

<b>Title:</b> <b>Third Package: Articles concerning provision of consumer information</b>  <b>Lead department or agency:</b> Department for Energy and Climate Change <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>
	<b>IA No:</b> DECC0004
	<b>Date:</b> 14/01/2011
	<b>Stage:</b> Final
	<b>Source of intervention:</b> EU
	<b>Type of measure:</b> Other
<b>Contact for enquiries:</b> Marina.Pappa@decc.gsi.gov.uk Luke.Davison@decc.gsi.gov.uk	

## Summary: Intervention and Options

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

There are several articles in the EU 3rd Package which are intended to increase the information available to consumers and therefore enable consumers to make more informed decisions when they choose tariffs and suppliers. These include providing transparent consumption data to consumers based on actual readings, making information available about dispute settlement mechanisms and complaints and providing a consumer energy checklist. There is an additional requirement on suppliers to keep certain data at the disposal of the regulatory authorities. In some areas, there is currently no obligation on suppliers and Ofgem to ensure that these requirements are met. It is therefore necessary for Government to put in place measures in the form of formal obligations to comply with the Directives.

### What are the policy objectives and the intended effects?

These measures are designed to improve the quality and quantity of the information available to consumers on both their individual consumption, consumer rights and industry processes. Greater transparency and consumer awareness is a driver of competitive energy supply markets. In the long term these measures may enable consumers to better act as a competitive constraint on suppliers' pricing and provide strong incentives on suppliers to reduce costs, improve service and develop innovative products.

### What policy options have been considered? Please justify preferred option (further details in Evidence Base)

The Government has taken a light-touch approach to ensure that it does the minimum required to comply with the requirements of the Directives. The preferred option includes, but is not limited to, the following measures:

- Introduce an obligation on energy suppliers so that where a customer provides a meter reading, and provided that the supplier is satisfied that this data is reasonable, the supplier should either send an updated bill to that customer or reflect this reading in the customer's next bill.
- Amend Supply Licence to require energy suppliers to inform consumers that they can complain using the suppliers' complaints procedure and they can obtain a copy, and include this information in promotional materials.
- Place a new obligation on energy suppliers to hold and make available to Ofgem data on all transactions in gas and electricity supply contracts and gas derivatives.

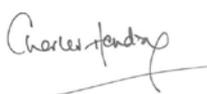
Our preferred option captures all the benefits discussed, while imposing minimum costs on business.

<b>When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?</b>	Please refer to over-arching IA
<b>Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?</b>	No

**Ministerial Sign-off** For Final Impact Assessments:

***I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.***

Signed by the responsible Minister:



Date: 12/01/2011

# Summary: Analysis and Evidence

# Policy Option 1

## Description:

Implement Option 1 (the minimum-compliance option) for all measures.

Price Base Year 2010	PV Base Year 2010	Time Period Years 1	Net Benefit (Present Value (PV)) (£m)		
			Low: -2.5	High: 0	Best Estimate: -1.25

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	N/A	0
High	2.5	N/A	2.5
Best Estimate	1.25	N/A	1.25

### Description and scale of key monetised costs by 'main affected groups'

The monetised costs are not expected to be large. The cost estimate covers the necessary system changes in the eventuality that all the suppliers are not compliant with the obligation to hold 5 years worth of transaction data. The costs will be closer to zero depending on the current level of compliance amongst suppliers. The one-off set-up costs for Consumer Focus<sup>1</sup> of the Energy consumer checklist is expected to be in the range of £20-25,000.

### Other key non-monetised costs by 'main affected groups'

There will be some additional costs for suppliers from including updated meter readings in an annual statement; customers contacting them requesting them to pass their consumption data to another supplier; and potentially more customers utilising the dispute mechanism.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	N/A	N/A	N/A
High	N/A	N/A	N/A
Best Estimate	N/A	N/A	N/A

### Description and scale of key monetised benefits by 'main affected groups'

### Other key non-monetised benefits by 'main affected groups'

We expect there to be a direct benefit to consumers who change their consumption patterns as a result of consumption information and improve the services received from suppliers as a result of access to information on complaints procedures. There may be additional, intangible benefits to consumers as these measures are designed to improve the access and quality of information, which could result in an increase in consumers' market power and lead to greater competition in the supply industry.

