

## Written evidence submitted by OVO Energy: Domestic Gas and Electricity (Tariff Cap) Bill

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9 March 2018

### **Introduction**

OVO Energy is the largest independent energy supplier in Britain. Founded in 2009 by entrepreneur Stephen Fitzpatrick, OVO Energy redesigned the energy experience to be fair, effortless, green and simple for all customers. Today, OVO Energy is a progressive energy company that serves more than 850,000 retail energy customers, striving to deliver more clean, affordable energy for everyone.

We welcome the opportunity to submit written evidence to the the Bill Committee. OVO has championed the introduction of a price cap for years and is fully supportive of the Government's proposal for an absolute cap on Standard Variable Tariffs (SVTs). This is the only policy solution that will guarantee immediate protection for customers, promote competition and prevent gaming by suppliers.

### **Background**

In 2015 the CMA found that "the Big Six have a position of unilateral market power over their inactive customers which they exploit through their pricing principles".

Despite this time consuming and costly investigation, the proposed market remedies have not forced suppliers to significantly change their behaviour. Suppliers remain free to overcharge and under-serve the majority of their loyal customers, whilst simultaneously hooking in new customers with loss-leading tariffs:

- Less than one in five customers are protected by the existing price caps for prepayment and vulnerable customers introduced by Ofgem in 2017;
- Around 12 million Big Six customers, many of which they inherited after privatisation, remain on unjustifiably high SVTs - the average Big Six SVT is £263 higher than the cheapest deal in the market;
- Differentials between Big Six cheapest deals for new customers and their SVTs remain unjustifiably wide - the average differential is 13%.

This not only harms customers, it prevents challenger suppliers from competing on a level playing field and discourages incumbent suppliers from becoming more efficient and innovative. Additionally, it prevents the industry (and

Government and Ofgem) from moving beyond the pricing debate and focusing on developing smart technology that will transform the customer experience and cut emissions like electric vehicles, domestic batteries and grid balancing services.

### **The policy solution**

An absolute price cap is the only policy option that will do *all* of the following:

1. **Guarantee immediate protection for customers:** A relative cap, whilst limiting differentials between a suppliers cheapest deal and SVT, will not force suppliers to bring down bills for any of their customers. Suppliers could simply remove their cheapest deal from the market and peg their tariffs to their high cost SVT, resulting in zero savings for those worst off and fewer cheap deals for switchers;
2. **Promote competition:** If the cap is reflective of underlying supplier costs and tweaked every six months so it moves with market conditions, savings could still be made between the cap level and the cheapest deal in the market. It would allow headroom for efficient suppliers to operate profitably, stimulating innovation and promoting efficiency;
3. **Prevent gaming:** Light touch intervention to date has been ineffective and suppliers have tied themselves in knots trying to get around the rules. That is why it must be as simple as possible - applying to *all* SVT customers with very limited exemptions, and based on and aligned with the existing (and workable) price caps that were introduced by Ofgem last year.

### **Competition in the market**

- a) **An SVT cap, if set at the right level, could still save those on the worst deals a significant amount of money *and* maintain competition through switching under the cap.** For example, if the cap was set at £1,033<sup>1</sup>, this would:
  - i) Benefit 100% of the 12 million Big Six SVT customers that aren't already protected by existing caps;
  - ii) Save Big Six SVT customers on average £88 a year;
  - iii) Save Big Six SVT customers a total of £1.1bn a year;
  - iv) Switchers could still save £164 by switching from the cap level to the cheapest deal in the market.

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<sup>1</sup> The existing prepayment cap *minus* the CMA's £63 cost to serve differential *plus* additional forward facing costs associated with SVT customers (smart meter costs and debt risk)

- b) **Switches to OVO have not been negatively impacted since the prepayment cap has come into force.** We are still registering 400 to 500 new prepayment customers per day. We offer prepayment customers smart technology which means they can use their phone to buy energy instead of going to the shop. It is a very different user experience and we are competing on service and customer benefit, rather than simply price. A cap will encourage all suppliers to think differently and innovate for the customer.
- c) **In Northern Ireland, a form of price cap has been implemented with considerable success.** The current system of pricing for domestic customers is a combination of price regulation on incumbents and unregulated competitive pricing. The Consumer Council believes this model is currently delivering benefits for consumers through bill savings and have commented that they would “not advocate a transition from the system at present”. In fact, electricity prices are now amongst the lowest in Europe at 13.9 p/kWh and are considerably lower than the EU median (17.3 p/kWh) and the UK (15.7 p/kWh).

### **Seeking clarification**

OVO Energy is not proposing any amendments to the Bill. However, we are seeking a number of clarifications:

- a) **Clarify vague wording:** Clarify the wording in the Bill that implies Ofgem could alter the tariff cap conditions “from time to time” (Clause 1. 2. a) and “make different provision for different areas or different cases” (Clause 2. 1. f) to give suppliers and customers certainty.
- b) **Clarify green exemption wording:** Clarify what is meant by the green tariff exemption (Clause 3. 2. b) which exempts tariffs “that appear to the Authority [Ofgem] to support the production of gas, or the generation of electricity, from renewable sources.” It is important that this cannot be gamed by suppliers and that only truly green tariffs are exempt.

### **Ensure safe passage of the Bill**

We ask for members to oppose **amendments that would seek to delay the Bill:** For example, amendments that make any reference to the specific costs that should be considered when setting the cap methodology should be rejected. This will be consulted on by Ofgem after the Bill receives Royal Assent and so does not need to be included in primary legislation. Furthermore, the costs that underpin supplier tariffs change over time and Ofgem needs to have the ability to amend these quickly and easily, rather than having to change primary legislation.