

Good Energy's Written Evidence Submitted to Public Bill Committee on Domestic Gas and Electricity (Tariff Cap) Bill

1. Overview

- a. Genuinely green electricity tariffs cost more to deliver than greenwashed electricity tariffs.
- b. Many consumers have proactively chosen to pay more for an environmentally responsible tariff.
- c. A limit on the loyalty premium charged by suppliers offers the best option to supporting consumer protection.

2. Why should green tariffs be given an exemption?

Genuinely green electricity tariffs, whereby a supplier commits to matching the annual demand of their customer base, with the annual output that it buys directly from renewable generators, costs more to offer than either a brown electricity tariff, or a green-washed tariff. The vast majority of Good Energy's customer base is highly engaged, and has chosen to pay a premium price for a premium product – genuinely green electricity. Putting in place a tariff cap which does not include an exemption for green tariffs will constrain these customers' ability to make this choice.

3. What is a green-wash tariff, and how is it different from genuine green tariffs?

- a. Over the past year, we've seen a lot more suppliers starting to offer 'green' tariffs at a range of different prices compared to their other tariffs. We often get asked what the difference is between Good Energy's electricity tariffs and some of these other (sometimes cheaper) 'green' tariffs. These appear equivalent from the outside, however are very different products underneath.
- b. For every 1000 units of renewable electricity generated, the industry regulator OFGEM gives the generator one 'green' certificate. This is called a Renewable Energy Guarantee of Origin certificate (REGO) which certifies the energy as being green. When a supplier buys this power from the renewable generator to sell to its customers, it also buys the REGO certificates at a cost of about 15p each.
- c. At the end of each year, suppliers are required to send these green certificates to OFGEM to prove how much of the power they buy comes from renewables – so far, so good. However, there is a market for these certificates which is completely separate from the market for power. This means that it's possible for suppliers to buy as many of these green certificates (REGOs) as they like (at only about 15p per certificate) without buying any power from renewable generators. Instead, they can buy their power from anywhere – even a coal-fired power station, or any other source equally as damaging to the environment – and then separately buy enough green certificates to match. This means that at the end of the year the supplier has enough green certificates to show OFGEM to legally claim that their power is 100% renewable, without ever actually having engaged with a single renewable generator! This practice is known as 'green-washing'.
- d. This means that a lot of the green tariffs advertised may not be genuinely green at all, but just these 'green-wash' tariffs. All it will have cost the supplier to legally promote this as a 'green' tariff is about 47p per customer: the price of just over

three green certificates¹. Insignificant when compared to the average annual dual fuel energy bill of approximately £1150.

- e. Good Energy offers a genuinely green product, which costs much more to produce than an extra 47p per customer, and for nearly 20 years customers have been coming to us because they support our purpose – to power the choice for a cleaner greener, future together.

4. Is there a risk that a green tariff exemption will be gamed by other suppliers?

Not if it's put in place correctly – for four reasons:

- a. If a green tariff had to be genuinely green, rather than simply green-washed, as set out above, this would require firms to contract sufficient volumes of green electricity to meet their customers' needs.
- b. If a green tariff exemption was introduced at the supplier level, rather than an individual tariff level, it would require a firm to buy sufficient volumes of renewable electricity to match all of their customers (both domestic and business) needs. This is unlikely to be viable for non-genuinely green suppliers to do.
- c. The cap focusses on default tariffs. This means that the recent introduction by the Big 6 of new green tariffs is of little consequence to the cap unless they replace their default tariffs with default green tariffs. The proposed supplier-level rule would guard against their doing this.
- d. Suppliers are aware that if they attempt to subvert the objectives of the cap that further regulatory intervention is likely to be forthcoming. It is in the interests of all suppliers to not only meet the letter of the law, but to comply with the spirit of the regulation, in order to reduce the future risk of further intervention.

5. What are the relative merits of an absolute cap and a loyalty premium limit?

a. Absolute Cap

- i. There is a risk associated with expecting a non-market participant (i.e. OFGEM) to accurately model the costs faced by market participants. The challenges of this were seen when the costs of complying with the smart meter obligation were not included in the PPM price cap.
- ii. This problem is further complicated by the diversity of suppliers now present in the industry. To put an absolute cap in place, OFGEM is required to make assumptions about the hedging behaviours of suppliers. Given the diversity of suppliers in the market, which vary in scale, operating model, and market offering, it is not possible for OFGEM to put in place a single cap which accurately reflects the operations of such a wide range of market participants. This means that any such model will inevitably favour one set of industry participants over another. Furthermore, there is risk that attempting to do so will incentivise all suppliers to follow the hedging strategy used in the price cap model – meaning they are no longer making business decisions based on their view of the market, but based on their view of the cap methodology.
- iii. Finally, any methodology for calculating an absolute cap, is inevitably open to legal challenge, and there is a risk that this could delay the introduction of a cap which it is clear is necessary to protect consumers.

¹ The average household uses 3100 units (kWh) of electricity a year, each green certificate covers 1000 units of electricity and costs about 15p. 15p per 1000 units gives you 47p for 3100 units.

b. Loyalty Premium Limit

- i. Currently four out of the Big 6 have a differential between their cheapest and most expensive tariff in the order of 25% - this means that customers that have remained loyal and moved onto the SVT are on average paying approximately 25% more for their energy than those who switch. This differential is in effect the penalty for customers remaining loyal to these suppliers. Introducing a maximum limit between the most and least expensive tariff offered by a supplier is a viable way to limit this loyalty premium.
- ii. This has the benefit of preserving the diversity in the market (a prerequisite for innovation). It leaves suppliers free to make pricing and operational decisions which reflect their distinct propositions and business models. It also offers the benefit of being a very simple solution – easy to implement and monitor for OFGEM. This makes it altogether more legally robust.
- iii. A loyalty premium limit addresses the heart of the issue of consumer detriment – that consumers who are unengaged in the market are being used by the large suppliers to subsidise those that do. In some cases, in excess of £230 per year. Putting in place a maximum price differential inherently limits the degree to which this can be done.
- iv. Some market commentators have suggested that this form of limit risks the larger suppliers simply choosing to exit the competitive part of the market, no longer offering competitive deals, and instead simply choosing to maintain supply to unengaged consumers only. We do not believe this is a credible challenge for two reasons. Firstly, as we have seen – customers are already leaving the Big 6 customers in their hundreds of thousands. A business model which is predicated on gaining no new customers is inherently unsustainable. Secondly, as set out above the large suppliers are aware that if they attempt to subvert the objectives of the cap, are likely to lead to further, more stringent regulatory intervention.
- v. An absolute cap will have a much more disruptive effect on the dynamics of the energy market, potentially leading to increased costs to non-capped tariffs. The introduction of a loyalty premium limit balances the need to protect vulnerable consumers, with the need to continue to support innovation. If the large suppliers continue to operate in an unethical fashion, then further intervention should be considered. However, jumping to the most extreme option of regulated prices, before trying a less interventionist approach does not appear consistent with working to deliver a market which works for all consumers.
- vi. The real issue affecting consumers in the market stems from the fact that some suppliers, particularly the Big 6, charge their unengaged customers more to subsidise the cheaper tariffs to attract new customers. The introduction of a limit between their cheapest and most expensive offering will restrict their ability to do this in future.

I hope you find this response useful. If you have any questions, please do not hesitate to contact me.

Kind regards,

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