### Key assumptions/sensitivities/risks

Discount rate (%) 3.5

There is a risk that customers will suffer from information overload and therefore not realise the benefits of these measures.

The costs presented are illustrative based on previous published information in a 2008 impact assessment on the costs of providing historical consumption data in energy bills. There is significant uncertainty as to the complexity of any system changes needed to record 5 years worth of data and the proportion of suppliers who are already compliant.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB:	AB savings:	Net:	Policy cost savings:	Yes

<sup>1</sup> The Government intends to consult on the future of consumer bodies. Should this consultation result in changes to the role or status of Consumer Focus, we would expect this work to be carried out by any successor body.

## Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	Great Britain				
From what date will the policy be implemented?	01/03/2011				
Which organisation(s) will enforce the policy?	Ofgem				
What is the annual change in enforcement cost (£m)?	N/A				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	No				
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)	<b>Traded:</b> N/A		<b>Non-traded:</b> N/A		
Does the proposal have an impact on competition?	Yes				
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	<b>Costs:</b> N/A		<b>Benefits:</b> N/A		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	<b>Micro</b>	<b>&lt; 20</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>
Are any of these organisations exempt?	No	No	No	No	No

## Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
<b>Statutory equality duties<sup>2</sup></b> <a href="#">Statutory Equality Duties Impact Test guidance</a>	Yes	8
<b>Economic impacts</b>		
Competition <a href="#">Competition Assessment Impact Test guidance</a>	Yes	6
Small firms <a href="#">Small Firms Impact Test guidance</a>	No	N/A
<b>Environmental impacts</b>		
Greenhouse gas assessment <a href="#">Greenhouse Gas Assessment Impact Test guidance</a>	No	N/A
Wider environmental issues <a href="#">Wider Environmental Issues Impact Test guidance</a>	No	N/A
<b>Social impacts</b>		
Health and well-being <a href="#">Health and Well-being Impact Test guidance</a>	No	N/A
Human rights <a href="#">Human Rights Impact Test guidance</a>	Yes	8
Justice system <a href="#">Justice Impact Test guidance</a>	Yes	8
Rural proofing <a href="#">Rural Proofing Impact Test guidance</a>	No	N/A
<b>Sustainable development</b> <a href="#">Sustainable Development Impact Test guidance</a>	No	N/A

<sup>2</sup> Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

## Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

### References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	<a href="#">European Commission Impact Assessment on Third Legislative Package</a>
2	<a href="#">Consultation on the Implementation of the EU Third Internal Energy Package</a>
3	<a href="#">EU Third Package Consultation Stage Impact Assessment</a>
4	<a href="#">DECC's Call for Evidence</a>

+ Add another row

### Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

#### Annual profile of monetised costs and benefits\* - (£m) constant prices

	Y <sub>0</sub>	Y <sub>1</sub>	Y <sub>2</sub>	Y <sub>3</sub>	Y <sub>4</sub>	Y <sub>5</sub>	Y <sub>6</sub>	Y <sub>7</sub>	Y <sub>8</sub>	Y <sub>9</sub>
<b>Transition costs</b>	N/A									
<b>Annual recurring cost</b>	N/A									
<b>Total annual costs</b>	N/A									
<b>Transition benefits</b>	N/A									
<b>Annual recurring benefits</b>	N/A									
<b>Total annual benefits</b>	N/A									

\* For non-monetised benefits please see summary pages and main evidence base section



Microsoft Office  
Excel Worksheet

# Evidence Base (for summary sheets)

## Issue

There are several requirements in the EU 3<sup>rd</sup> Package which are intended to increase the information available to consumers and therefore enable consumers to make more informed decisions when they choose tariffs and suppliers. The UK is currently not compliant with some of these requirements in that there are no formal arrangements in place and it is therefore necessary to amend Licence Conditions in order to ensure compliance.

