

## **Written evidence submitted by Ecotricity (DGEB15)**

Dear Members of the Domestic Gas and Electricity (Tariff Cap) Bill Committee,

Ecotricity were the world's first green energy company when we established in 1995 and we now have over 200k domestic & non-domestic customers and almost 90MW of self-developed renewable energy generation capacity. We continue to invest in new sources of renewable generation, Electric Vehicle charging through our Electric Highway and more generally promoting sustainable living through all of our activities in the sectors of Energy, Transport and Food.

### **1 Executive Summary**

1.1 We have long called for action to prevent the worst abuses of the Energy market, and welcome interventions to better the prospects of consumers. However, in its present form, the Domestic Gas and Electricity (Tariff Cap) Bill does not do this in a way which will achieve the goals of providing protections for customers and increasing competition in the energy market, without damaging the progress being made in renewable technologies. We recommend:

- a) Requiring Ofgem to have finished their consultation progress on exemptions for green tariffs before the implementation of the cap.
- b) Employ a relative approach to the setting of the cap, as opposed to the current proposal of an absolute £ value.
- c) Encouraging suppliers to simplify the energy market by reducing the number of different tariffs they offer.
- d) Implementing a supplier customer number threshold, under which the cap does not apply.

### **2 Exemptions for Green Tariffs**

2.1 In the wake of the Bill's new wording regarding exemptions to the cap, we are concerned that tariffs which contribute to the generation of renewable gas and electricity will be overlooked. The new wording (Clause 3.5b) makes it possible for the consultation and decision regarding green tariff exemptions to be delayed until after modifications are made to the supply licence and the cap is implemented.

2.2 We cannot stress enough the importance of Ofgem having completed the consultation process, providing an appropriate means of qualifying for cap exemption on environmental grounds, before the cap is implemented. Doing so afterwards will cause confusion among customers, and inflict damage on the renewable energy sector nationwide.

- 2.3 A customer who has made a conscious decision to buy renewable energy is likely to be highly confused should they have their prices cut only for them to be rise again some months later should a green tariff exemption has been implemented. Additionally, some suppliers might have to withdraw their green tariffs if they are deemed unsustainable under the cap; not only would there be less money being invested in clean energy, but there would also be a reduction in competition and customer choice. This result would be the pure antithesis of the initial motivation for a cap.
- 2.4 For suppliers like Ecotricity, a cap on green tariffs would mean we would be able to invest less in increasing the renewable capacity of the United Kingdom, and limit our ability to encourage more sustainable ways of living.
- 2.5 We urge the government to require that by the time that the price cap comes in later in 2018, Ofgem have conducted a consultation, so that there is in place a mechanism by which tariffs can qualify for exemption. There is no need to undo any of the good work being done by generators suppliers and consumers of green energy; providing adequate protection for consumers, and affording them the opportunity to contribute to the low carbon future of the UK energy system, are not mutually exclusive.

### **3 Relative Tariff Differential**

- 3.1 The problem as we see it – which price caps are proposed to deal with – is that many suppliers offer far cheaper energy prices to new customers than they do to existing ones. This practice is known as price gouging, the incumbent customer base is used to subsidise the energy price of new customers. We were pleased to see that one of the amendments to the Bill tabled last week made reference to a relative cap – we see this as the solution.
- 3.2 An absolute price cap will address the SVT, which the bulk of customers are on, while a relative price cap would address the differential between the two. We believe that addressing the differential between the two is the better approach. Here's why;
- 3.3 The super low price tariffs that the Big Six and many newer entrants offer to entice new customers, are actually loss making. These prices have been mistaken for what 'good looks like' in energy pricing, by the media and government alike. Setting an absolute price cap with reference to these exceptional prices (as has been done with the PPM price cap) is a mistake; it will force uneconomic prices on the market. Additionally, setting the level of that price cap will be difficult - as was pointed out during the second reading debate, ensuring it moves with component price movements is essential.

