

**EXPLANATORY MEMORANDUM TO**  
**THE ELECTRICITY AND GAS (BILLING) REGULATIONS 2008**  
**2008 No.1163**

**1.** This explanatory memorandum has been prepared by The Department for Business, Enterprise and Regulatory Reform and is laid before Parliament by Command of Her Majesty.

**2. Description**

2.1 The Regulations will amend the Standard Licence Conditions of electricity and gas supply licences. The amendments will require suppliers to provide domestic customers with historical consumption information on their bills or statements of account. The information required is a comparison of a customer's energy or gas consumption covered by the period of the bill or statement with that for the corresponding period in the previous year.

**3. Matters of special interest to the Joint Committee on Statutory Instruments**

3.1 None

**4. Legislative Background**

4.1 The Regulations are being made to implement Article 13(3)b of Directive 2006/32/EC on Energy End-Use Efficiency and Energy Services Directive (ESD). This requires Member States to ensure that, where appropriate, comparative information is made available on or with bills showing the customer's consumption for the same period in the previous year, preferably in graphical form.

4.2 An extract from the ESD Transposition Note covering Article 13(3)b is attached at Annex A.

4.3 The ESD was cleared from scrutiny by the House of Commons in March 2005 and the House of Lords in October 2005. The relevant Explanatory Memoranda are EM 16261/03 and SEM 16261/03.

**5. Territorial Extent and Application**

5.1 These Regulations extend to Great Britain.

**6. European Convention on Human Rights**

6.1 As the instruments are subject to negative resolution procedure and do not amend primary legislation, no statement is required.

## 7. Policy background

7.1 The EU Energy End-Use Efficiency and Energy Services Directive (ESD), agreed in December 2005, requires Member States to develop national action plans for achieving a 1% target for saving energy from end-users (that is, final customers). The Directive also contains a series of provisions designed to improve energy efficiency. Within Article 13 of the Directive there is a specific requirement for Member States to ensure that, where appropriate, energy suppliers make available on bills comparative historic information.

7.2 The Energy White Paper (May 2007) set out the Government's proposal for suppliers to provide customers with historic information, preferably in graphical form, comparing energy use in one period with the same period in the previous year. This addressed the ESD requirement for the provision of such data, but was also intended to contribute to the Government's own carbon emissions reduction targets.

7.3 Along with other energy billing and metering proposals, the proposal for provision of historic consumption data was subject to a consultation in August 2007. There was broad support from respondents to the proposal, provided that flexibility were allowed in its provision, for instance, in terms of whether the information were provided graphically or not. There were ninety-eight responses to the consultation. Approximately one-third of these commented specifically on the proposal for the provision of historic data, with nearly all broadly in favour.

7.4 Following consideration of the consultation responses, the Government has decided to implement the proposal. The requirement will be to provide historic information, which compares energy usage in one billing period with the same period the previous year, on all domestic customers' energy bills or statements or, for those customers with internet-based contracts, electronically. Where estimates are used in making the comparison this must be made clear on the bill, for both the billing period and the comparison period.

7.5 In the consultation document, the Government stated a preference for the information to be provided in graphical form. It said, however, that it would not make this a requirement, as it recognised that energy suppliers should be allowed the flexibility to innovate and differentiate their offers in these areas. The Government also said that the data provided might cover total energy used over the comparative period or be average data (that is, a simple comparison of total energy use between two or more periods or a comparison using average daily, weekly etc use). It has not changed its position on either of these matters as a result of the consultation.

7.6 The requirement does not cover business customers, as the Government recognises that business customers' circumstances, needs and requirements differ from those of domestic customers. There is a growing market in energy services to business customers, and the Government envisages the provision of other measures that would incentivise carbon-saving in this sector. However, it has seen no evidence that provision of comparative historical information of the kind required by this Statutory Instrument would be likely to induce behavioural change in the business sector.

7.7 The requirement will come into force in 1 January 2009. The Government wishes to introduce this measure as soon as possible to maximise the potential for reduction in

carbon emissions, but recognises that energy suppliers require a certain amount of time to make the necessary billing systems changes.

7.8 Since the proposals are being implemented through amendments to the conditions of electricity and gas supply licenses, they would be enforced by Ofgem through the existing license enforcement mechanisms set out in the Electricity Act 1989 and the Gas Act 1986.