This impact assessment will first examine the requirements relating to consumer information with which the UK is currently non-compliant, and will then discuss the options available to ensure compliance and the associated costs and benefits.

All of these measures are designed to improve the quality and quantity of the information available to consumers on both their individual consumption, consumer rights and industry processes. Greater transparency and consumer awareness is a driver of competitive energy supply markets. In the long term these measures may enable consumers to better act as a competitive constraint on suppliers' pricing and provide incentives on suppliers to reduce costs, improve service and develop innovative products.

## Articles and Associated Options

### Availability of consumption data

Article 3 (5b) of the Electricity Directive (ED) and 3(6) of the Gas Directive (GD) requires Member States to ensure that customers are entitled to receive all relevant consumption data. In addition, Article 1 (i) of Annex 1 of both the Electricity and Gas Directives require Member States to ensure that customers are properly informed of actual consumption and costs frequently enough to enable them to regulate their own consumption. This information must be given using a sufficient time frame which takes account of the capability of customer's metering equipment (and the electricity production in question). Due account must be taken of the cost-efficiency of such a measure. No additional costs shall be charged to consumers for that service.

In order to comply with the requirement to provide consumers with consumption data the following options have been considered, with Option 1 being our preferred Option.

- Option 1: Introduce an obligation on energy suppliers so that where a customer provides a meter reading, and provided that the supplier is satisfied that this data is reasonable, the supplier should either send an updated bill to that customer or reflect this reading in the customer's next bill (unless the next bill is due in a matter of days). This updated consumption data should also be reflected in the customer's annual statement.
- Option 2: Introduce an obligation on energy suppliers so that where a customer provides a meter reading the supplier should send an updated bill to that customer.

In addition, to implement the requirement of paragraph (h) in Annex 1, which gives a right to customers to contact their supplier to request them to pass on their consumption data to another supplier, we propose introducing a new Licence Condition to give customers a right to contact their supplier to request them to pass on their consumption and metering data to another supplier, free of charge.

### Consumer rights regarding dispute settlement

Article 3(9) (c) of the Electricity Directive lays down a new requirement on Member States to ensure that information concerning consumer rights regarding the means of dispute settlement available to them are specified in or with bills and in promotional materials.

In order to comply with this requirement the following option has been considered. This is the only option considered as it is the minimum compliance option.

- Option 1: Amend Supply Licence to require energy suppliers to inform consumers that they can complain using the suppliers' complaints procedure and how they can obtain a copy. Suppliers would be required to include this information in promotional material and in or with bills.

## Energy consumer checklist

Article 3(16) of the Electricity Directive and 3(12) of the Gas Directive requires energy suppliers in co-operation with the regulatory authority to take the necessary steps to provide the consumers with a copy of the energy consumer checklist and ensure that it is made publicly available.

In order to comply with this requirement the following option has been considered. This is the only option we have considered as it is the minimum compliance option.

- Option 1: Give Consumer Focus<sup>3</sup> the lead role of compiling and maintaining the checklist in co-operation with the industry and Ofgem. Suppliers to annually send their customers a concise list of the checklist, prepared by Consumer Focus.

## Record Keeping

Article 41 of the Electricity Directive and Article 45 of the Gas Directive set out a number of requirements on Member States to require energy suppliers to keep at the disposal of the national authority, the national competition authorities and the Commission, for the fulfilment of their tasks, for at least 5 years, the relevant data relating to all transactions in gas and electricity supply contracts and gas derivatives with wholesale customers and transmission systems operators as well as storage and LNG operators or any party who sells electricity/gas to the licensee.

In order to comply with this requirement the following option has been considered. This is the only option considered as it is the minimum compliance option.

- Option 1: Place a new obligation on energy suppliers to hold this information.

## Preferred Option

In order to minimise the costs to energy suppliers and Ofgem we intend to implement Option 1 of all these measures which we believe is the minimum-cost option, while still achieving the benefit discussed below.

