



Ofgem
10 South Colonnade,
Canary Wharf,
London,
E14 4PU

14th January 2022

Ofgem Ref: Statutory Consultation on potential short-term interventions to address risks to consumers from market volatility

E Ref: Reg. 429

For the attention of Retail Policy Interventions,

E (Gas and Electricity) Ltd is a medium challenger UK energy retailer focussing on serving prepayment customers through our UK base call centre. We are currently ranked 6th on the Citizen's Advice Supplier (rating for July to September¹), which is the highest ranked prepayment specialist supplier in the market. Our smart delivery programme has helped us support a large percentage of our customer base through smart meter rollout and smart tariffs through which we provide our customers with zero standing charge product offering through block rate charges.

We welcome the opportunity to respond to this consultation.

We do not believe a price cap is necessary and refer to the areas which Ofgem have identified they must have regard to:

1. The need to create incentives for suppliers to improve efficiency – this is basic good business practice to be efficient as this ultimately leads to greater Enterprise Value
2. The need to set the cap at a level which enables suppliers to compete effectively for customers – the cap is currently set at a level which, particularly for a prepayment specialist does not deliver a reasonable profit level and therefore does not allow for effective competition.
3. The need to maintain incentives for customers to switch – if anything a cap suppresses this. Switching has never been easier and customers have further confidence with the Guaranteed Standards re 15 day switching.
4. The need to ensure efficient suppliers are able to finance activities – this is not achievable at the moment and will impact a supplier's ability to innovation to achieve net zero.

Ofgem have acknowledged that active consumers have benefited from the protection of the Price Cap when wholesale prices increased materially. The Price Cap was introduced to offer some form of 'loyalty protection' to those unable to switch – so the Price Cap has obviously not served its original purpose.

We support option 1: Requiring suppliers to make all new tariffs available to existing customers. Any change to the supply licences should be kept simple and not result in a reduction of the number of

¹ <https://www.citizensadvice.org.uk/consumer/energy/energy-supply/get-a-better-energy-deal/compare-domestic-energy-suppliers-customer-service1/>



new tariffs which can be offered at any one time. This option results in favourable outcomes for customers.

We do not support option 2: allowing suppliers to charge exit fees on some Standard Variable Tariffs. This does not result in a good outcome for customers and is an administrative burden for suppliers including having to advise customers of a Disadvantageous Unilateral Variation. We also believe that this could increase the risk of miss selling as consumers may not be aware they have an exit fee at the point that they are approached by a sales agent – we cannot be sure that all customers would read their revised T&C's communications. This could result in many complaints and customer led Erroneous Transfers.

We support the principle of option 3: requiring suppliers to pay a Market Stabilisation Charge when acquiring new customers. Although this may be complex to deliver it does mean that customers are not impacted directly by charges when switching (as in option 2). The Market Stabilisation Charge could potentially mitigate risks to consumers by enabling suppliers to recover a portion of the efficient costs incurred on behalf of SVT customers when those customers choose to switch away as market prices fall. Careful consideration would need to be given to the use of EACs and AQ's in any calculation and we would strongly advocate setting a cap and collar for the figures used in any calculation.

Ofgem have identified that as a result of the current market conditions (rising wholesale prices) we have seen c 2 million more customers on the Default Cap. If prices drop significantly (or indeed rise again significantly) we would expect to see this order of magnitude movement in customers & hence volume between fixed prices and the default cap. Our preferred option to minimising the volume risk would be to identify a group of UK consumers who are eligible to be on the Cap and for them to be 'marked' centrally. These customers would be protected by the Default Tariff Cap. On the basis that the cap is in place to ensure customers do not pay a loyalty bonus it could be argued that any customer who has not switched for e.g. 3 years should be protected by the Cap. Our preferred option though would be to take the opportunity to protect the more financially vulnerable customers and identify any customer in receipt of the Warm Home Core and Broader Group discount and protect this group with the Default Cap. This would mitigate the volume risk to a greater extent as a pre-defined group of customers (and hence volume) would be eligible. This would also allow for a targeted approach and possibly allow for a greater level of financial support to be provided by central government.

Please contact me in the first instance should you require any further information.

Yours sincerely

Julia Lynch Williams
Policy Director



Email: Julia.lynchwilliams@e.org
www.e.org