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Dear Stefan

Retail Market Reform Consultation

Thank you for the invitation to respond to the above consultation. As you are aware, Good Energy is a licensed electricity and gas supplier supplying around 27,000 customers with 100% renewable electricity and around 4,000 customers with gas supporting renewable heat.

Below we have set out our replies to your specific questions, expanding where necessary to give a full response

Executive Summary

Whilst we agree that the current tariff structures are obscure to the consumer, Good Energy firmly believes that Ofgem's proposals to simplify tariffs are a backwards step which will inhibit competition, and lead to a stagnant market where suppliers are unable to innovate and provide products that suit the customer. We believe Ofgem would better achieve its objective if it was to remove the non-discrimination clause allowing suppliers to offer more tariffs to bespoke sets of consumers, thus creating opportunities for new market entrants.

We are supportive of Ofgem's proposals to improve liquidity, but do not believe they will be sufficiently effective. As we decarbonise the electricity market, the current arrangements are not fit for purpose and need a major overhaul. We believe Ofgem's focus should be on the new trading arrangements and how the failure to deliver liquidity in this market can be addressed as part of this overhaul.

Questions:

1. Do stakeholders agree with our findings of the review in relation to causes of persistent harm and barriers to entry in the energy retail market?

Not Entirely. Taking each of the five points in turn:

- Complex tariff information:

Compared to many products, energy tariffs are quite simplistic. Complexity will always increase when suppliers try to offer customers a range of products to choose from and competition is about providing that choice. There is an issue with suppliers offering the same tariff under a multitude of names in order to dominate the first page of switching sites. This combined with misselling can confuse, but as all customers are given on their bills an estimate of their annual spend, and sales staff are supposed to offer the same calculation, then the need to understand the complexity of a tariff is diminished.

- Poor Supplier Conduct:

We agree that poor supplier conduct is causing mistrust amongst customers of suppliers. Good Energy regularly receives reports from customers of sales agents acting for other suppliers being untruthful in order to mislead customers. Whilst the paperwork is usually legitimate, it is the sales patter that is misleading customers, and of course difficult to challenge as it is the sales agent's word against the customer.

- Sticky domestic customers and large incumbent market shares

Sticky customers are not necessarily a sign of failing competition. Good Energy's customers are reasonably sticky despite paying a premium because they support our mission and trust our values. They also have the assurances of Ofgem's Green Supplier guidelines accreditation scheme. Rather than limiting competition, maybe Ofgem should consider taking the Green Energy scheme and expanding some of the salient principles, such as auditing of claims, across all tariffs in a wider scheme. The problem of sticky customers is inherent in the obsession with price rather than product, service or delivery. Many customers believe that switching to a cheaper supplier is a temporary measure as prices change on a regular basis, and today's cheapest may not be the cheapest tomorrow. The inability of niche suppliers to enter the market and offer distinct products is also an issue. For example, greater viability of fuel mix would allow customers to see the carbon produced in generating their energy. This would create a differentiation other than price which would help the market develop. There is a regulatory requirement on all suppliers to be non-discriminatory and thus develop mass market products rather than tuning them to customers needs. The ability to do this will increase with smart metering unless the desire for "one product for all" mentality prevents this choice being on offer to customers. This will, in turn, limit the values of the introduction of smart meters for both consumers and Suppliers.

The large share of the incumbents is an issue, but must be taken in the concept of the whole supply chain, not just the retail market.

- Vertical integration and low liquidity

Vertical Integration is a logical response to the wholesale market risks that exist. However the impact of this is that entering the market without generation is difficult, especially as generation must equal demand, and demand must be built up from scratch. Credit requirements are also an issue as new market entrants do not generally have a credit rating and thus need significant cash tied up as collateral for trading which should be used for business growth.

Low liquidity is another impact of vertical integration, but impacts consumers by increasing the costs of non-vertically integrated suppliers as competition does not keep prices in check.

- Similar pricing and hedging strategies

In a market where even the regulator is primarily concerned, understandably, with price above the product and service, then it is not surprising that 6 major players of reasonably equal size adopt similar pricing and hedging strategies. All the major players will adapt to a similar extent the optimal risk/reward balance based on forward market views.

Good Energy, by nature of its small portfolio and 100% renewable fuel mix does not follow the herd and as a result has held its prices since April 2009. This shows that by allowing suppliers to offer differentiating products to niche set of consumers can result in different strategies, but current obsession with mass market offerings is thwarting this development.

2. Do stakeholders consider that Ofgem should take action to reduce the complexity consumers face and enhance engagement with the energy market?

