

## **Response of EBiCo Ltd to the Ofgem Consultation Paper:**

### **Project Discovery Options for delivering secure and sustainable energy supplies**

EBiCo is a not-for-profit company established specifically to help the fuel poor. We are different from all other energy suppliers in that our gas and electricity tariffs (EQUIGAS and EQUIPOWER) are the same regardless of how the customer pays. Thus our direct debit customers pay the same price per unit of fuel as our PPM customers. We also have no standing charge and no tiered pricing: we charge the same price per unit of fuel whatever quantity of fuel the customer uses. This helps consumers who use low quantities of energy (often those on low incomes in very small dwellings).

EBiCo has now been operating for eleven years. We have about 55,000 customers and we are the largest fuel company outside the 'big six'.

In the Summary, the paper identifies one of the key issues as (at the top of page 2):  
The higher cost of gas and electricity may mean that increasing numbers of consumers are not able to afford adequate levels of energy to meet their requirements and that the competitiveness of industry and business is affected.  
And further on the Summary says (at the bottom of page 3):

The key policy drivers to address affordability issues, such as the structure of environmental incentives and social tariffs arrangements, and further initiatives to tackle fuel poverty, largely rest with government. We will be publishing a document which looks at the implications of Project Discovery for different types of consumer in the coming months.

Publishing this document should be a priority for Ofgem. Affordability issues and initiatives to tackle fuel poverty rest with Ofgem as well as government, as all the options proposed in the paper have serious and detrimental implications for the fuel poor, unless the demand side response includes ways in which the fuel poor can substantially reduce their energy consumption while enjoying reasonable standards of comfort.

Our answers to the questions posed in the consultation paper are given below.

**Question 1:** Do you agree with our assessment of the current arrangements?

Yes, broadly.

**Question 2:** Are there other aspects of the current arrangements which could have a negative impact on secure and sustainable energy supplies, or costs to customers?

Yes there are at least two other aspects:

The final users of energy, especially domestic customers, could substantially reduce their consumption of purchased energy with sufficient incentives and government action.

There is insufficient competition in the supply of gas and electricity to domestic customers and the current market is very inefficient. The six major suppliers are an oligopoly (without collusion). It is very difficult for other suppliers to compete effectively with these six because of the barriers to entry and because the big six all own generation assets which enable them to offset much of the risk in the retail market. The current market is inefficient because a significant proportion of customers, including the poor, the elderly and the vulnerable, do not participate in the market and have never switched supplier because they do not perceive there to be an advantage in switching compared with the perceived hazards. It is also inefficient because a significant number of customers are prevented from switching as they have a debt and because a high proportion of customers switch to a tariff that is less advantageous to them, particularly as a result of doorstep selling.

**Question 3:** Do you agree that the five issues we have highlighted are the most important?

Yes, broadly.

**Question 4:** Do you have any comments on our description of what might happen if no changes are made to the current arrangements?

This description should include that either there will be serious climate change affecting us all, but especially the poor in this country and elsewhere, or there will be much higher energy prices (because fast and inefficient action will eventually be taken) which will have a greater economic impact on the poor.

**Question 5:** Do you believe that our policy packages cover a sufficient range of possible policy measures?

No; see our answer to question 7 below.

**Question 6:** Do you have suggestions for variants to these policy packages?

Yes; see our answer to question 7 below.

**Question 7:** What other policy measures do you believe should be considered, and why?

A policy of mandating or providing very strong incentives for the final users of energy, especially domestic customers, to reduce substantially their consumption of purchased energy through insulation, micro generation of heat and electricity, and passive building design. A policy is needed that results in a 'street by street' programme of installing appropriate insulation and micro generation in almost all of the dwellings in a street or in a block of flats. This policy should start with the fuel poor by being effectively mandatory for social housing and a condition for rent rebates in the private rented market. A strong incentive could be given to property owners by a differential stamp duty when the property is sold, depending on its energy efficiency.

One of the policy constraints at the moment is that any government is reluctant to take action that will increase fuel prices because of the effect of this on fuel poverty. A way round this constraint is a policy that charges higher prices to those who are not fuel poor and higher prices with increasing consumption. In this way those who are not fuel poor could pay for the costs of the policies that are needed to reduce carbon emissions and provide energy security, and fuel prices for the fuel poor could be held at around their present level.

**Question 11:** Do you have a view on which package is preferable, or alternative policy measures or packages that you would advocate?

As a general rule, we oppose the use of general levies that apply to all supply companies pro rata to their market volume as these are not competition-enhancing and enable suppliers to pass them straight through to customers. Such charges on customers are regressive in nature and, thus, unfairly lie on the fuel-poor. Wherever possible, companies should be able to mitigate the additional charges placed on the industry in order to meet the security of supply and green development targets inherent in Project Discovery through innovation or smarter working. This would minimise the impact on fuel-poor customers and provide competitive advantage to the smarter / more innovative supplier.

If analysis-based forecasting genuinely indicates that the existing policy mechanisms provide insufficient stability to the price of Carbon, then we would support the replacement of the ROC mechanism with a process of centralised 'green' capacity auctions.

We recognise the difficulties that will face the System Operator in managing peak demand in an environment where increasing tranches of flexible thermal capacity it being replaced by predominately inflexible low-carbon generation capacity. We believe that it is imperative that standards for 'smart' meters, and their associated control and communications systems, require manufacturers to provision, within the new metering architecture, the facility to send, transmit, receive and process demand control instructions. This will deliver the realistic prospect of innovation in genuine demand-side participation tariffs for the residential sector.

We also recognise that capacity payments may well be necessary to provide adequate financial inducement to owners/developers of flexible plant to maintain/create availability. We believe that Seasonal auctions will need to be conducted, by the System Operator, to establish a seasonal clearing price for premiums on call options on electricity at specified prices to cover short term additional generation in each half-hour of the day in the season in question. This single clearing price approach would make capacity payments easier, and cheaper, for suppliers to risk manage whilst the option premiums would provide the income stream needed to keep low load-factor plant in commission.

**Question 13:** Do you believe that early actions should be considered?

Yes. Early action will reduce the costs later; this will reduce the size of the price rises for the fuel poor.

We do not have particular answers to the other questions.

**Hugh Lee, FRSA**

**Chairman**

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