Energy Markets and Affordability Team
Department for Business, Energy and Industrial Strategy
AND
Future Retail Market Design Team
Ofgem

16 September 2018

**Response to Flexible and responsive energy retail markets consultation**

We're Green Network Energy, part of a vibrant and growing Italian energy company that supplies gas and electricity to homes and businesses in Italy. We started supplying customers in Great Britain 2016 and are now supplying over 300,000 domestic customers and have 4,000 non-domestic meter points.

**Summary of response**

We are strong believers in the "market principle" set out in Ofgem's strategic narrative. This means using market mechanisms to drive change. It is therefore important that the regulatory framework is set up in a way that unlocks innovation and technology in this sector. Regulations set now should not second-guess the needs of future customers or the direction of future businesses and technologies. It must be simplified and flexible – enabling new businesses models to flourish while protecting the wide spectrum of consumers.

In order to open the market we believe that the following needs to occur:

- Simplification of rules and obligations:
    - Take customer protections out of the Supply Licence and capture these under general consumer protection mechanisms. This would ensure consistent consumer protections across all current and future businesses operating in the energy sector, not just suppliers.
    - Remove admin and complexity of ECO and WHD schemes. Deliver these schemes centrally and fund through a simple levy applied to all domestic users of energy.
- More agile regulation:
    - There is a need to review the big industry projects that are currently occurring and assess how they help enable the transition – it's crucial that money and resource isn't spent on projects that do not support the transition to 2050.

- We also need a high-level timeline of how these projects link into the transition using 2030 as a staging post to reach the 2050 targets.

We have set out our response to your questions in Annex 1. If you have any questions or wish to discuss any of our response in more detail, please contact Samuel Arnold on 07468 494 721 or S.Arnold@GreenNetwork.co.uk.

Yours sincerely

**Pietro Di Maria**

**Chief Operating Officer**

**Annex 1**

**1. Do you agree with our vision for the future of the energy retail market, the outcomes we are seeking to achieve and our characterisation of the key challenges we need to overcome?**

Yes. It could be developed further by creating a high-level timeline setting out how key programmes now will enable the transition to 2050, using 2030 as staging post to reaching the targets.

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**2. Are there examples of new products, services and business models that would benefit current and future consumers, but are blocked by the current regulatory framework?**

Unable to comment.

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**3. Are there current or emerging harms to energy consumers which are currently out of scope of the regulatory framework? Do these differ for domestic and non-domestic consumers?**

The consultation has highlighted one of the major issues of lack of regulatory oversight over third-party intermediaries, particularly price comparison websites and auto-switchers. Another potential area of harm are smart home products that can autonomously manage a customer's consumption. If mismanaged, these devices could increase a customer's consumption or switch off appliances at the wrong times potentially leaving customers without access to heating. Simplifying consumer protection under more generalised mechanisms would provide a straightforward route for customers to raise complaints.

There's also a risk of how customers may join or leave different business models, particularly if there are high capital costs or where customers move properties. Or what happens when these non-licenced businesses that provide services directly to customers within the energy sector fail. Industry processes also need bolstering to enable wider understanding of the different intermediaries involved in a particulalr customers energy system. Just like the way that parties are kept informed of the changes to an industry pary like a Data Collector, it is important to know where customers are using an auto-switching service or heat-as-a-service intermediary to make sure any changes are appropriate managed in the wider ecosystem.

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**4. Would it be beneficial to allow suppliers to specialise and provide products and services to targeted groups of customers? If so, how can this be delivered while balancing the need for universal service?**

We strongly believe that obligation of a universal service should remain. While businesses are obliged to offer terms to any customer, there's nothing that prevents companies marketing only to specific customers e.g. through targeted marketing campaigns or regional pricing. The universal service obligation protects customers from being "supplier-less" and prevents suppliers from discriminatory acquisition strategies based upon things like credit history.

Universal Service can work even with new business models providing that there are protections in place – while all suppliers must offer terms, this doesn't mean we have to offer all products to all customers. In fact, some products are completely inappropriate for some groups of customers e.g. Demand Side Response for some vulnerable customers who are unable to vary their consumption patterns. It's important that companies convey the right information to enable customers to make informed choices on whether a product may be appropriate.

