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Dear Energy Markets and Affordability and Future Retail Market Design teams,

Good Energy Response to BEIS & Ofgem's Consultation on Flexible and Responsive Energy Markets

Thank you for the invitation to respond to the proposed changes to this consultation on the future retail market. Good Energy supplies 100% renewable electricity and carbon-neutral gas to homes and businesses across the UK. We are working towards a renewable future, helping to support technologies including wind, solar, biofuel, hydro and tidal. Our purpose is to power the choice of a cleaner, greener future together.

Summary

- **Decarbonisation should be one of the central objectives of this workstream.**
- **A stronger direction on decarbonisation is needed from BEIS, to allow Ofgem to implement policy consistent with the net-zero objective.**
- **The way REGOs are currently used leads to a confusing marketplace for renewable energy, with consumers consistently misled over the relative 'greenness' of available tariffs.**
- **Removing supplier thresholds for the Warm Home Discount and Energy Company Obligation would exacerbate a distortion, not remove one.**
- **TPIs and energy service providers should be licensed in an efficient and consistent way, in order to protect customers.**

Decarbonisation as an Objective

The five key outcomes outlined in Chapter 2 of the consultation are all important. Consumers must be protected, have a wide choice of services, and be able to engage in a competitive market which has minimal distortions. However, it is also vital that the need for the decarbonisation of energy is also included. We consider that there should be a sixth objective; **a decarbonised energy system.** This has sometimes been forced to take a back seat in multiple industry workstreams, partly because the lack of a strong mandate makes efforts to decarbonise vulnerable to those with vested interests in maintaining status quo.

While the regulator does have an obligation to consider decarbonisation under their duty to protect future consumers, this needs to be made more explicit. This has been echoed by Dermot Nolan, who during a Public Accounts Committee (PAC) hearing on the subject of consumer protection by sector regulators, said that they 'have statutory obligations but need clarification over the extent to which we should support decarbonisation.'[1] Good Energy submitted evidence to the PAC highlighting this and asked that **the regulator be given a specific mandate to encourage sustainability and decarbonisation within their sectors, both now and in the future**.[2]

Renewable Energy Guarantees of Origin

One of the largest distortions in the energy retail market is caused by the way in which Renewable Energy Guarantees of Origin (REGOs) are used. Current arrangements require that suppliers use REGOs to inform their Fuel Mix Disclosure (FMD). However, as they can be traded separately from the power they relate to, this leads to a confusing state of affairs where consumers are unable to tell just how much renewable electricity their supplier actually purchases on their behalf.

This is open to abuse. Many tariffs currently sold as 100% renewable are simply made up of 'brown' power bought either from fossil generators or on the wholesale market, then backed by separately purchased REGOs. In their annual Fuel Mix Disclosure, they can then claim that their power comes entirely from renewable sources. In some cases, some suppliers charge customers a premium to receive a 'green' tariff. Without having to buy any more renewable power, they can simply take some REGO backed power out of their standard tariff and move it into a separate bucket for their new green product. The result of this is the customer pays more, the supplier's regular tariff becomes 'browner,' and no new renewable generation is, or will be, built. Ofgem have gone so far as to say that they do not believe a 100% REGO-backed tariff offers any substantial environmental benefits.[3]

A common response to criticism has been that as more customers demand renewable power, the demand for and price of REGOs will be driven up, providing added financial incentive to prospective investors in renewable generation. This is a theoretical argument which has delivered little in terms of results. There are already enough REGOs in the UK's energy system to back almost all domestic consumption, without the need to bring a single new renewable generator online. While their price has increased in recent years, they still cost so little that their benefit to existing generator revenues is negligible at best. To cover a typical domestic consumer's annual consumption would currently cost around £2 per year – that consumer is therefore only contributing additional £2 per-year to renewable generators.

This is curtailing essential growth in renewable capacity, which is required to decarbonise the UK's energy system, and contribute to achieving our legal obligation of economy-wide net zero carbon emissions by 2050.

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[1] Public Accounts Committee, *Oral Evidence: Consumer Protection*, 20th May 2019 HC 1752, Q105

[2] Good Energy, *Written Evidence*, submitted to PAC, May 2019

[3] Ofgem, *Default Tariff Cap: Statutory Consultation, Appendix*, September 2018, p.15

The solution to this distortion could be as simple as requiring that **REGOs should always be traded with the power they relate to** – a practise that Good Energy have been observing for years. This would mean that if suppliers want to sell renewable power, they will have to buy it to begin with.

Removal of Obligation Thresholds

We disagree that removing thresholds for the Energy Company Obligation and Warm Home Discount would serve to remove a distortion. These thresholds exist in the first place because larger suppliers have more capacity – in supply chains, systems, human resources, and capital - to deliver the associated service. As recently as 2018, the government reviewed the threshold for the ECO from 200,000 to 150,000 customers; lowering but not removing it in line with 'the on-going aim to minimise barriers to market entry.'[4]

Removing the threshold would run counter to this previous decision, as well as to the stated aims of this review. The market would become **less competitive**, as emerging suppliers are either priced out by those with larger economies of scale or are dissuaded from market entry altogether. Consumers would have **less choice**, and the marketplace would be once again dominated by incumbents. This is the **exacerbation – not the removal – of an existing distortion.**

Licensing of Third Parties

We agree that Third Party Intermediaries and providers of energy services should be accountable to a licensing regime. As the energy landscape changes, the number of different services which are not presently covered by the existing licenses will increase. Many of these functions, such as data or systems management services, are integral to the smooth operation of generation, transmission, distribution and supply; common sets of standards will allow better regulation, improved efficiency, and ultimately a better consumer experience. The modular approach cited in the consultation, where certain parts of a license could be turned on or off depending on the services being provided, could have a benefit both in terms of efficient and consistent regulation, which is essential for consumer protection.

As the way people produce and consume energy changes, it is important that retail market design can keep pace, and policy does not hinder the transition to a cleaner, smarter and decentralised system. Provision of a strong mandate for decarbonisation, reform of the REGO to enable consumers to make more informed choices and enhanced regulatory oversight of the ever-growing group of supporting TPIs.

I hope you find this response useful. We would welcome any opportunity to discuss the issues at hand further. If you would like to do this, or have any questions, please do not hesitate to contact me.

Kind regards,

Kit Dixon
Regulatory Affairs Officer

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[4] BEIS Consultation, *Government Response: Energy Company Obligation: ECO3, 2018-2022*, March 2018, p.5