

Future Price Protection Team

Ofgem

10 South Colonnade

Canary Wharf

London

E14 4PU

02 May 2024

Dear Future Price Protection Team,

Thank you for the opportunity to respond to your Discussion Paper on the future of domestic price protection.

We are pleased to see this issue being raised now in advance of the significant market changes that will be brought about with the introduction of Market-wide Half-Hourly Settlement (MHHS). In our view the changes in the market as a result of MHHS will be both fundamental and wide ranging, the impact will be felt across many different policy areas and as such it is essential that the license is reviewed and both government and regulator take stock of the current situation and ensure that there is a clear strategy, and the licenses and codes are not contradictory or competing.

We appreciate this is no easy task, as there will inevitably be competing priorities and views on how the market should operate, who should be viewed as vulnerable and protected and who should not. We are an energy supplier that has since inception sold renewable energy to consumers. Our priorities are clear and remain unchanged, we seek to facilitate trades between consumers with an environmental ethos and renewable electricity generators/green gas producers. As such we will argue that MHHS is an important stepping stone to facilitate the long-term strategic use of intermittent renewables and price messaging will inevitably follow to encourage customers to consider when and how they use power/gas.

That being said, we are not immune to the challenges faced by sub sections of society and appreciate that there is a large and growing number of consumers in the market for whom affordability (or the lack thereof) will be the prime driver of how they engage with the energy market. It is our view that this sub section of the

population does need protection and we are keen to explore how this can be achieved.

The answers to your questions are laid out below, but should you want any further discussion or clarification on the points raised please do not hesitate to get in contact.

Below, you will find a concise overview of our key responses.

If you have any questions or concerns, please get in contact with us.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Chris Greer".

Chris Greer

Regulatory Director

1. Do you have any reflections on our list of the caps successes and challenges.

Evaluating the cap today

We appreciate that there have been successes as a result of the price cap, in terms of efficiency, but we think Ofgem's focus should be on the issues that are being created.

The price cap is very prescriptive in terms of the hedging strategy that suppliers must utilise in-order to ensure the wholesale costs they achieve are in line with the cap levels when they are announced. This would not have been an issue in the early days of the price cap when the majority of engaged domestic customers were signing into fixed term deals, however the landscape of the market has changed and 90% of the domestic market is on a price cap compliant tariff.

The energy crisis is a perfect example of the issues this creates, suppliers all following a hedging strategy dictated by the regulator all encountered the same wholesale pricing. While the level of pricing experienced was likely to have been at a once in a generation level, what is clear is that if suppliers had been able to take a more prudent and less reactive approach to their hedging strategies and had hedges on their books covering a longer timeframe they would not have experienced the same level of volatility, and thusly would not have had to pass on the full force of the wholesale increases to their customers.

We hold a derogation from the price cap for select tariffs which allows us to hedge those customers in a different way, we would encourage you to look at the Tariff and Accounts RFI's for the periods over the energy crisis and take stock of the amount of money that both our customers and the taxpayer saved as a result of a different hedging strategy. Had larger suppliers been allowed to do this both the amount of money paid out through EPG and the amount of administration/consultants fees paid out in trying to reconcile the scheme would have been vastly reduced. We would also point out that while the price cap is very stringent on how suppliers should be hedging, during the energy crisis Ofgem often insinuated in its RFIs that it would like to see suppliers hedged out for longer than the wholesale methodology built into the cap instructs. This type of contradictory policy is unhelpful.

In our view Ofgem is not the correct organisation to be setting suppliers hedging strategies, and there should be a place in the market for different SVT products to be offered. The price cap now has the connotation of being the best tariff on the market, and this is at least in part down to the conception that energy suppliers are untrustworthy, and the price cap is a route to ensure that customers are protected. However, the upshot is that there is a lack of diversity in domestic tariffs and it could also be argued a lack of innovation, in the drive for efficiency savings we have not seen the flurry of Time of Use (TOU) tariffs that was predicted a few years ago. While

energy suppliers are unlikely to ever be popular, they should be challenged to change the conceptions of their organisations without the 'get out of jail free card' of we are not responsible for our own tariff, it is set by the regulator.

