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Ecotricity response: Future of domestic price protection discussion paper

Dear Colleagues

We welcome the opportunity to provide input into this consultation.

Ecotricity was the world's first green energy company when we were established in 1995 and we now have over 160k domestic and non-domestic supply accounts, alongside over 100MW of self-developed renewable generation capacity. Our continued investment in new sources of renewable generation has led to us recently commissioning two new solar parks and our first green gas mill, with our first energy storage site due to be commissioned imminently. We support policy ambitions that enable the UK to accelerate its drive towards a net zero energy system, whilst ensuring a security of supply that is cost efficient for consumers.

We support the need to ensure that consumers are provided adequate price protections, however we do question whether the price cap, in its current guise, is fit for purpose in a future world of dynamic tariffs. The TDCV methodology on flat price, will not be reflective for the consumers (who in a post MHHS world could be extensive) seeking ToU based tariffs. Inversely there is a need to provide the right signals to suppliers to encourage accelerated development of innovative tariffs, which is challenging under the methodology of the current price cap framework.

Please find below our responses to question posed in the discussion paper:

1. Do you have any reflections on our list of the cap's successes and challenges?

We understand the principles behind the introduction of the cap and support measures to ensure fair consumer costs, however based on the subsequent market events following its introduction, we do not feel that it has provided an optimal solution for the energy sector and in turn consumers. This became evident by the inability of suppliers to raise prices to cover costs throughout the energy crisis in 2021 and the requirement of the Government to subsidise the domestic market. Whilst suppliers hedging policies were a key contributor to failures, the inability to match the cost rise with a revenue rise, because of the cap, also contributed. A price setting dynamic reflective of costs is a basic premise of how markets work.

As such, the cap, due to external factors, has had limited success other than to be used to control the domestic retail market within the realms of the government's EPG scheme.

Notwithstanding this, the cap could be seen to have been a success to the public on the basis that it reduced energy costs during the crisis, although the fallout from the supplier failures is that all SVT price cap customers are now incurring the cost of supplier failures and bad debt, which could have been avoided if the mechanism to protect consumers was different.

A further consequence of the price cap, seen prior to, as well as since, the energy crisis has been the destruction of the domestic competitive market, where the cap has become the market price setter. The cap was never designed or implemented to become a price setter, rather a control of costs. With the various cost elements included and the supplier margins being minimal, this has resulted in a reduced pace of innovation across the industry.

Q2. 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?

The market is and has already developed ToU [Time of Use] & EV [Electric Vehicle] tariffs to move away from the premise of flat tariffs under the cap. The development of further tariffs could be constrained by the systems and costs of the implementation.

A number of suppliers have taken advantage of Elective HH Settlements to develop and promote TOU & EV tariffs regardless of where the cap is. In these cases, the cap is holding back the development of an innovative market that can and will benefit consumers significantly due to lack of headroom within the cap against development costs.

Q3. What plans do suppliers have to launch ToU (Time of Use) tariffs and to incentivise customers to shift their electricity consumption once MHHS is implemented?

Ecotricity are currently in the design process for ToU tariffs, undertaking analysis of the data we have available from permitted customers' smart meters. Whilst the implementation of MHHS will be a wider enabler of this tariff type mechanism, it is not a pre-requisite. The ability to provide reflective price blocks to consumers, alongside coupling the ability to offer.

Q4. 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 (Time of Use) tariffs once MHHS (Market Half Hourly Settlement) is implemented?

As detailed in our response to question 2, there are already a small selection of ToU based tariffs available in the market, via the use of Elective HH settlement. Those customers who have invested in EV & solar/battery systems are likely to be the most prominent customer sector adopting these early tariffs; however, it is worth highlighting that this customer group are the early movers and are likely more engaged with their energy use in general.

The challenge for wider adoption of ToU tariffs will be twofold: the encouragement of consumers to adopt renewable technologies (which should offer the optimum ability to flex demand around a ToU) and the need for a simple system to evaluate which tariff is the most effective for a given consumer. This will likely require a change in the presentation of information, along with an easy-to-use app (at the expense of the supplier) to help support the drive to load shift.

Q5. 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?

The increased uptake of domestic scale hardware (EVs, heat pumps & solar/battery systems) by customers is going to have a dramatic effect on customer consumption. The default cap, as currently developed, not be reflective of this subset of consumers against their consumption, as the TDCV value and usage profile will be different. This will make it increasingly irrelevant as a concept and difficult to compare against.

The requirement to be transparent, as per our Standard Licence Conditions, with pricing at point of sale and throughout the customer life cycle will become increasingly difficult, for the sub-set of consumers who want to adopt ToU based tariffs.