No. We believe that the complexity is over stated. If the existing market rules were upheld, then all consumers are told their estimated spend on their bill, and any quote from a new supplier should be based on the same formula. For the sake of improving competition, restrictions on what suppliers can offer customers should be avoided. Work on simplifying the number of identical tariffs offered by suppliers would help as would work on avoiding auto rollover on fixed term tariffs.

3. Do stakeholders agree with our initial proposal for intervention to reduce the complexity consumers face and enhance engagement with the energy market?

We are strongly opposed to the proposals. Good Energy does not see why its offerings to customers should be curtailed as a result of bad tariff management by the incumbent suppliers. We believe that the proposals to restrict suppliers to one evergreen tariff are draconian and will not benefit customers. We would however support the nomination by suppliers of one evergreen tariff as their default tariff onto which customers fall at the end of a fixed term deal, unless they make a positive choice for a new fixed term tariff.

We believe one of the key benefits of smart metering will be the ability to offer more bespoke Time of Use tariffs to suit individual customer needs, and these should be available as evergreen contracts if that is what the customer wants. This is something the proposal for a single p/kWh element would prevent.

We believe that the standardised elements proposal is completely unworkable, as the costs vary from supplier to supplier.

The proposals to allow unlimited fixed term tariffs will actually play into the hands of the incumbent suppliers who will be able to mitigate the risk of fixed term prices through vertical integration and the ability to buy long term based on credit rating, as opposed to cash collateral. New entrants generally buy short term and are more vulnerable to energy market volatility, and will therefore be unable to compete fairly in the fixed term market.

If enhanced competition is what is required, the removal of the non-discriminatory clause in the licence would allow more bespoke tariffs to be offered to customers. One way would be for suppliers to remain non-discriminatory with their standard evergreen tariff, thus ensuring a range of tariffs are available to all, but allow suppliers to offer tariffs that suit distinct customer sectors based for example on geography, affiliation or use of other services provided by a supplier.

4. If not, then do stakeholders have alternative suggestions for proposals to reduce the complexity consumers face and enhance engagement with the energy market?

As stated before we believe the complexity is overstated. However we believe one enhancement maybe to the way switching sites operate. If they were required to show the best deal from each supplier based on the customers input then this could reduce confusion caused currently when switching sites return several tariffs from the same supplier in the first page.

We also believe that as suppliers move away from being fuel suppliers to energy services companies, then reducing the focus on price and more on total service satisfaction could increase consumer engagement.

Finally, we believe more rigorous action against misleading sales patter would enhance consumer confidence in the market. We would propose that Ofgem should have powers to deal with serial misselling by a supplier by banning them from engaging in sales via the problem method (e.g. door to door or telesales) for a period of time.

As a matter of principle, we believe that those who mislead customers should suffer the consequences not the industry as a whole. Punishment is more effective if the action hits the offender alone rather than hitting those who act responsibly as well.

5. We are proposing to standardise evergreen contracts across suppliers. Do stakeholders agree with the proposed contents of the standardised charge?

No. We believe that these proposals are impractical and will just add to customer confusion. We believe the existing process where a customer can compare an annual quote with that on their latest bill is much simpler, and less confusing.

In our experience this works well when the customer provides the correct details. Where customers are unable to give their annual consumption, then “caveat emptor” must prevail, unless the sales patter is misleading. In which case existing rules are being broken and tighter rules will not help, only hinder those doing business legitimately.

6. We are proposing to create a standardised metric to allow consumers to compare evergreen and fixed term contracts across suppliers. Do stakeholders agree with our proposal for a standardised metric?

No. We believe this will be confusing for customers. The current process of providing an annual quote based on the customers annual consumption is much simpler and easier to understand. As this provision has not been in place for long, we believe it has not been given time to bed in to assess its impact.

If a metric is proposed, then it should also include fuel mix and supplier satisfaction rating such as that carried out by Which, but including all suppliers and not just the larger ones. This will give customers a more rounded view of the product, so a customer may be willing to pay more than the cheapest offering if the supplier satisfaction rating on the cheapest is poor.

7. Do stakeholders have any comments on the costs and risks of our proposal, or any alternative suggestions that you have put forward, to reduce complexity consumers face and enhance engagement with the energy market?

We believe the proposals as they stand will increase costs for new entrants and smaller players, to the benefit of the big 6 incumbent players. The current market arrangements mean that consumers should be able to get a cost comparison, which they can compare with the projected cost on their bills. We believe this initiative has not been given time to work, but if it isn't working, then Ofgem should investigate why and remedies to ensure customers are getting this information and not being misled by sales patter.

8. Do stakeholders consider that low electricity market liquidity constitutes a barrier to entry in the domestic retail supply market?

Yes. Although liquidity varies depending on the size and type of products, whether they are traded direct with a counterparty or via a market exchange, and credit requirements for carrying out trades are also an equal barrier.

