

Ian Marlee,
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Ofgem,
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London,
SW1P 3GE

31 March 2010

Dear Ian,

Consultation on options for delivering secure and sustainable energy supplies

Thank you for the opportunity to respond to the above consultation. As you are aware, Good Energy is a small electricity & gas supplier. We supply in excess of 26,000 electricity customers with electricity sourced from over 1000 renewable generators and nearly 3,000 gas customers who support over 300 solar thermal heat generators.

For your ease we have answered the questions in your consultation, expanding where necessary to cover other issues.

Q1. Do you agree with our assessment of the current arrangements?

We broadly agree with your assessment, but have commented below on some of your specific concerns:

i. Costs and availability of finance

By placing Finance at the top of your list, this implies that this is the major concern. However, for many potential generators the finance is available, but only secured once the generation project has achieved two milestones. Namely planning permission and connection rights. However, the costs of achieving these are not insignificant, time consuming and risky. This is of particular concern at a decentralised level as they are below the level of the IPC for planning purposes, and are not impacted by recent plans by Government to run transmission grid connections on a "connect and manage" approach. It is also a significant deterrent to community schemes as they often lack the funds required to get to the stage where external finance can be accessed.

The recent introduction of the Feed in Tariff is a good example. The Feed in tariff will only provide an income stream once it is generating. External finance will to be available, but banks are likely to only provide loans against FiT income once the scheme has received the go ahead. For them to provide a loan before planning and network access has been resolved could be seen as an unacceptable level of risk.

ii. Market Structure

We do not disagree that the market structure is dominated by the big 6 suppliers. We do however disagree that only they can provide the solutions required to meet our fuel security and sustainability requirements. By breaking this stranglehold to allow a significant number of smaller players into both the generation and retail side would allow a market based solution to evolve. By assuming that the only solution is to create a regulatory framework around the big 6 players creates a pseudo central command energy market, or a nationalised industry in all but name.

iii. Enabling demand side response and distributed generation

The key to mass demand side response will be technology driven. As an excellent example of what can be done, we would encourage you to look at the community on the Isle of Eigg who have agreed to limit their electricity consumption to 5kW for each household. If a household's demand exceeds 5kW then they are disconnected and must pay a reconnection fee. More information can be found

at: <http://islandsgoinggreen.org/about/eigg-electric/>

A key constraint on distributed generation is finance prior to project go-ahead. If we could provide generator investors with more security on projects going ahead, then a diverse community of generators could meet our sustainability and security needs. Work that Good Energy is keen to carry out involves how demand is changed if consumers generate their own power, above time of day pricing, and we believe that this could be a significant contributor to the combination of demand side management and distributed generation.

iv. Costs to consumers

The level of change required will undoubtedly lead to higher fuel bills. Whilst the issue of fuel poverty should not be overlooked, any initiative to reduce the impact on the fuel poor that shields them from the pricing signals should be avoided. Pricing signals should work, and the focus should be on reducing their energy bills by reducing their energy usage, and ensuring that they have access to the wherewithal to implement energy efficiency measures rather than concentrating to trying to reduce prices.

v. Non-financial barriers

We believe that the key to both fuel security and meeting the challenge of decarbonisation cannot be met if the only approach that is supported is a "big is beautiful" mentality. This approach rules out any innovation – the big six tend to follow the innovators and implement well, but they do not naturally innovate. And on the demand side consumers need to be put in touch with their energy so they value it and will implement demand side management. A large increase in local, distributed generation must be the cornerstone of any solution. This does not preclude larger generation, but they can only ever be part of the solution, even if it is perceived that this is easier to manage.

Q2. Are there other aspects of the current arrangements which could have a negative impact on secure and sustainable energy supplies, or a cost to customers?

As mentioned above, the "big is beautiful" mentality in approaching the solution not only prevents competition in the market, causing market forces to be distorted, but longer term mean that consumers are oblivious to the real costs of energy. For example, the requirement for suppliers to all offer the same services and standards under the guise of customer protection prevents energy suppliers focusing on key segments of the market and providing quality of care in terms of service and price, unhindered by costs incurred to meet all customers.

Q3. Do you agree that the five issues highlighted are the most important?

1. Yes
2. Yes
3. Partly, but short term pricing signals only work effectively if they pass all the way through the value chain. If, they are mitigated by suppliers such that consumers are immune to them, then their value is diminished.
4. Yes, but the solution is to move away from such fuels, not mitigate the affect by increased storage.
5. Possibly, but key is to reduce the quantity of energy they need, not to shield them from the higher prices by market intervention.

