eg views on tariff complexity). Those who were disengaged before the RMR appear to remain so.

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[48] uSwitch have offered a tariff only available via uSwitch, supplied by E.ON. It has been able to do this as the tariff offered is a collective switching tariff that is exempt from RMR requirements.
[49] Due to uncertainty over whether cashback was permitted under RMR, many suppliers stopped working with cashback websites.
[50] Scottish Power response to PCW questionnaire.

65. At the same time, the introduction of the RMR and specifically the four-tariff rule, has had an impact on the 'active' side of the market as a result of the Six Large Energy Firms withdrawing a number of tariffs and discounts, and changing tariff structure which may have made some customers worse off. We do not consider that the derogations from the RMR rules suppliers can apply to receive offset the impact of a number of tariffs being withdrawn. In particular:

(a) Some genuinely innovative tariffs were withdrawn. A good example of that is E.ON's StayWarm tariff for the over 60s (about 198,000 customer accounts) which helped customers budget their energy payments and gave them the reassurance that costs would not rise if more energy was used during the course of the year (for example, because of a harsh winter).

(b) Various discounts were removed by the Six Large Energy Firms as a result of RMR rules, including those that reflect cost savings to suppliers from consumer behaviour. An example of this is prompt pay discounts which were used by all the Six Large Energy Firms before the RMR except RWE.

(c) RMR curtailed the ability of the Six Large Energy Firms to offer attractive tariffs for low-volume users (tariffs with no or low standing charge). As a result, many of those customers may now be paying more for their energy, especially if they were migrated on to SVTs.

66. We agree with much of what the Six Large Energy Firms said in relation to the adverse impact of RMR rules on innovation. We consider that the restrictions imposed by the RMR four-tariff rule limits the ability of suppliers to innovate and provide products which may be beneficial to customers and competition. This is of particular concern over the longer term as RMR rules could potentially stifle innovation around smart meters.

67. The impact of the RMR on the intensity of price competition between suppliers is less clear. While the suppliers no longer offer discounted variable-rate tariffs, price competition now takes place in the fixed-term fixed-rate space where many tariffs are priced at a sizeable discount to SVTs. This is documented in our work on cost pass-through, pricing strategies and potential gains from switching (see Appendices 7.2, 7.3 and 7.4).

68. One area where the impact of the RMR appears to be harmful to price competition is in relation to PCWs. PCWs can no longer attract customers by sacrificing commission, either directly by way of cashback, or indirectly by securing exclusive tariffs from suppliers because of the four-tariff rule.

Annex A: The Retail Market Review provisions concerning simpler choices and clearer information

Simpler choices

1. The 'simpler choices' component of the RMR reforms package mainly resulted in the following actions: *(a)* the ban on complex tariffs, *(b)* a maximum limit on the number of tariffs that suppliers will be able to offer at any point in time, and (c) the simplification of cash discounts.

The ban on complex tariffs

2. The domestic RMR introduced rules in respect of how the tariffs are structured to prevent suppliers from offering complex tariffs.[51] In particular, each tariff offered by suppliers: *(a)* must be presented in the form of a standing charge,[52] and a unit rate (multi-rate tariffs which vary according to consumption are prohibited); *(b)* may have a unit rate that varies (in a pre-defined way) by time of year, week or day; and *(c)* may have a standing charge or unit rate that varies (in a pre-defined way) in line with an independent published index, such as the RPI, or rate (such as the Bank of England base rate).In addition, suppliers cannot impose additional charges on domestic customers for costs that are directly related to energy supply,[53] except for the costs included in a specified list, which may be charged separately.[54]

The four-tariff rule

3. Under the conditions of their licence, gas and electricity suppliers must offer domestic customers at least one live evergreen tariff (the SVT) for each fuel.[55] In addition to their evergreen tariffs, they can under RMR offer a further three

