Good Energy

Monkton Reach
Monkton Hill
Chippenham
Wiltshire SN15 1EE

T. 01249 767480
F. 01249 766091
E. chris.welby@goodenergy.co.uk
W. www.goodenergy.co.uk

Neil Barnes,
Ofgem,
9 Millbank,
London,
SW1P 3GE

20 February 2009

Dear Neil,

Addressing unfair price differentials consultation

Thank you for the opportunity to comment on the above consultation. As I am sure you are aware, Good Energy is a small electricity and gas supplier, specialising in offering a sustainable alternative to energy customers.

For your ease I have answered the specific questions posed by your consultation. However, certain questions are omitted in our reply as we have no view on them.

<u>Chapter 2</u>

Q1. In proposing action, are the overall aims we set out appropriate?

We agree with the overall aims of the proposals.

Q2. What is the appropriate approach to cost allocation?

We support the views proposed, but the cost reflectivity should allow 'smearing' of costs over a wider range of customers. For example, if a supplier does not differentiate its tariffs by payment type, i.e. same price whether by Direct Debit, or cash/cheque, then the fact that the DD customer is carrying some of the extra cost of processing cheques should not be an issue. However, if the supplier offers a cheaper tariff for DD, then that saving should reflect the

Printed on totally chlorine free, 100% recycled post consumer waste
Registered office: Good Energy Limited, 2 Temple Back East, Temple Quay, Bristol BS1 6EG. Company registration number: 3899612

saved costs, and should not be over stated to encourage DD and deter cash/cheque payments.

Q3. Are social or environmental issues appropriate to consider in relation to objective justification?

Objective justifications for price differential should be allowed if all customers have the opportunity to access to these tariffs. So an environmental tariff for example would be fine, unless it was only available online.

On social tariffs, these are a cross-subsidy meeting a social objective and either need to be specifically exempt, or preferably, a supplier would need to ensure its cheapest tariff was available to all customers.

Q4. Would it be beneficial to give a clear indication of materiality thresholds either on the face of any licence conditions or in guidance?

No, unless they were reviewed on a regular basis.

Q5. Would it be beneficial to introduce a new enforcement process?

We would support the proposed process; however we would not want to create a scenario where a supplier can knowingly offer an unfair tariff in the knowledge it will escape punishment provided it withdraws it as soon as Ofgem issues a non-compliance notice.

Q6. Should these proposals for a licence requirements set out in this document apply to all suppliers active in the market for domestic customers – or only a subset of these suppliers, such as the big 6?

The licence requirements should apply to all licensees who inherited a customer base at the opening of domestic competition, or are in the same group of companies of a licensee who meet that criterion. New entrant suppliers should be exempt on two counts; firstly, that their customer base have already switched once and would probably do so again if faced with unfair prices. Secondly, as they are significantly smaller than the incumbents, they would be faced with a disproportionate level of regulatory burden. Ofgem will always have the option to seek to extend any new licence conditions to others if it felt it to be necessary in the future.

Q7. Would a sunset clause be appropriate for any licence conditions?

Possibly. We would propose that the conditions became inactive once the licensee (or any associated licensee) has not received a non-compliance notice in the preceding 5 years. This ensures that the requirements only remain in force for those suppliers where it is merited.

Chapter 3

Q1. What are the relative merits of each of the proposals?

Option 'A' looks okay, but it should not inhibit those suppliers who offer tariffs with the same price across all payment methods from doing so.

We do not favour option 'B' unless it clarifies "inability". For example, a customer can choose to use a pre-payment meter (a conscious decision knowing the additional costs) or can be forced onto a pre-payment by their supplier or landlord. The former is not an inability.

Geographically, a customer may be unable to access a dual fuel discount because they are off the gas grid, or choose not to buy gas from their electricity supplier. Here the latter is not an inability.

On Option 'C', we can see this working, but the bench mark tariff should be the standard tariff payable by cash/cheque with other tariffs being above or below dependant on cost reflectivity.

With regards to "in-area" v "out of area" we believe a percentage based figure is appropriate.

On Option 'D' we would support the principle of preventing a cross subsidy in that any difference in margin would have to be explained. This could also work for in area/ out of area differences as well. We also agree that it should be reciprocal on subsidising electricity sales using gas supplies.

We have no further comments on Chapter 3

Appendix 2

We believe these proposals will be beneficial to competition, and therefore customers, although they could increase the regulatory burden on suppliers and disproportionately on new market entrants. Clearly some customers currently benefitting from a cross-subsidy

would be worse off, but as these tend to be customers who have switched, we would expect them to exercise their right to do so again if unhappy.
Small suppliers should see a levelling of the playing field for customers who are in the switching market. Customers who are never going to switch are less of an issue although they will continue to provide incumbents with a competitive advantage by providing economies of scale.

I hope you find these comments useful. Should you require any clarification, please do not hesitate to contact me.

Yours sincerely,

Chris Welby

Chris Welby
Commercial Director

Printed on totally chlorine free, 100% recycled post consumer waste
Registered office: Good Energy Limited, 2 Temple Back East, Temple Quay, Bristol BS1 6EG. Company registration number: 3899612