9. Do stakeholders consider that our two proposed interventions (the MA and MMM) could improve the ability of the wholesale electricity market to meet independent participants' needs, and will this ultimately improve the likelihood of retail supply market entry?

We doubt that the Mandatory Auction would be of benefit. Any auction must be able to offer customised shapes of infinite granularity, and be frequent enough to allow suppliers to trade as and when required as different suppliers have different trading strategies and therefore requirements to buy and sell power in the market. In addition Good Energy and others would require access to energy from renewable sources. Equally, we believe that creating a reference price based on 10% to 20% of the market could result in skewed prices as 80%+ of the energy would be traded opaquely.

We believe that all trade volumes, prices and costs between trading parties should be recorded, and reported to a third party such as Elexon, who could then publish reference prices based on the whole market for each half hour up to gate closure. As more trades are notified then prices for the half hours concerned would be updated.

The proposed mandatory market making proposals have more potential. If smaller suppliers were able to approach each of the major vertically integrated companies with specific clip requests at a reasonable level, for instance of least 1MW per HH traded and be provided with a fair market quote, then this would reduce the risk of imbalance. However, reasonable credit terms would also be required; otherwise it may be more cost effective to remain in imbalance.

10. Subject to the results of our further wholesale market assessment, do stakeholders consider that both interventions could be necessary to meet the objectives stated in questions 8 and 9?

We do not believe that MA is workable, but MMM has potential. However we believe that only a fully liquid and transparent market will create the right environment for increased competition. Given the Government's EMR proposals and the need for a robust market reference price we believe all trades above a certain size, even between companies within the same group should be recorded and used for the reference price, not a minority of trades as proposed.

11. Do stakeholders consider that there are other intervention options we should be developing?

We are of the view that the current market arrangements are unsuitable for the future with increased intermittent and decentralised energy. Add it the complexity of demand side response and smart grid operation, we believe a holistic review of the trading arrangement in order to make them work for rather than against decarbonisation is a must. Any changes to improve liquidity must be considered in that context.

We also believe this issue of credit should be addressed. One way to encourage new entrants could be to remove credit cover requirements for trades below a certain size, or a supplier with an annual GWH portfolio.

12. On the basis that we could decide to take forward these interventions, do stakeholders have comments on the indicative design choices we have made, as set out in appendix 2. In particular, views are welcome regarding our initial position on each of the following:

- **Volume requirements**

MA: Volume is irrelevant if the offers are not of the size or shape suitable, and we believe any reference price should be on all trades above a certain size.

MMM: We believe this should be reviewed annually to ensure there is continuous headroom.

- **Product requirements**

MA: We would prefer a greater range of shaped products, and small clip sizes

MMM: We believe a MMM should allow smaller supplier to take bespoke requirements and get a quote. Basing it on a narrow range of standard products limits its value.

- **Frequency**

MA: Monthly auctions would not allow fine tuning of requirements, weekly would be better

MMM: As stated

- **Governance arrangements**

MA: Agree with the proposal

- **Participation**

MA: Agree, although clarity on whether non-physical trader can participate is needed

MMM: Agree, but if big 6 can buy then a higher obligation would be required.

- **Platform**

MA: Agree

MMM: Agree, but do not believe this in any way creates a market reference price.

13. Do stakeholders have any comments on the cost and risks of our proposal, or any alternative suggestions that you have put forward, to take action to improve wholesale electricity market liquidity?

As stated above we do not believe that a Mandatory Auction will be practicable, but would support MMM, but it should allow smaller participants to take their bespoke requirements to suppliers for a reasonable market related quote, not just a shelf of standard products.

However, we believe that the current arrangements are not fit for purpose as we move to a decarbonised electricity market and as such any proposals are time limited. More thought needs to be given into designing a liquid market that supports intermittent and decentralised generation that the future requires.

14. Do stakeholders consider that Ofgem should strengthen licence conditions around suppliers' communications and interactions with their customers, to give suppliers less freedom in how they interpret these obligations?

No. We believe the current standardisation of bills is making it difficult for suppliers to differentiate themselves from their competitors. This in turn encourages the view that all energy suppliers are "much of the same" and discourages switching. Suppliers should be encouraged to improve their communications through inventiveness rather than compliance with dicta.

15. Do stakeholders consider that Ofgem should increase its monitoring and enforcement activity to enhance suppliers' compliance with licence conditions?

Ofgem should consider greater monitoring of sales activities including secret shopper activities, and consider whether suppliers should be banned from using certain sales channels where they are shown to be misleading customers. However, Ofgem should consider the disproportionate impact on smaller suppliers of increased requests for information or regular reporting.

16. Would stakeholders welcome the extension of some elements of the standard of conduct into domestic supply licence conditions?