7.9 The change is not politically or legally important.

7.10 There is no significant public interest in the policy. Respondents to the consultation who commented on the proposal were, in the main, stakeholders such as energy suppliers or environmental organisations.

7.11 No additional guidance will be produced for electricity and gas suppliers, or other stakeholders. Stakeholders are aware of the proposals as a result of the consultation. The Supply Licence Conditions will provide sufficient instruction to suppliers.

## **8. Impact**

8.1 The Impact Assessment produced for the Energy Billing and Metering is attached to this memorandum at Annex B. This was updated following the consultation.

8.2 There is no impact on the public sector as these Statutory Instruments apply only to private sector businesses.

## **9. Contact**

9.1 Phil Nash at the Department for Business, Enterprise and Regulatory Reform, Tel: 020 7215 5049 or e-mail: phil.nash@berr.gsi.gov.uk, can answer any queries regarding the instrument.

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>BERR</b>	<b>Title:</b> <b>Impact Assessment of Provision of Historic Consumption Data on Energy Bills</b>	
<b>Stage:</b> Final	<b>Version:</b> Final	<b>Date:</b> 22 April 2008
<b>Related Publications:</b> Metering and Billing Consultation, August 2007		

### Available to view or download at:

<http://www.>

**Contact for enquiries:** Phil Nash

**Telephone:** 7215 5049

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

The lack of information on energy consumption may prevent consumers from taking informed decisions on energy usage to reduce consumption and thereby bills and carbon emissions. In addition, Article 13(3)b of the Energy Services Directive requires Member States to ensure that, where appropriate, comparisons of a customer's current energy consumption with consumption for the same period in the previous year is provided by energy suppliers in or with their bills.

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

The objective is to provide consumers with better information on energy usage to encourage energy efficiency and to reduce carbon emissions. The policy is also intended to fulfil the Government's obligation under Article 13(3)b of the Energy Services Directive.

### What policy options have been considered? Please justify any preferred option.

Doing nothing - This would lose potential cost-effective energy and carbon saving opportunities and risk infringement for failure to implement a requirement of the Energy Services Directive.

Increase billing or meter reading frequency - This could improve bill quality but the additional cost of meter reading would incur greater costs than the chosen policy option without additional carbon reduction benefits. We would also still risk infringement for failure to implement a requirement of the Energy Services Directive

Implement the requirement in a prescriptive way or allow energy suppliers flexibility - These options were considered as ways of implementing the selected policy. Implementing in a prescriptive manner may lead to sub-optimal delivery as energy suppliers have different bill styles and understand their customer needs better than Government. A flexible approach will allow suppliers to implement the policy in the most cost-effective way whilst selecting the format that will have the maximum impact on consumers.

### When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? In 2011.

**Ministerial Sign-off:**

***I have read the Impact Assessment and I am satisfied that the benefits justify the costs.***

Signed by the responsible Minister:

Malcolm Wicks

.....Date: 23<sup>rd</sup> April 2008

## Summary: Analysis & Evidence

<b>Policy Option: Better Billing</b>	<b>Description: Provision of Historic Consumption Data on Energy Bills</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups'  One-off costs to energy suppliers for bill and system re-design.
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	£ 9.4m	5	
	<b>Average Annual Cost</b> (excluding one-off)		
	£ 0.1m		<b>Total Cost (PV) £ 10m</b>
Other <b>key non-monetised costs</b> by 'main affected groups' Suppliers and consumers – addition of more information to domestic utility bills may make bills more complex and difficult to interpret.			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' Domestic consumers: continuous benefits: emissions savings, energy use reduction
	<b>One-off</b>	<b>Yrs</b>	
	£		
	<b>Average Annual Benefit</b> (excluding one-off)		
	£ 12.9m		<b>Total Benefit (PV) £ 360m</b>
Other <b>key non-monetised benefits</b> by 'main affected groups'			

**Key Assumptions/Sensitivities/Risks** Costs annuitised using 5 year cost recoup principle and 10% cost of capital. Behavioural responses (central case) 0.25 reduction in consumption, persisting for 15 years. Effectively 99% of market is dominated by large companies.