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[51] SLC 22A.
[52] Suppliers can decide on the value of the standing charge, which can be zero.
[53] This would expressly include (but not be limited to) costs for billing, meter reading and data processing, the provision or rental of a meter, transmission and distribution of electricity, transportation and shipping of gas, and any form of electricity generation.
[54] This list covers one-off charges (where legally permitted): relating to statutory disconnection and rights of entry powers; charges relating to the installation, replacement or moving the position of a meter (but not charges for the provision/rental of a meter which will have to be incorporated in a unit rate or standing charge); termination fees; fees or charges related to the late payment of bills; connection charges; charges for replacement PPM cards or for additional copies of documentation; charges arising from telephone calls (which we understand will soon be regulated following the transposition of the Consumer Rights Directive), and any charges expressly required by legislation or licence conditions.
[55] This requirement is in part a result of SLC 22C.7, SLC 22D.7, SLC 22D.6, SLC 7 and SLC 22B.30.

electricity and three gas tariffs per metering arrangement per region (the 'four-tariff rule').[56]

4. Suppliers have a choice over whether a specific tariff is made available to both single fuel customers and dual fuel customers, or to dual fuel customers only. All single fuel tariffs can be offered as dual fuel bundles with a maximum of 16 (4 x 4) permutations (per metering arrangement per region) – although suppliers may be less likely to bundle tariffs of different lengths or with different features.

5. Suppliers are able to offer gas and electricity tariffs in a dual fuel bundle, even if these are not available as single fuel tariffs but, in order to comply with the duty to offer supply under a domestic supply contract,[57] they would have to offer at least one single fuel tariff. Any such dual fuel only tariffs count towards the cap of four tariffs they are able to offer under RMR. Dual fuel customers may receive a dual fuel discount, which is not constrained to be cost-reflective.

6. Suppliers also have a choice to specify the payment method available for each tariff (eg monthly direct debit, standing order, cash, cheque and payment by prepayment meter)[58] and whether the tariff attracts an online account management discount (including paperless billing). As regards the payment method, any difference in the terms and conditions (including prices) between payment methods must be cost-reflective.[59] Any cost differences must be made through adjustments either to the standing charge or unit rate. Any adjustment made to account for differences in the cost of providing a specific payment method must be the same for all of a supplier's tariffs where that payment method is offered, and must also be the same across all regions. Adjustments cannot be made in other ways (eg as a discount) and cannot be presented as a percentage of the total bill, unit rate or standing charge.

7. Each tariff might vary regionally to reflect, for example, network charges that vary by region,[60] but they have to be available to all customers within the region where the tariff is offered.

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[56] SLC 22B.
[57] SLC 22.
[58] Subject to suppliers' general obligation under SLC 27 (where applicable) to offer a wide choice of payment methods.
[59] SLC 27.2.A.
[60] The location could also mean specific premises, in exceptional circumstances.

Exemption to the four-tariff rule – collective switching

8. As explained above, under the conditions of their licence, gas and electricity suppliers are limited to offering domestic customers up to four core tariffs per fuel (electricity and gas), per metering arrangement and per region.

9. One of the objectives of RMR was to facilitate collective switching schemes[61] as Ofgem recognised that collective switching has the potential to benefit vulnerable and disengaged customers who could otherwise find it difficult to engage with the energy markets, and to deliver more competitive tariffs. To achieve this objective, Ofgem granted energy suppliers an exemption to the four-tariff rule in the context of collective switching schemes.

10. Suppliers are allowed to offer any number of fixed-term tariffs via a collective switching scheme, in addition to any of their four core tariffs, provided that such schemes fulfil certain requirements, including that they *(a)* are organised by a party that is not a licensed supplier or an affiliate; *(b)* follow a competitive and transparent process which is open to any licensed supplier to participate; *(c)* have a primary purpose of securing an electricity or gas offer that will attract the collective transfer of customers; and *(d)* have defined beginning and end dates by which customers must have signed up to the deal (such date being no longer than six months from the start date).

11. If the collective switching schemes do not fulfil these characteristics, the exemption to the four-tariff rule does not apply and, accordingly, any tariff offered counts towards the four-core-tariff cap.

Simplification of cash discounts

12. RMR simplified the cash discounts that suppliers can offer to domestic customers.[62] Suppliers are only allowed to offer two cash discounts: a dual fuel discount (ie a discount offered to customers who contract for both gas and electricity from the same supplier), and an online discount (ie a discount for online account management, provided it includes paperless billing). In addition, suppliers may offer dividend-type payments to customers based on a share of profits.