## Benefits

All the measures discussed above are aimed at improving the quality and accessibility of information to consumers. While it is difficult to quantify the benefits directly, we can make a qualitative assessment of the benefits of each of the different measures.

The first measure (availability of consumption data) is intended to make consumers better aware of their consumption patterns. This should allow them to regulate their consumption more effectively. This in turn will enable consumers who take advantage of the updated bill to pick more appropriate tariffs and adjust their consumption to maximise their satisfaction. This may also enable consumers to make more informed decisions when choosing suppliers, while promoting competition in the supply market.

The second measure (consumer rights regarding dispute settlement) is intended to improve awareness of dispute settlement mechanisms and improve access to them. This should have a direct impact on consumers who wish to complain through a reduction in search costs. In addition this could potentially lead to a reduction in market power of suppliers as consumers become better aware of their rights. As industry already complies with this measure, we expect the benefit to be small.

The third measure (the consumer checklist) is intended to provide consumers with an easily accessible source of information regarding their rights as consumers. As mentioned above this could potentially lead to a reduction in market power of suppliers as consumers become better aware of their rights. There is, however, a risk that this may lead to information overload and confusion which would limit the benefits of this measure.

The fourth measure (record keeping) is intended to improve transparency in the retail market in order to facilitate access. As with the previous measures this is intended to improve information and, in turn,

---

<sup>3</sup> See Footnote 1

competition in the market place. By making information available to the regulator this measure is primarily designed to aid with the prevention of abuse of market power.

The questions for a competition impact test provided by the OFT are, would the proposed policy:

1. Directly limit the number or range of suppliers?
2. Indirectly limit the number or range of suppliers?
3. Limit the ability of suppliers to compete?
4. Reduce suppliers' incentives to compete vigorously?

We do not consider that our proposals would restrict competition, therefore a full competition impact test has not been completed. However, this policy could have positive competition impacts following from more informed consumers being better able to act as a constraint on suppliers.

It is important to note that some of this information will be more accessible to consumers following the roll-out of smart meters regardless of implementation of these measures.

## Costs

These measures will impose mainly administrative costs on the energy supply companies and Ofgem. Where possible we have attempted to make a quantitative assessment of the costs involved with each measure and where this has not been possible we have made a qualitative assessment of the costs involved.

## Availability of consumption data

We have considered two options regarding consumption data.

- Option 1: Introduce an obligation on energy suppliers so that where a customer provides a meter reading, and provided that the supplier is satisfied that this data is reasonable, the supplier should reflect this reading in the customer's next bill (unless the next bill is due in a matter of days). This updated consumption data should also be reflected in the customer's annual statement.

Suppliers are currently required to visit customers at least once every two years, and as part of this visit a meter reading must be taken. However in practice most suppliers will visit customers much more frequently. Customers are also able to call in suppliers with their own meter readings.

Responses to the Call for Evidence and subsequent consultation have suggested that it is already standard practice within the industry to take account of consumer provided meter readings in the next bill, thus we would not expect this option to have any additional costs associated with it. However, there will be some additional costs for including updated meter readings in the annual statement.

- Option 2: Introduce an obligation on energy suppliers so that where a customer provides a meter reading the supplier should send an updated bill to that customer.

The direct cost associated with this measure would be on suppliers due to the re-issuing of bills. Information from suppliers has indicated that this option may cost suppliers in the order of several million pounds per year.

As Option 1 leads to similar benefits as Option 2, but at a lower cost to suppliers, this is our preferred option.

In addition, in order to implement the requirement of paragraph (h) in Annex 1, which gives a right to customers to contact their supplier to request them to pass on their consumption data to another supplier, we propose introducing a new Licence Condition to give customers a right to contact their supplier to request them to pass on their consumption and metering data to another supplier, free of charge. While we are unsure at this stage how this would work in practice and the specific costs and scale of the costs involved, overall we expect that there will be some benefits to consumers by being offered tariffs by perspective suppliers; we expect that this measure will also increase competition between the suppliers.