Q6. Do you agree that we need to retain some form of price protection in the retail market?

Yes, we support the need to protect consumers from suppliers operating price discrimination, but the price protection does not have to be financial. For example, it could be in the form of a social tariff or an additional rebate through an existing scheme such as the Warm Home Discount.

In addition, there could be a system where customers who have not moved supplier or tariff/payment method for a set number of years are offered a tariff review by suppliers. If the customer opts not to undertake that tariff review, that is the customer choice.

If we take the mortgage market as an example, customers on a variable rate mortgage are not capped by what the mortgage provider can charge. If the variable rates are too high, customers shop around to find a better rate, competition works. It is the customer choice. Why should energy be different?

Q7. 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?

If the view is to continue with a financial cap, then it needs to be as simple as possible for customers to understand. On that basis a flat cap could be supportive for those consumers who are not engaged or provide some context on the reasonability of prices for those consumers who have the use of EVs, heat pumps & Solar/battery systems. The key challenge is providing the right support signals to suppliers for innovative tariffs and ensure that through the framework mechanism of delivery, a flat cap does not inadvertently stifle the opportunity for suppliers to innovate.

With regards a universal cap, along the lines of customer choice, the consumer should have the option to opt out of the cap protection. At present, customers can opt out of the cap protection by choosing to switch to a fixed price tariff. This will become more prominent as more innovative ToU based tariffs enter the market.

In future, customers should be free to opt out of the cap for a variable tariff, in preference of using a dynamic ToU tariff, where there will inherently be a risk of energy costing more than the cap based on consumer led behaviours, but balanced against the wider opportunity of energy being cheaper than the cap.

Q8. What are your views on options discussed? Do you have any preferred options or combination of options?

Flat Cap

We do not see how forcing customers onto a ToU cap when they are not engaged in the market will benefit customers, the market nor the consumer is ready for this action. The flat cap is simple to understand and compare for customers ensuring that the customer receives transparency against other likeminded tariffs.

The implementation and framework regarding how a flat cap would be implemented does need additional though, so as to encourage consumers to consider moving to more dynamic tariff types, such as ToU, where is likely to provide benefit.

Universal Cap

Giving customers the choice to opt out of the cap protection to actively engage with innovative and potentially higher risk and reward tariffs should be considered, as this provides the ability for greater consumer choice and will provide investment signals for suppliers to drive innovation at greater pace.

The complication arises in how a supplier would recognise vulnerable or low-income customers who might have solar/battery systems, for example, installed by their housing provider, as part of housing providers net zero targets. In this type of instance, consideration needs to be made as to how they can be provided with the right level of protection without limited their ability for choice.

Stringent Cap

Ecotricity believe that the key risk of a stringent cap implementation is the stifling of innovative tariff design, which would become a net negative across the consumer base. We are entering a new uncharted world of opportunity with the implementation of MHHS, and suppliers need to be able to try, sometimes fail, innovative tariffs that benefit customers and push towards net zero.

Q9. In particular, which options or combination of options do you think would best protect vulnerable customers?

The cap should not be a form of social intervention around the affordability of energy to protect vulnerable customers. If there is a need for protection of customers, then an alternative solution, such as some form of social tariff, to replace the cap would provide a better way forward than a generic solve all problems with a cap, which could inadvertently impact the wider consumer base negatively through stifling the ability for suppliers to innovate at pace.

Q10. How should consumers with large flexible loads, mainly EV and solar/ battery users, be treated with regards to future price protection?

It is a customer's choice as to whether they want to engage with the market as is it with all customers, although as a supplier we promote engagement and energy saving methods. By excluding customers who have adopted for technologies to support towards net zero but then do not have the capability to use those technologies to the full due to restrictions within the cap, this should not be a prevailing function of the cap.

There does need to be consideration for how vulnerable customers, who have these technologies installed by their housing providers, but with limited knowledge of how they can operate optimally are accounted for.

Q11. Are there any additional options that we haven't, but should be considering?

We would propose that there is consideration as to the removal of the price cap altogether. There are already clear challenges, as detailed above, with how a cap can function adequately in a world of dynamic tariffs. However, alongside this, a removal of the cap would allow the market to function efficiently and support an increased pace of developing innovative competitive tariffs that the customers want and can buy into while saving money on their energy while rewarding the investment they have made in Net Zero technologies.

This could be supplemented by the use of non-financial methods to monitor disengaged customers through supplier reporting options and engagement with their customers, such as what was trialled in 2017/2018 for this subset of customers.

Should you require any further information, please let me know,

Yours faithfully

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