13. In particular, suppliers must ensure that both the dual fuel discount and the online discount: *(a)* are continuously applied (ie a discount must accumulate at the same rate over time, or in line with energy consumed); *(b)* are of the same monetary amount and subject to the same terms regardless of tariff

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[61] Collective switching is where customers group together, typically facilitated by an independent organisation which negotiates with multiple suppliers, to secure a deal on their energy supply.
[62] SLC 22B.

choice; and *(c)* are a monetary amount, expressed in £/year. In addition, the level of the discount or any other terms and conditions may not vary across tariffs or regions.

14. Dual fuel and online account management discounts do not have to be incorporated into the unit rate and standing charge and can be listed as separate line items in the Discount row of the TIL. Such discounts will generally be in the form of an amount deducted either monthly or annually from the customer bill. There are no restrictions as to the size of a dual fuel discount.

Clearer information

15. The RMR reforms resulted in a package of rules designed to provide customers with more relevant and useful information and to ensure that they have information on their energy costs, their energy tariffs and their consumption. These rules mainly affected routine supplier communications with customers, including bills,[63] annual statements,[64] price increase notices,[65] end of fixed-term notices,[66] dead tariff notices,[67]and mutual variation notices.[68]

Informative tools

16. RMR introduced a number of informative tools designed to ensure that all customers have, on a regular basis, all the relevant information to make appropriate decisions when their current tariff changes, or they are exploring alternative tariffs, and to ensure that such information is simple, easy to find, and easy to understand. The main informative tools introduced by RMR are a TCR, personal projections, the cheapest tariff messaging and a TIL.

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[63] The bill informs customers of how much they are required to pay using the available information on much they have consumed.
[64] The annual statement is a report on energy usage and cost over the past 12 months.
[65] The price increase notice is a letter sent to each customer when their contract is changing, whether due to an increase in price or other change which is to their disadvantage.
[66] A end of fixed-term notice is a letter sent to customers in advance of the date the fixed term period of their fixed term supply contract is due to end.
[67] The dead tariff notice is a letter sent to customers on dead tariffs, ie evergreen tariffs which are no longer open for new customers to sign-up to.
[68] A notice sent to customers where a supplier and a customer both agree to change a term in their contract (a mutual variation).

A tariff comparison rate[69]

24. The purpose of the TCR is to help customers to compare the costs of different energy tariffs by different suppliers. Suppliers are required to calculate a TCR for all tariffs (except time of use and excluded staggered charging tariffs) using a methodology set by Ofgem; present the TCR in all circumstances where they provide price information and where a comparative claim is made; and use the TCR on routine supplier communications with customers and marketing materials.

Personal projections[70]

17. Personal projections are designed to help customers to make accurate comparisons between suppliers on a like-for-like basis. The personal projection is a detailed customer-specific projection of the cost of a tariff in £/year. Suppliers are required to calculate a personal projection for all tariffs (except time of use and excluded staggered charging tariffs) using a methodology set by Ofgem, and use the personal projection in routine communications with customers and in all marketing materials.

Cheapest tariff messaging[71]

18. Cheapest tariff messaging (CTM) is a tool that provides customers with personalised information on the cheapest available tariff with their current supplier, including an estimate of how much the customer could save if they switched from their current tariff to alternative tariffs. Suppliers must provide the CTM in routine communications with customers. Among other things, the CTM must include an estimate of how much the customer would save (in pounds per year), if they changed from their current tariff to:

(a) a tariff which respects a customer's current preferences ('narrow' savings); and

(b) another tariff which is the overall cheapest of all tariffs supplied by that supplier ('wide' savings).

Tariff information label[72]

19. TIL is a tool that creates a standard way of presenting energy tariff features to assist customers to understand all the characteristics of a tariff and compare

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[69] SLC 31C
[70] SLC 31E.
[71] SLC 31A and SLC 31E.
[72] SLC 31B.

them across suppliers. Among other things, the TIL must include information on fuel type, supplier, tariff name, tariff type, payment method, unit rate, standing charge, tariff end date, the date a price is guaranteed until, any exit fees, discounts and surcharges, additional products or services, estimated annual cost for a medium user and the tariff's TCR. Suppliers must take all reasonable steps to update the TIL prior to any change to tariffs coming into effect.