The Discussion Paper is also correct to point out that there are elements of a tariff which will differ between different suppliers' portfolio's, you give the example of bad debt. The one size fits all approach of the price cap has the potential to distort the market in a way where there will be winners and losers through no fault of the supplier. These differences will only grow as a result of the market changes which will come over the next few years.

2. Do you believe that the growing diversity of electricity consumption patterns will make it challenging to retain a flat, universal, and stringent price cap? How quickly do you think this will materialise and with what impacts? What evidence can you provide to support your view?

Evaluating the current cap for the future

At present the vast majority of the domestic market is settled on a profile, this profile is dependent upon the metering setup the customer has at their property. This lends itself to the fat, universal cap which we have now. MHHS will remove this profiling which will bring a new level of risk to the retail market. We do not believe this risk should be viewed in a negative context as to reach our net zero goals it is essential that we make use of renewable generation when it occurs and allow older fossil fuelled power stations to fall off the grid, however we must be realistic about the costs which will be incurred as a result.

Having a profiled customer means that without either elective Half Hourly Settlement or the use of an innovative Standard Settlement Code it does not matter whether a customer chooses to avoid consumption during a period of grid stress, the supplier will have to buy the power to service that customer to their profile, and as such the customer is unlikely to see a monetary saving from their action. The reverse is also true that a customer who consumes with no thought towards whether it is a necessary or beneficial time to do so is not penalised. We do not hold the figures, but anecdotal evidence would suggest that the majority of EV drivers plug their car in when they return home in the evening. It is essential that the energy system is used in a 'smarter' way as more devices are connected and the use of gas starts to decline.

It would be unfair to open these new risks to the retail market, but not allow energy retailers the option/methodology to pass these risks through to their customers. Again, this would mean that there are winners and losers in the supply world through no fault of their own and would likely lead to market exits.

The transition period of MHHS is likely to lead to a certain amount of 'gaming' of the system. We are already being offered services which will tell us which

customers would be beneficial to migrate first, and which we should only migrate as we are forced to. We would like to see there being no advantage to be gained by go/no-go decisions around customers as we should be trying to drive behavioural change, and to achieve that we must be able to make customers accountable for their own actions.

3. What plans do suppliers have to launch ToU tariffs and to incentivise customers to shift their electricity consumption once MHHS is implemented?

We already offer customers a tariff which encourages customers to shift their consumption patterns¹. And we expect these tariffs to become far more widespread after the introduction of MHHS. We suspect that this will become the norm rather than the exception but obviously that depends on the decisions that government and the regulator make around the price cap. This is an opportunity to re-shape the market and promote efficient energy use, we feel it would be a wasted opportunity to take the path of least resistance and stick blindly to the status quo.

4. How quickly and at what scale do you expect customers, especially those with large flexible loads such as EV and solar / battery users, to take up ToU tariffs once MHHS is implemented?

Assuming that suppliers are allowed to price the impacts of MHHS to their customers, it is our belief that customers will be moved onto TOU tariffs quickly after MHHS comes into force.

We are running trials with customers who have flexible loads now to see how open customers are to forgoing a level of control of their devices in order to achieve lower pricing. The messaging of this will not be easy to the unengaged, and we suspect there will be a fair amount of trial and error. We do believe these tariffs will come relatively soon, but our suspicion is that the technology to provide a tried, tested and trusted Home Energy Management System (HEMS) will be essential before the uptake of these type of tariff is significant. Without this it will require a level of engagement which most customers will be unwilling to provide.

¹https://www.greenenergyuk.com/blog/news/how_to_control_your_energy_bills#:~:text=The%20tariff%2C%20named%20Tide%2C%20demonstrates,significantly%20reduce%20their%20energy%20bills

5. In addition to the factors set out in this chapter, are there any other important changes that might affect the ability of the current default tariff cap to achieve its objectives?

We do not believe that the environmental benefits of exposing the market to the half hourly retail market have been given sufficient consideration.

6. Do you agree that we need to retain some form of price protection in the retail market?

Option for evolving price protection for the future

There is certainly a place in the market for price protection, but it is our view that it should be targeted.

