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“Potential short-term interventions to address risks to consumers from market volatility” – So Energy Response

Dear Neil,

So Energy is a leading energy supplier providing great value 100% renewable electricity to homes across England, Wales and Scotland. We have consistently been recognised by our customers and the wider industry for our outstanding customer service since we were founded in 2015, including being a Which? Recommended Provider in 2020. In August 2021, So Energy merged with ESB Energy and our combined business now supplies over 300,000 domestic customers. As one of the last challenger suppliers left in the market, and one that is backed by ESB's resources and expertise, So Energy is able to provide a unique view on the energy market and future reform.

We welcome the opportunity to respond to this statutory consultation and are keen to work with you on protecting consumer interests. As summarised in your paper, wholesale market volatility and the price cap have combined to expose suppliers to significant losses that were unforeseen when the cap was designed. Changes are needed to bring resilience to the market and restore investor confidence.

Regrettably, we are not able to answer each of your consultation questions due to the volume of current consultations and the shortness of the period allowed for providing a response. However, we have summarised our position and provided some suggestions you may find helpful, below:

- There is an undisputable case for intervention. The higher wholesale prices rise, the greater the likelihood of a subsequent sharp and dramatic fall in prices. However, it is extremely difficult to tell when and how a fall may happen. It is prudent to be prepared for any eventuality.
- We believe Option 1, “requiring suppliers to make all new tariffs available to existing customers” should be implemented immediately, in anticipation of a fall in prices.
 - This will constrain suppliers’ ability to price acquisition tariffs aggressively and at unsustainable levels, lessening the likelihood of requiring more interventionist measures, such as Options 2 and 3.
 - Implementing Option 1 now will provide suppliers with greater certainty with regards to their forward planning.
 - In the current environment of unprecedentedly high wholesale prices, where default tariffs are the cheapest in the market for the first time ever, having Option 1 in place will have no impact on pricing dynamics as long as wholesale prices remain high.
 - Option 1 incentivises suppliers to focus on de-risking their hedging position by moving their existing engaged customers from default tariffs onto fixed acquisition

tariffs. Internal switching of this nature is less risky and less costly to the market than switching between suppliers. This also preserves trust at a time where consumer confidence in the integrity of energy suppliers could be eroded.

- Option 1 is fairer to loyal customers who should not be excluded from accessing their own suppliers' best tariffs. This is an issue So Energy has been campaigning on for several years. In March 2021 we prepared a policy paper which examined the impact of the CMA's relaxation of tariff rules which, until the recent energy crisis, had created a new loyalty penalty. This has historically seen suppliers offering aggressive acquisition tariffs on Price Comparison Websites which cannot be accessed by that suppliers' existing customers. Whilst the current energy crisis has eliminated the loyalty penalty, it could return in a manner more extreme than before if wholesale prices see further volatility with prices moving lower. We have enclosed our loyalty penalty report for your reference, although we have previously shared and discussed this with several BEIS and Ofgem officials.
- We understand that concerns have been raised about the distributional impacts of Option 1. We expect that all remaining suppliers in the market now have a significant proportion of their customers on default tariffs, meaning all suppliers will face significant pricing constraints under Option 1. Ofgem already collects data on what proportion of a supplier's customers are on an acquisition or a default tariff. Furthermore, this step would still be a positive move from how the market operates currently with existing customers rarely shown a supplier's best tariff. As energy suppliers would use the same tariff to acquire customers as to offer to their existing customer base, the distributional implications of this option would be positive as suppliers would be prevented from subsidising growth tariffs by penalising loyalty.
- We do not favour Option 2 "allowing suppliers to charge exit fees on certain Standard Variable Tariffs" – consumers should not have to pay to exit a tariff they have not actively chosen.
- Option 3 "requiring to pay a Market Stabilisation Charge when acquiring new customers" is preferable to Option 2 but it still carries with it significant problems. It creates further uncertainty around supplier hedging strategies as it has the potential to dramatically influence consumer behaviour in a short period of time.

We hope you find this input helpful. As we stated at the beginning of our response, we would welcome the chance to engage and work with you on developing measures to mitigate the risks posed by the price cap in today's volatile markets. Please don't hesitate to contact us should you require any additional information or clarity on our views.

Yours Sincerely,

Paul Fuller
Regulation Manager