Rules concerning routine communications

20. RMR also introduced new rules concerning individual routine communications with customers, in particular, bills;[73] annual statements;[74] price increase notices;[75] end of fixed-term notices;[76] dead tariff notices;[77] and mutual variation notices.[78] Such rules cover aspects such as the content, and how the information should be presented in routine communications with customers. In summary:

    (a) Bills must contain personalised information for the CTM, and personal projections on the first page. The second page must include a customer's tariff information such as tariff name, exit fees and their annual consumption. It must also include information on the TCR for the customers' current tariff, where applicable.

    (b) Annual statements must provide a range of information on a customer's energy costs and consumption in a specified layout. This includes information such as the CTM, where to find independent advice on switching, a version of the TIL and a graph of a customer's consumption over the last 12 or 24 months.

    (c) Price increase notices must contain two clear and easy to understand tables showing the price increase. These compare the previous and new rates and a comparison of the Personal Projections at the new and old rates.

    (d) End of fixed-term notices must include information on what the customer's tariff options are at the end of the current tariff and what will happen if the customer takes no action.

[73] SLC 31A.
[74] SLC 31A.
[75] SLC 23.
[76] SLC 22C
[77] SLC 22D.
[78] SLC 23A.

(e) Dead tariff notices must ensure that those customers who are on evergreen tariffs which are no longer open to new customers (ie dead tariffs) are aware of any changes to their tariff and understand what their tariff options are.

(f) Terms and conditions must provide greater customer protections for individual customers by ensuring that terms and conditions for contracts reflect the effect of the new rules.

White labels

21. Along with the RMR reforms, Ofgem implemented temporary arrangements for white labels that existed on 1 March 2013.[79] These arrangements exempt these white labels from some of the RMR rules (in particular, the four-tariff rule and information rules) and are due to expire at the end of December 2015. On 3 June 2015, Ofgem adopted a decision to implement, through the modification of standard licence condition 31D, new arrangements for both existing and new white labels in the domestic retail energy markets.[80] The new arrangements will take effect from 1 October 2015.

The four-tariff rule

22. As explained above, the domestic RMR introduced the four-tariff rule under which each supplier can have up to four domestic core tariffs per fuel and meter type in each region. The temporary arrangements excluded white labels that existed on 1 March 2013 from the application of the four-tariff rule, ie they do not count towards the partner supplier's tariff cap.[81] The introduction of the new arrangements will not change this situation as existing and new white label tariffs will remain outside the tariff cap. Therefore, there will be no restriction on the number of white labels that a domestic energy supplier can have and the tariff cap applies to each white label separately so that each white label can also have up to four domestic core tariffs per fuel and meter type in each region.

Information rules

23. The domestic RMR reforms also introduced rules to ensure that customers receive, and have access to, clear information. One of those rules is the CTM, under which suppliers are required, among other things, to inform customers

[79] SLC 31D of the gas and electricity supply licence.
[80] Ofgem (3 June 2015), *Treatment of white label providers in the domestic retail market*.
[81] Where a white-label tariff which existed on 1 March 2013 (and hence is exempted from the core tariff cap) is replaced with another white-label tariff of the same white label, this new white-label tariff is also exempted from the core tariff cap of the partner supplier.

of *(a)* their cheapest similar tariff and the estimated savings that customers could achieve by switching to this tariff (ie ‘narrow’ savings), and *(b)* their cheapest overall tariff and the estimated savings that customers could achieve by switching to this tariff (ie ‘wide’ savings).

24. The temporary arrangements for white labels in existence on or before 1 March 2013 treat white label tariffs as separate from their partner supplier. Accordingly, *(a)* a partner supplier is not obliged to inform its customers of white label tariffs, and *(b)* white labels are not obliged to inform white-label customers of tariffs offered under the partner supplier’s brand. To ensure a higher degree of transparency about the cheapest tariff offered by suppliers, the new arrangements *(a)* require partner suppliers to include their white-label tariffs in the calculation of the ‘wide’ savings to all customers, and *(b)* require white labels to include the tariffs offered under the partner supplier’s own brand in the ‘wide’ savings, but not the tariffs of any other white label of its partner supplier.