Price Base Year 2005 2007	Time Period Years 27	<b>Net Benefit Range (NPV)</b> £ 90m-890m	<b>NET BENEFIT (NPV Best estimate)</b> £ 350m
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What is the geographic coverage of the policy/option?	GB				
On what date will the policy be implemented?	1/1/09				
Which organisation(s) will enforce the policy?	Ofgem				
What is the total annual cost of enforcement for these organisations?	£ N/A				
Does enforcement comply with Hampton principles?	N/A				
Will implementation go beyond minimum EU requirements?	No				
What is the value of the proposed offsetting measure per year?	£ 0				
What is the value of changes in greenhouse gas emissions?	£ 100m				
Will the proposal have a significant impact on competition?	No				
Annual cost (£-£) per organisation (excluding one-off)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">Micro n/a</td> <td style="width: 25%; text-align: center;">Small n/a</td> <td style="width: 25%; text-align: center;">Medium n/a</td> <td style="width: 25%; text-align: center;">Large n/a</td> </tr> </table>	Micro n/a	Small n/a	Medium n/a	Large n/a
Micro n/a	Small n/a	Medium n/a	Large n/a		
Are any of these organisations exempt?	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;">N/A</td> <td style="width: 25%; text-align: center;">N/A</td> <td style="width: 25%; text-align: center;">N/A</td> <td style="width: 25%; text-align: center;">N/A</td> </tr> </table>	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A		

**Impact on Admin Burdens Baseline** (2005 Prices)

(Increase - Decrease)

Increase of £ 0.1m

Decrease of £ 0

**Net Impact £ 0.1m**

Key:

Annual costs and benefits: Constant Prices

(Net) Present Value

# Impact Assessment: Provision of Historic Consumption Data

## Introduction

The Government believes that ensuring householders have direct access to information about their energy use within their homes will enable consumers to manage and reduce their carbon emissions. One way of helping customers reduce their energy consumption is to provide additional information on bills or statements. The Energy White Paper, 2007, set out the proposal that, “historic information, preferably in graphical form, which compares energy usage in one quarter with the same period in the previous year, should be provided on domestic customers’ energy bills or statements, or, for those customers with internet-based contracts, electronically”.

A partial Impact Assessment on billing was published in August 2007, along with a Consultation on Energy Billing and Metering. The partial Impact Assessment also covered proposals for the provision of Real Time Display devices to Domestic Electricity Customers and the provision of Smart Meters for Business. It is available at [www.berr.gov.uk/files/file40456.pdf](http://www.berr.gov.uk/files/file40456.pdf). For the purposes of this final Impact Assessment on billing, the billing information has been separated from the other elements.

## Description of Policy and Rationale for Government Intervention

This measure aims to improve domestic gas and electricity bills through the provision of historical information on use in an easily understood format. The premise is that such information would help households have a greater awareness of their energy consumption and enable more efficient use of energy.

## Key Assumptions

- The provision of historical information is assumed to incur a one-off cost of £0.17 per bill per customer in the central case. This largely relates to the system and additional information requirements associated with provision of historical information, as well as production/paper costs. Sensitivities around this value have been tested (£0.10, £0.25). This is annuitised over a 5 year period, assuming a cost of capital of 10 per cent, corresponding to an annual cost of £0.04 per meter per year. No additional costs associated with customer services have been assumed, as it is assumed this will be derived through existing energy efficiency channels.
- There is uncertainty over the potential change in customer behaviour resulting from this measure, and how long any change might persist. Therefore relatively small changes in energy saved have been assumed – 0.25 per cent in the central case, with sensitivities of 0.1 per cent and 0.5 per cent around this. These reductions are assumed to persist over 15 years in the central case with a low and high sensitivity of 10 and 20 years respectively.
- The value of energy saved is in line with BERR energy price forecasts. The energy component of the electricity retail tariff is assumed to be 35 per cent and the basis for valuing electricity savings.
- Carbon savings are based on assuming the marginal technology Combined Cycle Gas Turbine (CCGT) is displaced as a result of the reduction in consumption. Other assumptions – for example the Social Cost of Carbon (£87 in 2008, increasing by £1 pa) and the discount rate are in with HMT Green Book guidance, and the timescale the policy is considered over is 2008-2034, in order to adequately capture the benefits from consumption reduction over time.