Those who cannot afford energy should be helped, and there are vast improvements that can be made in this area. The price cap is in no way a measure of affordability, and there are customers who will not be able to afford energy no matter what the cost. We need a means tested method for helping those who need assistance in the form of a social tariff. We feel that this should be more nuanced than a simple qualification/ non qualification test and should tailor the price that a consumer pays to the amount they can afford to pay. We appreciate the complexity of this as a proposition, but it is the only fair way to ensure every consumer in the country has access to an affordable energy supply.

The flip side of this equation is that those customers who can afford to pay a market price for their energy consumption should not be protected using the current protection definition. This group should have a small amount added to their tariffs to cover the amount necessary to pay for the social tariff to those in a less fortunate position. Our calculations within our own customer base suggest this amount would be far smaller than the sums we have seen added to tariffs in recent years to cover SoLR costs. This is not to say that suppliers should not be treating these customers fairly, but these customers should be encouraged to engage with the market and select the appropriate offering for themselves rather than being protected by a cap whereby the most wealthy are paying the same price as the most financially challenged in our society. We have outlined the protections that we believe this sub-section of customers should receive in Q8.

What is evident for a scheme like this to work is that there needs to be a method for data on customers to be shared between organisations. We are fully aware of the complexities of doing this in a method which has due deference to data protection, however it is achieved for the Warm Home Discount (WHD) so we don't believe the hurdles would be insurmountable. We have sat on calls with HMRC and DWP where it is clear that none of us hold the perfect data set to make this an easy process, but we suspect an acceptable solution can be found where in the first instance DWP can inform suppliers of which customers are eligible for a social tariff

and then suppliers can submit the details of new/exception customers to DWP for ongoing eligibility checks.

7. Do you have views on which of the three key parameters – the cap being flat, universal and stringent - should be relaxed when considering future price protection options?

It is our view that all three key parameters should be relaxed for the majority of the market, and that the cap for the most vulnerable in the market should be based on what they can afford to pay, so the price could effectively be zero for some members of society.

8. What are your views on options discussed? Do you have any preferred options or combination of options?

In our view the price cap for those able to pay for their energy should be withdrawn. As the Discussion Paper correctly identifies the existence of the cap encourage those with the means to engage with the market not to, and we are approaching a moment where the mechanics of the market can force these customers to consider their relationship with energy and how they interact with the market. We note Ofgem's starting premise that if price protection were to be withdrawn we would likely see a return to price exploitation of inactive customers, and can understand the logic behind the statement. We do however believe that this can be overcome through less prescriptive license changes. We are of the mind that Ofgem should maintain the current ban on Acquisition Only Tariffs, but furthermore we there should be a condition that states the maximum price a customer can be charged within each of the DuoS bands should be within X% of the suppliers minimum charge in those same bands. This would mean that customers who are disengaged would receive a level of protection. We feel this should apply to SVT's but the calculation should take into account fixed term tariffs as well, so SVT customers would benefit if/when a new cheap fix is introduced. This would allow suppliers to set their own pricing and pass on the level of risk that they deem necessary to their customers while ensuring those who choose not to engage are not 'taken advantage of'.

As we have laid out we feel the protections for those who cannot engage/financially unable to engage should be means tested with the rate set by what the customer can afford to pay.

As a solution we feel this solves the majority of the issues raised in the paper with the exception of complexity. We appreciate this would be a complex solution for the vulnerable, but the result would ease the burden on those households least able to bear it.

9. In particular, which options or combination of options do you think would best protect vulnerable customers?

As we have already set out we feel there needs to be a fundamental change to the price cap in order to protect the most vulnerable. The current Price Cap design is to produce a 'fair' price, this is not necessarily an affordable price.

10. How should consumers with large flexible loads, mainly EV and solar / battery users, be treated with regards to future price protection?

If we generalise at present those with large flexible loads are currently customers who have the means and ability to engage with the market and should be encouraged to do so. The withdrawal of the price cap and opening customers up to TOU pricing would do this.

We are fully aware that in the future we are likely to see vulnerable customers with flexible solutions including but not limited to heat pumps. We believe the same logic we have already set out stands and that these customers should pay a rate that it is deemed they can afford to pay rather than a price which the market dictates.

11. Are there any additional options that we haven't, but should be considering?

We believe that the solution we have set out above draws on all of the options considered in the discussion paper but does not fall neatly into any one of them.