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**5. Are incremental changes to regulation sufficient to support the energy transition and protect consumers? Or does this require a more fundamental reform, such as moving to modular regulation?**

We consider that a fundamental reform is absolutely required to support the energy transition and protect consumers. Currently the rules are complex for suppliers and new businesses. This restricts innovation, adds costs for customers and enables some key business models to operate in the sector without carrying the same protections for customers as licenced suppliers.

We propose that there is a need for simplification of all our current rules and obligations. This could potentially start with extracting consumer protections from licence conditions and capturing these under general consumer protection mechanisms. This would then apply to any company operating in the sector under the same rules. For example, companies such as auto-switchers who offer additional services in the energy sector currently do not need a licence but hold the direct relationship with the customer. Having the consumer elements of the licence at a general consumer level would mean that there is a consistent regulatory framework applied around things selling and informed choices, billing, and standards of conduct. This would also mean that the business operating in the sector would not need to attain licence or comply with all of the supplier specific rules which may not be relevant to them. The removal of these parts would also enable Ofgem to focus on energy system specific regulation.

We also propose that there is a need to remove admin and complexity of the Warm Home Discount and Energy Company Obligation schemes. This could be achieved by make it a levy with the schemes delivered centrally and no company size thresholds. This would create a level playing field and free up resource in companies. It also makes it easier in the future to ensure the cost of these schemes are shared across all customers – at the moment suppliers collect and run these schemes, in the future where there may be businesses available that mean customers do not need suppliers, there would still be a simple mechanism to collect these funds.

We also believe that regulation needs to be more agile. There are number of big industry projects that cost a lot of time and investment. Ofgem and BEIS should review how these existing programmes are going, whether they still delivering on the initial objectives and specify exactly how they will help deliver the plan to 2050. Lots of these programmes started many years ago and the market has changed significantly since – we need to make sure that these projects are still value for money or if this resource can be better spent elsewhere. For example, we'd question where faster switching is still relevant in today's world. Customers want a better service and more services, not multiple new suppliers two weeks sooner. Further, as some of the future requirements will require high capital costs by the customer, there could potentially much longer contracts with greater complexity in switching between different models which means next day switching isn't appropriate or feasible.

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**6. Are there any other potential market distortions we should be considering as part of our review?**

There are several other potential distortions and complexities in the market that should be considered:

- Proactive and non-proactive suppliers – not all suppliers are meeting their obligations e.g. suppliers that haven't signed up to the DCC or have taken a long time in doing so. Ofgem needs to take swift and strong enforcement action as suppliers that are meeting their obligations are ultimately paying a higher price than suppliers that aren't meeting their obligations.
- Company failure and supplier of last resort – the review needs to consider how this this will be managed in the future and with different business models. For example, what would happen if a community energy project fails?
- Ofgem and BEIS – impact of policy decisions. Policy decisions must be market lead and based on research, and they must also not pre-empt the future. For example, the report focuses on electric vehicle despite this being one of number of low carbon options in addition to hydrogen, biogas, biodiesel and bioethanol.
- Potential future complexities – for example joining and leaving different models, especially models that require high capital input from customers.

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**7. Would removing the thresholds for the Energy Company Obligation and Warm Home Discount help remove imbalances in the retail market, and could this be done without significantly increasing barriers to supplier entry or expansion in the retail market?**

**8. How could the delivery burden on suppliers from the Energy Company Obligation be reduced, for example through the introduction of a buyout mechanism?**

We strongly consider that the best way for these schemes to be delivered is through a centrally run scheme with it funded by suppliers through levy. We also believe that there should be no company size thresholds and the levy would represent a minimal administrative burden.

This would create a level playing field and free up resource in companies. This also makes it easier in the future to ensure the cost of these schemes are shared across all customers. Currently, licenced suppliers collect and run these schemes. In the future where there may be businesses available that mean customers do not need suppliers, there would still be a simple mechanism to collect these funds if it's a levy that all users of energy pay.

An alternative mechanism to collecting these costs through a levy may be that once existing schemes are completed, the energy system is then no longer required to deliver government social policy initiatives and these are collected through general taxation.

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**9. What effect does the range of Energy and Climate Change Policy Levies have on the retail market?**

**10. What actions could government take to reduce any negative impact of Energy and Climate Change Policy Levies?**

These levies require little resource and cost to run. The main impact is the end consumer price – the best way to reduce this impact would be to collect these levies through general taxation.