## Consumer rights regarding dispute settlement

We have considered only one option regarding dispute settlement procedures.

- Option 1: Amend Supply Licence to require energy suppliers to inform consumers that they can complain using the suppliers' complaints procedure and how they can obtain a copy. Suppliers would be required to include this information in promotional material and in or with bills.

This option should have limited impact on suppliers as some of the information is already provided on promotional material.

There may also be an indirect effect due to a greater number of consumers utilising the dispute mechanism process as a result. However it is difficult to quantify the costs of this, as we are unable to estimate how many additional customers may use the process.

## **Energy consumer checklist**

We have considered only one option regarding the energy consumer checklist.

- Option 1: Give Consumer Focus<sup>4</sup> the lead role of compiling and maintaining the checklist in co-operation with the industry and Ofgem. Industry will be required to provide consumers with a copy of the checklist.

In addition, there will be a one-time small cost to Consumer Focus for compiling the checklist, and an ongoing cost of maintaining it. There may be some small costs to industry and Ofgem associated with co-operating with Consumer Focus on the compilation of the list. Ofgem estimates that its costs of cooperating with Consumer Focus on this will be minimal.

There may also be costs associated with providing the consumer checklist to customers. We assume that this will be done as part of billing; however there will be additional costs associated with designing, printing and mailing the checklist.

## **Record Keeping**

We have considered only one option regarding record keeping.

- Option: Place a new obligation on energy suppliers to hold this information.

The main cost of this measure will fall on suppliers. There will be a one-time cost for setting up the databases, along with ongoing costs for maintaining them. The Commission will provide more information on how companies will be required to keep the data. It is possible, therefore, that as a result suppliers may have to create new systems which would potentially be quite costly.

Given this uncertainty, regarding the need to adapt systems, it is difficult to estimate a cost. However using evidence from an earlier published Impact Assessment (2008) regarding the provision of historic consumption data on bills we can set out what we believe to be an upper limit on those costs. In 2010 prices the one-off cost presented for bill and system re-design are £9.8 million. The proposed system changes in this case are expected to be significantly less complex, and it is possible that a number of suppliers already hold the data. Therefore the additional costs would be only borne by a proportion of suppliers. As a working assumption for this Impact Assessment we are assuming an upper bound of no more than £2.5 million.

This measure could potentially impose a significant administrative burden on suppliers, depending on the number of data requests made by Ofgem, the competition authorities and the Commission.

## **Information to be included in contracts with customers**

We have considered only one option on the measure regarding information to be included in contracts with customers.

Option 1: Amend the Supply Licence to ensure the matters specified in paragraph 1 (a) of Annex 1 are always explicitly addressed on the face of the contract.

We expect there will be some cost to suppliers for having to include this information in contracts with customers.

---

<sup>4</sup> See Footnote 1

## **Human Rights**

To the extent that human rights may be engaged, we consider the approach to be compatible with the Human Rights Act 1998

## **Statutory Equalities Duties**

The policy does not make a specific reference to how blind people or other groups that are not able to access standard billing information will be treated. We consider that the Supply Licence Conditions 26.2 and 26.3 requiring the licensee (the supplier) to provide information free of charge, which enables blind, partially sighted, deaf or hearing impaired people to ask or complain about any bill or statement of account or any other service provided to that consumer, addresses these concerns.

## **Justice System**

The Third Package is broadening the scope of obligations on gas and electricity undertakings and hence Ofgem's enforcement regime. As part of this regime, we are extending the scope of civil and criminal offences therefore there is a likely impact on courts' resources.

## Annexes

### Annex 1: Post Implementation Review (PIR) Plan

Please refer to the overarching impact assessment.

<b>Basis of the review:</b>
<b>Review objective:</b>
<b>Review approach and rationale:</b>
<b>Baseline:</b>
<b>Success criteria:</b>
<b>Monitoring information arrangements:</b>
<b>Reasons for not planning a PIR:</b>