No. We believe that they work well as standards of conduct.

17. Do Stakeholders agree that more needs to be done to improve consumer trust and use of switching sites?

Yes. We believe the Confidence code should be amended such that the customer should be given the best deal from each supplier based on their selection criteria and provided information. Currently the consumers result pages are often dominated by one supplier with a list of near identical tariffs. We would also like to see a greater emphasis on non-financial benefits such as supplier fuel mix or grade of service.

18. Do stakeholders have any comments on the costs and risks of any of our suggested policies under proposal 3?

Greater standardisation will reduce competition as it reduces the ability of suppliers, especially new entrants to distinguish themselves from the big 6. Greater regulatory oversight also falls disproportionately on smaller suppliers, and ultimately increases their costs and thus their ability to compete.

19. Do stakeholders consider that Ofgem should strengthen licence conditions to prevent unfair contracting practices in the non-domestic sector?

Yes, many small businesses are as vulnerable as domestic customers. Good Energy treats all its small businesses with the same regard as we do our domestic customers and believe all suppliers should do the same.

20. In particular, would stakeholders welcome additional licence conditions surrounding the objection procedure?

In principle, but believe any changes should be based within the MRA and using compliance with the MRA as the licence condition.

21. Would stakeholders welcome the extension of some elements of the standards of conduct into the non-domestic sector?

As stated previously, we believe small business customers should be treated with the same regard as domestic customers, however we would not welcome an extension of some elements of the standard of conduct across all business customers

22. Do stakeholders agree with our position, at this stage, not to extend tariff simplification into the non-domestic sector?

As we do not agree with your tariff simplification proposals for the domestic sector we agree that they should not be considered for the non-domestic sector as well.

23. Do stakeholders agree that Ofgem needs to look further at the role of third party intermediaries (TPIs) in the non-domestic market?

Yes. We have several reports of misleading practices by TPIs from business customers. Whilst we believe that a majority of TPIs conduct their business professionally, their reputation is being bought into disrepute by the actions of a minority. One key issue is whether they are giving independent advice, or are encouraging business customers to switch to the best deal for the TPI.

24. Do Stakeholders have any comments on the costs and risks of any of our suggested policies under proposal 4?

We believe micro businesses deserve the same regulatory assurance as domestic customers (where relevant) and find no real additional cost to us of providing that support.

25. Do stakeholders agree with Ofgem’s proposal to appoint a leading firm of accountants to review transfer pricing and hedge accounting practices of the vertically integrated suppliers?

Yes, although we would prefer that any such appointee has no relationship with any of the vertically integrated suppliers. A non-leading firm, with the right expertise would be perfectly acceptable, maybe even preferable.

26. Do stakeholders have a view on how Ofgem could improve segmental reporting in future years?

Ofgem’s aim should be to remove the need for segmental reporting by improving the wholesale market to encourage a transparent and liquid market. Keeping the market opaque to all but the regulator achieves little.

27. Do stakeholders consider that our proposals will be sufficient to protect the interests of consumers, including vulnerable consumers, or are additional consumer protections measures necessary?

We believe that consumer protection is best served by competition. Additional regulatory restrictions on the ability of suppliers to be innovative in their tariff offerings to meet consumer demands could restrict competition to the point of suppliers offering a mundane “one size fits no-one” set of tariffs and destroys the benefits that smart metering bring. We believe that consumers are particularly suspicious of fixed term tariffs and prefer evergreen tariffs which give them the option to switch at any time. If any change was made we would like to see the non-discriminatory licence condition removed so that tariffs could be better targeted, and new market entrants could initially focus on niche sets of consumers as they build their customer portfolio.

We believe customer satisfaction is as important of price and believe Ofgem should be more active and create an “Ofgem” customer satisfaction rating for all suppliers thus driving up customer satisfaction by competition, rather than by regulation. This should include the sales experience, complaints, ease of contacting customer care, and resolution on first contact.

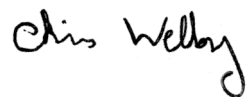
28. Do stakeholders consider that our measures to simplify tariffs will reduce the ability for suppliers to price discriminate between regions and so reduce the need for a licence condition prohibiting undue discrimination?

We believe the measures to simplify tariffs are anti-competitive and raise the barriers to entry, thus favouring the incumbent suppliers. Ofgem should allow competition to do its job and recognise

that in most other market which are competitive there are no non-discriminatory regulations, thus allowing new companies to enter the market initially focusing on niche sets of consumers.

I hope you find this response useful. If you have any questions, please do not hesitate to contact me.

Kind regards,

A handwritten signature in black ink that reads "Chris Welby". The signature is written in a cursive, slightly slanted style.

Chris Welby

Commercial Director