- 3.4 Furthermore, such an approach forces a one-size fits all cost model on the entire market. Bigger companies tend to have economies of scale and this often includes costs to serve (of customers) as well as buying power in wholesale markets and access to credit for trading energy (an essential component of a hedging strategy). On top of this some companies prioritise good customer service and build the cost of that into higher priced tariffs, others see it as a cost to minimise. An absolute price cap will restrict the ability of all energy companies to innovate and differentiate themselves. It will make what is an unattractive market today, even more so for energy customers.
- 3.5 By contrast, simply restricting the variation that is allowed between a suppliers best and worst price allows the numerous different approaches in the market today, because it allows the different cost structures that companies have. It would deal with the current market abuse without the need for the regulator to make difficult calculations about what a base price for energy should be – and without the attendant risks of getting that wrong.
- 3.6 We are aware that the regulator feels that a relative price cap would just result in energy companies removing their cheapest tariffs from offer and would effectively stop competing for new customers. That is a flawed assessment of the likely response in our view. More likely is that energy companies will continue to compete with each other on price, as that's where the competition is mainly. To do that they will move both ends of the spectrum, the SVT and introductory offers, and will narrow the gap. There are too many players in the market today who could gain from offering lower prices than their competitors, and whose business model, is based on exactly that – for the whole market to simply shut up shop on price competition.
- 3.7 Research by Cornwall Insight has shown that since the implementation of the prepayment price cap, the average difference between prepayment tariffs is now as low as £19 per year, reducing the incentive for consumers to engage in the market down to some 40p per week.<sup>1</sup>
- 3.8 We recommend a simple 10% maximum variation between any suppliers' best and worst price to deal with price gouging. Suppliers that want to compete on price will have to keep their SVTs competitive to enable their cut-price tariffs to be so.

## 4 The Number of Tariffs & the Smart Meter Rollout

- 4.1 In our view there are too many energy tariffs available – more than 300 from over 60 suppliers. This creates a complex and confusing landscape for energy customers, which does nothing to encourage switching supplier.

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<sup>1</sup> <https://www.cornwall-insight.com/publications/chart-of-the-week/chart-of-the-week/2017/chart-of-the-week-if-the-cap-fits-prepayment-tariffs-squeezed->

- 4.2 Ecotricity has just one tariff per meter type and one price for all customers, old and new. It is an entirely practical way to operate, and we believe that the introduction of smart meters will make this approach even more practical. In our view the simplest solution to the smoke and mirrors that most energy companies rely on today and will respond with, whatever kind of cap the government proposes, is to crack down on the amount of tariffs offered by suppliers. That sounds quite radical perhaps, but it would kill at a stroke the differential pricing games that most suppliers play, along with the disadvantages loyal customers suffer, and would make comparisons between suppliers far more simple to perform, encouraging customer participation in the market.

## **5 Smaller Suppliers**

- 5.1 One of the secondary objectives of the bill is to operate with regard to 'the need to ensure that holders of supply licences who operate efficiently are able to finance activities authorised by the licence.' It would be wrong to assume that all suppliers, regardless of size, bear the same operating costs. Large suppliers benefit from economies of scale in areas such as cost to serve, buying power in the wholesale market, access to credit for energy trading, and not least considerable incumbent customer bases.
- 5.2 This has not been lost on the government or regulator in the past; customer number thresholds exist for a number of schemes which would otherwise be mandatory. The Renewable Heat Incentive, Energy Company Obligation and Feed-in-Tariff are mandatory only for suppliers with customer bases in excess of 250,000.
- 5.3 We encourage the committee to consider the implementation of a similar threshold for inclusion under the cap. Smaller suppliers and new entrants should not be disadvantaged because they cannot realise the same incumbency bonus enjoyed by market giants; it would restrict innovation in the energy landscape, and hand an undeserved competitive advantage to the same suppliers which are responsible for the majority of detriments suffered by consumers today.

## 6 Conclusion

6.1 We understand that it is imperative that Ofgem and the Government act quickly in order to provide protection for customers from unscrupulous energy suppliers. However, we disagree with the setting of an absolute cap, and are concerned that present arrangements may not provide an exemption on environmental grounds. This could consequently harm the future of renewable generation in the United Kingdom. We also feel that the cap as proposed fails to deal with one of the energy industry's most harmful and exploitative practices; a glut of indistinguishable tariffs which confuses consumers and actually discourages switching. Finally, suppliers who do not have the financial advantages of large customer bases should not be subject to the cap, in order not to restrict innovation and new market entrants.

Kind regards,

Alan Chambers  
Head of Regulation and Compliance

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