- The assumptions have been combined to give the biggest range of costs and benefits – so the low energy reduction assumptions are associated with the high supplier side costs and vice-versa.
- It has been assumed that no changes to industry processes are required to support this policy i.e. no requirement to alter the Customer Transfer Process.

Assumptions on the reduction in energy saved are based on a literature review of metering, billing and direct display projects (Darby 2006<sup>1</sup>). The literature reviewed highlighted potential energy reduction savings of between 0 and 10 per cent in the United States and a range of Scandinavian Countries. Although there were many studies included in this review, none is directly applicable to the introduction of better billing in the UK context. The studies often combine a number of other energy efficiency measures implemented at the same time as providing improved billing information and there are difficulties in singling out specific impacts of these measures. Differences in climates, problems of small trial sizes and self-selecting response groups add to the uncertainty. The assumptions adopted in this Cost Benefit Analysis (CBA) are relatively cautious in the context of this study.

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<sup>1</sup> Sarah Darby, 2006, 'The Effectiveness of Feedback on Energy Consumption', Defra

## Results CBA

	Central %	Low %	High %
Carbon saved per annum(MtCe) in 2020	0.09	0.00	0.18
Total net benefit (£m present value over lifetime)	-340	-90	-890
Cost effectiveness (£/tCe saved)	-155	-55	-160
Distribution of net benefit (£m present value over lifetime)			
Exchequer	-	-	-
Firms – through increased cost of bill production	10	14	6
Consumers – through reduced energy costs	-360	-104	-896

Note: (-) benefit (+) cost

'Low' refers to low energy reduction and high supplier cost

'High' refers to high energy reduction and low supplier cost.

The benefits were calculated using an estimated wholesale price, which is 35% of the electricity and 50% of the gas residential retail price respectively (these estimates represent the energy component of the consumer price). This could understate the benefits of the policy if the reduction in demand associated with energy efficiency policies also leads to cost savings on the distribution network. Based on a modification of this assumption, where energy benefits are assumed to be a function of the retail price, the calculated net benefit for this policy would be up to 3 times that with the current assumptions. We are reviewing what the appropriate price will be for calculating benefits in future analysis and hence how much benefit energy efficiency can achieve for Great Britain.

## What are the other options?

**Do Nothing** - The Energy Review and Energy Services Directive committed the Government to improving the information customers receive on their energy use. Doing nothing would risk losing potential cost effective energy and carbon saving opportunities and could risk infraction for failure to implement the Energy Services Directive.

**Increase Billing / Meter Reading Frequency** – Options to mandate quarterly or monthly billing were discussed. However, no evidence base was available to indicate that this measure alone would reduce consumption. These options would potentially improve bill quality but the additional cost of meter reading and bill production would incur significantly greater costs than the chosen policy option without additional CO2 benefits.

**Implement in a prescriptive fashion or allow energy Suppliers flexibility** – These options were considered in terms of the best way to implement the selected policy. It is felt that implementing in a prescriptive manner may lead to sub optimal delivery as energy suppliers all have different bill styles and understand their own customers needs better than Government. As such a flexible approach to implementation will allow energy suppliers to implement the policy in the most cost effective way for them while selecting the format that they feel will maximise the impact on consumers.

## Results of Consultation

The Energy Billing and Metering consultation, which was published in August 2007 and closed for responses on 31<sup>st</sup> October 2007, included the proposal that historic information, preferably in graphical form, which compares energy usage in one billing period with the same period from the previous year, should be provided on domestic customers' energy bills or statement, or, for those customers with internet-based contracts, electronically. The consultation also stated the Government's intention to:

- allow as much flexibility as possible in the provision of comparative information (in recognition that bills already contain a considerable amount of information and that each supplier has a different format and design for its bills);
- allow suppliers to find innovative means of providing the information on bills;
- allow the flexibility to provide either the total energy used or average data (for example average energy use per day during the period);
- set a general requirement that the information must be presented in a way that is clear and easy to interpret.

There were nearly a hundred responses to the consultation, with respondents including energy suppliers, energy advice organisations, consumer organisations, metering companies and other Government departments and public sector organisations. Around thirty-five of these commented in detail on the billing proposals. Responses to the consultation are at [www.berr.gov.uk/energy/whitepaper/consultations/billing-metering/consultation-responses/page43790.html](http://www.berr.gov.uk/energy/whitepaper/consultations/billing-metering/consultation-responses/page43790.html).