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**11. Do you agree that now is not the time to make further changes on system and network**

**cost recovery, metering and access to data as part of this retail market review?**

We agree. This also highlights the level of activity that is currently occurring in industry and this comes at a huge cost in terms of resource and capital in developing the changes. It's important that a review is completed of all these projects to ensure that the changes they are delivering in the short-term will enable the transition to 2050.

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**12. What total costs do suppliers face with regards to bad debt and supporting consumers who struggle to pay for their energy?**

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It is extremely difficult quantify and compare these costs across industry as debt management covers a range of costs in terms of prevention, collection, resolution and write-off which may or may not be directly allocated to debt management. For example, we invest heavily in prevention of debt by developing systems and processes that help detect customers at risk and providing a tailored service to help reduce and prevent debt. That means we have a low volume of bad debt, but higher costs in preventative measures. Fully understanding and benchmarking the different approaches would be quite difficult.

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**13. How could any potential distortions related to high cost-to-serve customers be addressed, for example by the provision of additional support services for customers struggling to afford their energy?**

All suppliers have the same obligations regarding treatment of vulnerable customers and management of debt. While suppliers may have customer portfolios with varying demographics, it's up to each supplier to innovate and serve their entire customer book in an efficient way.

We also believe that although some suppliers may have more customers that have higher levels of customer service need, these suppliers are also able to provide these services at economies of scale. For smaller suppliers such as ourselves who may have fewer vulnerable customers compared to other companies, then these customers may cost more to provide the services that they require.

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**14. Would addressing market distortions (for example size-based obligation thresholds for some policy schemes, supporting those who are struggling to afford their energy bills) help reduce incentives for suppliers to adopt pricing strategies that lead to excessive prices for loyal consumers? If so, to what extent (providing quantitative evidence, where possible)?**

No – this would just push these suppliers to be fully oblifgated and require higher priced acquisition tariffs to ensure full cost recovery.

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**15. What are your views on the measures being considered to address loyalty penalties in different markets? What approach or – combination of approaches – would be most effective in the energy retail market?**

**16. What other approaches could be adopted to ensure loyalty penalties do not re-emerge?**

**17. What protections or support may be required to engage consumers in vulnerable situations in the future market?**

We believe that the Default Price Cap should continue as it sets a level that an efficient supplier should be priced at and ensures customers are not exploited by loyalty penalties. The Default Price Cap is active until conditions for effective competition are in place or until 2023 at which point it ceases to have effect. We consider that the focus for removal of the Default Price Cap should be on conditions for effective competition rather than a set end date as this ensures that the exploitative pricing practices cannot continue beyond 2023.

Should the market be in a position whereby the Default Price Cap can be removed, we believe that an alternative protection mechanism should not be needed. As stated, the Default Price Cap is in place until conditions for effective competition are in place. The definition of effect competition is under currently under consultation by Ofgem, but is proposed as follows:

1. Structural changes in the market are facilitating or can be expected to facilitate competition
2. The competitive process is expected to work well in the absence of the cap
3. Most consumers are experiencing good outcomes

Should these conditions be met, then an alternative mechanism such as principles for unfair pricing should not be needed as the market will be operating in a competitive way that enables engagement and good outcomes for customers.

We strongly oppose the proposal of principles for unfair pricing as this would be extremely complicated and costly for suppliers to manage and it would be difficult for Ofgem to monitor. We note that a previous Ofgem investigation into a similar issue of cost reflectivity between different payment methods (SLC27.2A) lasted ca. 3.5 years and did even not conclude whether the prices were reflective but instead that there were not robust processes in place by the supplier to determine compliance.[1]

In terms of addressing wider engagement and other ways to address loyalty penalties, we believe that opt-in collective switches appear to be a good option. Ofgem are currently conducting several trials and it would be useful for us to have visibility of the roadmap for delivering the disengaged customer database. It would also be useful to understand how disengaged collective switches could work in practice and it may be useful to hold an industry workshop to work through any potential issues e.g. a small supplier may have very few customers standard variable customers over 3 years and who also then opt-in for a collective switch, would this small group of customers be bid on or would they be entered into a wider pot?

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[1] https://www.ofgem.gov.uk/publications-and-updates/investigation-compliance-obligations-under-gas-and-electricity-supply-licences-standard-licence-condition-27-2a-notice-decision