Regulatory Policy Committee	**Opinion**	
Impact Assessment (IA)	Legislation to require energy suppliers to provide key, personal information on consumer bills in a machine readable format	
Lead Department/Agency	Department for Energy and Climate Change	
Stage	Final	
IA number	DECC0152	
Origin	Domestic	
Expected date of implementation	October 2014 SNR 8	
Date submitted to RPC	23 July 2014	
RPC Opinion date and reference	14 August 2014	RPC13-DECC-1962(3)
Departmental Assessment		
One-in, Two-out status	**IN**	
Estimate of the Equivalent Annual Net Cost to Business (EANCB)	**£1.2 million**	
RPC Overall Assessment	**GREEN**	

RPC Comments

The IA is fit for purpose. The RPC can validate the estimated impact on business.

The Department has addressed the concerns expressed by the Committee about the Small and Micro Business Assessment (SaMBA) in its previous opinion (10 July, RPC13-DECC-1962(2)). The Department has responded by proposing to exempt small and micro businesses (based on market share) from the requirements of the measure.

Background (extracts from IA)

What is the problem under consideration? Why is government intervention necessary?

"The majority of domestic gas and electricity consumers do not engage in the retail electricity and gas markets through switching their energy supplier. The Office for Gas and Electricity Markets (Ofgem) estimated in its Retail Market Review (RMR) that only

5-10% of customers are proactive switchers. This lack of engagement and switching leads to the market not operating as effectively as it could, potentially resulting in higher prices for consumers due to a lack of competitive pressure. As identified by Ofgem in its RMR, one of the key barriers to effective consumer engagement in the retail energy market is a lack of clarity in the information provided by suppliers on tariff options and energy usage. Customers of the largest six energy suppliers can currently, if they are able to do so electronically, access key data on their energy consumption, tariff and expenditure electronically through the BIS led Midata programme. However, Government is concerned that the associated engagement benefits are currently inaccessible to other consumer segments. Government intervention is necessary because suppliers do not have sufficient incentives to voluntarily provide customers with their own data in an accessible, machine readable format."

What are the policy objectives and the intended effects?

"The Government's objective is to take appropriate action to ensure that almost all domestic retail energy consumers (i.e. not just customers of the largest six energy suppliers who can receive data electronically) benefit from access to key data on their own energy consumption, tariff and expenditure in a form which is clear, easy to understand and facilitates frictionless data transfer. Data provided in this format would help overcome an informational barrier to consumer engagement, bringing about additional benefits to those brought about by Ofgem's implementation of its RMR proposals. Third sector volunteers, providing vulnerable consumers with 'assisted action' through the Big Energy Saving Network and other third sector led outreach events, should also be able to make use of the machine readable information to encourage switching. Machine readable formats will also allow third party intermediaries (TPIs) to develop services and products which help consumers, by frictionlessly [sic] *uploading and analysing their data for them to provide tailored cross-market tariff comparisons. As a result, domestic consumers will be privy to quicker, easier tariff comparisons which should lead to increased switching within and between suppliers. In turn, this should increase competitive pressure in the retail energy market, thereby making it operate more effectively in the interests of consumers."*

Comments on the robustness of the OITO assessment

The IA says that this is a regulatory proposal that would impose a net cost to business (an 'IN') with an estimated equivalent annual net cost to business of £1.2 million. The assessment is consistent with the Better Regulation Framework Manual (paragraph 1.9.10) and, based on the evidence presented, appears to provide a reasonable assessment of the likely impacts.

Comments on the robustness of the Small & Micro Business Assessment (SaMBA)

The proposals increase the scope of regulation on business. Therefore, a SaMBA is required.

Following concerns expressed by the Committee on the SaMBA in its previous Opinion (10 July, RPC13-DECC-1962(2)), the Department has responded by proposing to exempt small and micro businesses from the requirements of the proposal. The SaMBA is now sufficient.

The Department estimates that there are 10 small or micro businesses with a market share of around 0.4% (amounting to around 112,000 customer accounts). If the direct monetised costs of this policy were borne by all suppliers without any exemption, these small and micro business suppliers would be expected to bear around 4.2% of the one-off set-up and close-down costs associated with this policy – around £149,000 in total; and 0.4% of the recurring annual costs of this policy – around £900 in total (paragraph 131).

The Department explains that it is proposing to introduce the exemption "…*based upon the number of customer accounts a supplier has rather than the number of* [Full Time Equivalents] *FTEs they have. This is because, where there are existing policy exemption thresholds, these are defined in terms of customer accounts and not on the basis of number of FTEs employed"* (paragraph 134). The Department adds that *"…setting the exemption based on the number of FTEs would add a layer of complexity into the retail energy market, creating a new measurement for Licence holders and the Regulator to understand, interpret, report on and enforce against"* (paragraph 135). The Department proposes to exempt *"…suppliers with fewer than 50,000 customers for a given fuel…from the policy with regards to bills and statements of account relating to that fuel"* (paragraph 136).

The Department estimates, therefore, that the *"…proposed exemption will cover the smallest 12 energy suppliers (with a total market share of around 0.5%, or roughly 171,000 customer accounts), including the 10 which are believed to be small or micro businesses. Although this does mean that 2 energy suppliers will be exempt, which are not technically small or micro businesses…the Government is taking a conservative approach to be highly confident that the exemption will cover all small and micro businesses for the duration of the policy"* (paragraph 137). The RPC is satisfied with this approach.

Quality of the analysis and evidence presented in the IA

The objective of the proposal is to require energy providers to place a 2cm x 2cm machine readable image, such as a bar code or Quick Response (QR) code, on all domestic retail consumers' paper energy bills. The Department does not specify the required machine readable format. When scanned by a generic reader, this image will provide access to 12 key pieces of consumption data in a manner that is easy to understand.

The proposal will affect energy suppliers (13 non-exempt energy companies, including the largest six suppliers), who will face one-off transition costs, on-going printing costs and one-off close-down costs after five calendar years, when the policy will effectively end with the introduction of smart meters.

The Department has provided a comprehensive overview of the costs to business which are broken down as follows:

- *Transition costs:* will include acquiring software to produce the machine readable image, redesigning the bill and changing the bill generation and printing processes. The Department's analysis assumes that there will be no software costs to energy suppliers because free, open source software is readily available to generate QR codes, and to generate alternative machine readable formats, such as UPC (Universal Product Codes) barcodes. Consultation responses have indicated that redesigning the bill and changing the process for generating and printing consumer bills will cost £1.9 million for the largest six energy suppliers. The Department estimates the total one-off costs to the remaining 7 non-exempt suppliers (i.e. not including the largest six energy suppliers) to be around £1.5 million.

- *Ongoing costs:* the Department's analysis estimates that the proposal will affect 64.7 million paper bills or statements of account. Printing costs will increase by between 0.25p and 0.51p per machine readable image – the Department estimates the annual costs to business to be £246,000.

- *Close-down costs:* these are expected because the policy will come to an end in 2019. The Department anticipates that suppliers will face further one-off costs associated with redesigning the bill and changing the bill generation and printing processes, such that machine readable images are no longer generated and printed. Given a lack of evidence coming from the consultation responses, the analysis assumes that the one-off close-down costs will be equal to the set-up costs.

The Department estimates the resultant NPV as -£7.2 million over five years, excluding non-monetised benefits. The equivalent annual net cost to business (EANCB) is £1.2 million. The RPC can validate the estimated impact on business.

Signed **Michael Gibbons,** Chairman