Most respondents welcomed the proposal for historic data to be provided on bills and statements. The majority supported a flexible approach, with some arguing for complete flexibility and others supporting some minimum requirements, such as for information always to be provided graphically. Many respondents noted that bills already contain a lot of information, and that customer feedback usually suggested a preference for simplicity and clarity.

The Government's conclusion, based on responses to the consultation and the Impact Assessment, and bearing in mind the requirements of the Energy Services Directive, was that it should implement the policy along the lines set out in the Consultation Document.

## Implementation and Enforcement

The requirement will come into force on 1<sup>st</sup> January 2009. The Government wishes to introduce the measure as soon as possible to maximise the potential for reduction in carbon emissions, but recognises that energy suppliers require a certain amount of time to make the necessary billing systems changes. The Standard Licence Conditions of electricity and gas supply licences will be amended by Statutory Instrument. The requirement will be enforced by Ofgem through the electricity and gas Supply Licences.

## Specific Impacts Tests - Checklist

Type of testing undertaken	Results in	Results
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	<b><i>Evidence Base? (Y/N)</i></b>	<b><i>annexed? (Y/N)</i></b>
Competition Assessment	No	Yes
Small Firms Impact Test	No	Yes
Legal Aid	No	Yes
Sustainable Development	No	Yes
Carbon Assessment	Yes	No
Other Environment	No	No
Health	No	Yes
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	Yes
Rural Proofing	No	Yes

## **Annex – Specific Impacts Tests**

### Competition assessment

We do not believe the policy will have a material impact on competition. The requirement applies equally to all licenced electricity and gas suppliers. It is very unlikely to affect the market structure, and it will not lead to significantly higher set-up costs or present any new barriers to market entry for new or potential suppliers.

### Small Firms Impact Test

The Government's initial view was that the impact on small firms would not be significant. The requirement falls equally upon all suppliers of electricity and gas, including small suppliers. The consultation asked specifically if small suppliers should be allowed more time to implement the requirement but no respondents argued in favour of this. No other specific issues for small suppliers were raised in response to the consultation.

### Legal aid

The requirement will not introduce new criminal sanctions or civil penalties for those eligible for legal aid, and would not, therefore, increase the workload of courts or demands for legal aid.

### Sustainable development

The requirement is designed to reduce energy use and carbon emissions and to promote energy efficiency. It will provide customers with a tool with which to manage their energy consumption, enabling them to take greater personal responsibility for the environmental impacts of their own behaviour and contribute to the need to live within environmental limits.

### Carbon assessment

The impact on carbon is dealt with in the main body of the Impact Assessment.

### Health

The proposal raises no apparent health issues.

### Race equality

After initial screening as to the potential impact of this policy/regulation on race, disability and gender equality it has been decided that there will not be a major impact upon minority groups in terms of numbers affected or the seriousness of the likely impact, or both.

### Disability equality

After initial screening as to the potential impact of this policy/regulation on race, disability and gender equality it has been decided that there will not be a major impact upon minority groups in terms of numbers affected or the seriousness of the likely impact, or both.

### Gender equality

The proposals raise no apparent gender equality issues.

### Human rights

The proposal raises no apparent human rights issues.

### Rural proofing

The proposal raises no apparent rural issues.

## Annex A

### Transposition Note for article 13(3)(b) of Directive 2006/32/EC - The Energy Services Directive

The table below sets out how we have implemented article 13(3)(b) of the Energy Services Directive in Great Britain.

Article	Objective	Implementation
Article 13.3(b)	<p>Requires Member States, where appropriate, to ensure that the following information is made available to customers in clear and understandable terms in or with their energy bills or receipts:</p> <ul style="list-style-type: none"><li>o comparisons of the final customer's current energy consumption with consumption for the same period in the previous year, preferably in graphic form.</li></ul>	<p>The implementation of article 13(3)(b) is contained in Schedules 1 and 2 of the Electricity and Gas (Billing) Regulations 2008. These Schedules amend the standard conditions of electricity and gas supply licences.</p> <p>The Government has decided not to require suppliers to provide historic information to business customers, as the Government considered it was not appropriate to do so. It accepted the view expressed by many consultation respondents that business customers' needs differ from those of domestic customers and that suppliers see this as a key area of innovation, competition and product differentiation.</p>