



Department for
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The Bill Committee
Domestic Gas and Electricity (Tariff
Cap) Bill
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Dear Bill Committee members,

During the Bill Committee session on Tuesday 13 March, there were questions raised regarding subsection (2) (b) of the Bill, that is, the provision for Ofgem to consult on an exemption for green tariffs from the price cap. This refers to those tariffs that support the production of gas, or the generation of electricity, from renewable sources. At the Bill Committee hearing, it was suggested that it may not be right for green tariffs to be exempt from the price cap given: a) many green tariffs are available at relatively inexpensive rates and b) the generation of renewable energy already attracts government subsidy. I agreed to write to you highlighting the types of green tariffs currently available on the market and how an exemption will impact on consumers and on the GB energy market.

As you will be aware, Ofgem is the administrator of a green energy certification scheme known as Renewable Energy Guarantees of Origin (REGO). Suppliers surrender REGO certificates annually to demonstrate where their energy supply comes from. This system allows suppliers to offer 100% renewable energy tariffs by matching all customer demand to certified green energy supply. Over the past year, there has been an increase in the number of suppliers with such offers. At the end of 2017, we are aware of around eight suppliers offer electricity tariffs backed 100% by renewable sources, with one supplier (Green Energy) offering to supply 100% green gas and others offering gas tariffs that are between 6-12% green gas. I would like to focus on these companies, as they are likely to be the most impacted by the application of a price cap.

Suppliers offering green tariffs have different approaches to serving their customers which is reflected in their pricing structures. We have categorised these in two ways:

- (i) Suppliers that purchase REGO certificates equal in value to the total electricity demand of their customer base (and in some cases, provide some support to smaller generators). This includes companies such as Bulb, Tonik and Solarplicity. They offer a range of variable domestic tariffs that are typically at the cheaper end of the market, for example £860¹ (Bulb) to £979 (Tonik)² per annum.

¹ Source: Energyhelpline.com

² Based on consumption of 3,100 KWh electricity and 12,000 KWh gas in London area.

- (ii) Suppliers that, in addition to purchasing REGO certificates, support or directly invest in green energy projects. This includes activities such as actively trading with renewable energy generators, especially smaller local generators; building and maintaining their own small-scale solar and wind farms, and investing in green energy research and development. This includes companies such as Good Energy, Green Energy UK and Ecotricity. They offer a range of variable tariffs that are currently at the higher end of the market, between approximately £1044 (Green Energy UK) to £1223 (Good Energy)³.

Both of these categories of companies are making significant strides in innovating and transforming the GB energy market.

The methodology to set the price cap, and the level of the price cap itself, will be set by Ofgem. However, given the relative pricing of tariffs (see Annex A) a price cap that includes green tariffs is unlikely to significantly directly impact the first category of companies. Indeed, some of these tariffs are significantly cheaper than the market average. This may be partly due to some new energy suppliers running at lower margins to secure a customer base, but also because purchasing renewable energy from the market is not necessarily more expensive than non-renewable energy.

A price cap on green tariffs would have most impact on the second category of companies - such as Good Energy and Ecotricity - that in addition to their supply business, also conduct the following activities:

- Purchase renewable electricity direct from suppliers, including small suppliers which involves higher overheads as they have to forecast demand and trade energy;
- Plan, build and maintain their own wind farms (up to 16MW capacity) and solar farms in addition to other forms of renewable generation;
- Support small scale, local renewable electricity generation (eg. on average, Good Energy customers live only 3.86 miles away from their nearest renewable energy generator (as of 2017)).
- Invest significantly in research and development, specifically in electricity storage and electric vehicle solutions;
- Research and development into innovative ways of generating and supplying customers with green gas, increasing the proportion of gas generated locally. Green gas is currently a very small part of the supply market.

The price cap, depending on the level at which it were set, could see a significant reduction in these additional activities.

As an example Good Energy currently price their average variable tariff at £1,223⁴ which is nearly 10% higher than the average SVT of the Big 6 (£1,135). If a price cap were set that

³ Based on consumption of 3,100 KWh electricity and 12,000 KWh gas in London area.

⁴ Based on consumption of 3,100 KWh electricity and 12,000 KWh gas in London area.

reduced this tariff they have indicated that they would need to cut costs by reducing or stopping their additional investments in renewable generation and R&D on, for example, storage and vehicle to grid technology, and green gas innovations. For companies such as Good Energy and Ecotricity, it is considered most likely that customers have actively chosen to be on these tariffs *because* of the additional activities their energy bills fund. The two companies have around 300,000 customer accounts between them.

Since customers of these companies will have engaged in the market, it is unlikely a consumer will have chosen to be supplied by these firms without knowing that a) they were going to pay more for their energy than they could and b) what that additional payment would be used to fund. This is in direct contrast to firms operating a "tease and squeeze" model or other such practices, where the profits made on long standing SVT customers are used to subsidise the fixed tariffs of new customers or other business activities without their customers knowledge. It is also worth noting here that several of the energy companies supplying 100% green energy have a single tariff offer, and so cannot cross subsidise one tariff by another.

In conclusion, the Bill places a duty on Ofgem to carry out a consultation on whether and, if so, how to exercise the power conferred by subsection (2) (b) of the Bill to exempt green tariffs from the price cap where there are actively chosen by customers and support the production of renewable electricity and gas. The consultation by Ofgem will be critical to establish a clear definition of what constitutes a green tariff for the purposes of an exemption; and to understand how best to avoid the risk of gaming.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'C. Perry', with a long horizontal stroke extending to the right.

THE RT HON CLAIRE PERRY MP
Minister of State

Annex

Table 1: Average Cost of Cheapest Fixed Tariff and Variable Tariff of 100% Green Suppliers (London)

Energy Company	Variable Tariff	Cheapest Fixed Tariff
Bulb	£860	NA
So	£878	£896
Solarplicity	£876	NA
Tonik	£979	£824
Green Energy	£1,093	NA
Ecotricity	£1,185	NA
Good Energy	£1,223	£1,062
Green Star	NA	£1,076
Market Average	£1114	£820
Big 6 average	£1135	£908

Source: Energyhelpline.com, average tariff in London based on 3,100 kWh electricity and 12,000 kWh gas.