Q4. Do you have any comments on our description of what might happen if no changes are made to the current arrangements?

The description given is plausible, although we are more optimistic that a sustainable energy future could evolve in spite of the current arrangements, but it will be harder to achieve.

Q5. Do you believe that our policy packages cover a sufficient range of possible policy interventions?

No. We believe that a policy package aimed at enforcing greater competition in to both the supply and generation market especially at a decentralised level should be assessed, rather than a range of policies aimed at creating an ever increasing command economy for the UK energy market. A review of the treatment of renewable under the CRC and involving more non-utility organisations in "demand and supply" is also an important delivery mechanism.

Q6. Do you have suggestions for variants to these policy packages?

No, although measures to increase competition as mentioned above could sit under targeted reforms package.

Q7. What other policy measures do you believe should be considered, and why?

As mentioned above measures to create greater competition especially at a decentralised level should be explored. Whilst the outcome may be more difficult to calculate than by creating fixed obligations on the market, it is likely to be more enduring and efficient in the long term.

Q8. Do you agree with the assessment criteria that we have used to evaluate the policy packages?

Yes, although "risk of dampening innovation" should read as "impact on competitive innovation", and Implementation issues should include a look at external factors, e.g. Planning, sensitivity to international events and changing climate patterns.

Q9. Do you have comments on our initial assessment of each of the packages?

On enhance obligations, we believe the credit requirements of the SO needs to be considered. Having to sign long term supply contracts will increase credit requirements for smaller suppliers and new entrants, thus damaging competitive innovation. Equally Renewable tenders will damage competitive innovation in the renewable market, and possibly the market generally.

Q10. Do you agree with our summary of key benefits and key risks of each policy package?

Under key risks it should be pointed out that certain proposals could in fact hinder long term stability by stifling competitive innovation, and distorting market signals leading to market failures resulting in even greater interventionist measures.

Q11. Do you have a view on which package is preferable, or alternative policy measures or packages that you would advocate?

We believe that targeted reform is the only long term solution. If coupled with efforts to increase competition in both supply and generation, and reforms that lead to consumer demand for low carbon alternatives, principally by becoming cheaper than fossil based fuels, then targets will be delivered. As rightly suggested, setting a carbon price floor is the most cost effective way of achieving this whilst maintaining the discipline of the market. All other proposals replace the market with centralised decision making which can be subject to political interference.

Q12. Do you agree with our assessment of the timing for important investment decisions?

Broadly. What is missing is any consideration of energy efficiency. Investors will require a certain level of predictability of future demand, and as such any analysis needs to take into account timings around energy efficiency gains. The timings analysis must consider not just the supply side of gas and electricity, but the demand side as well. A stable forecast of demand, even caveated is a lower risk than no forecast of the end use of energy.

Q13. Do you believe early actions should be considered?

Yes. On the proposal to decarbonise the energy market, then the sooner the better. The sooner the correct and enduring market framework is put in place, the earlier the market will be able to respond, and at a potentially lower price. The longer the delay, the more drastic the action will be required.

Q14. Do you think that the issues are such that policy measures should be considered as a package or should they be considered on a case by case basis?

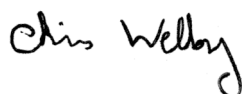
Each of the policy measures should be considered on a case by case basis, but the solution should be joined up into a complete strategy taking into account the impact of each policy measure on the other. For example, by increasing gas storage to deal with CCGT generation, what is the impact on the economics of CCS? In addition any strategy needs to look forward at the wider use of energy, and innovations outside the tight remit of energy supply. For example, a greater adoption of electric vehicles and improvements in the energy efficiency by businesses caused by the Energy CRC scheme.

In addition to all of this, the true cost of our energy delivery would be key to making the right decisions going forward. Hidden subsidies throughout the energy industry, tends to mean that there is a more negative public response to technologies such as renewable, where the subsidies are more transparent.

For years the energy markets around the world have been subsidised at a national level, normally in the name of security, both military (French Nuclear) and energy, but not revealed. Work around what is the true cost of energy today and where might you spend that money tomorrow is really key to understanding what a secure energy market might look like. Nuclear fusion R&D has taken upto 5% of the EU R&D budget for the past 20 years and yet has not yet delivered a KWh. So transparency on all types of subsidisation of all technologies (gas, oil, nuclear, coal and renewable) and by nation (i.e. where it is bought from) would be another piece that I think is currently missing.

I hope you find this response useful. Should you wish to discuss further, or need to seek clarification, please do not hesitate to contact me.

Kind regards,



Chris Welby

Commercial Director