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Chris Smith
Retail Markets
Ofgem
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19th January 2012

Dear Chris,

The standardised element of standard tariffs

Thank you for your invitation to respond to the above consultation. As you are aware, Good Energy is a small, licensed electricity supplier of 100% renewable electricity to over 28,000 customers; sourced from a community of around 25,000 small and decentralised generators across the UK. We also supply gas to over 5,000 customers on a tariff which supports the development of renewable heat.

<u>Executive Summary</u>

As you will note from our response to the Retail Market review, Good Energy believes that an industry regulator setting prices is an iniquitous act in a competitive market. We also stated that we believe the proposals are unworkable. The contents of this consultation have entrenched this view.

These proposals will make competition in the evergreen market difficult to achieve, assuming that only regulated tariffs will be allowed in the evergreen market, and we believe run counter to Ofgem's primary objective to protect current and future customers through competition.

Good Energy has been able to offer price stability to its customers for three years, and wishes to continue serve its customers with simple, cost effective renewable energy on an evergreen basis. This lack of control over pricing poses a business risk to us given all our customers are on evergreen tariffs, a situation that applies to several other small suppliers.

We therefore strongly urge that Ofgem either drops its plans to regulate the evergreen tariffs, or if it feels a standard tariff is necessary, then not to curtail the number of evergreen tariffs small suppliers can offer.

For your convenience, we have answered the questions as set out in your consultation, expanding where necessary.

1. **Do stakeholders agree with our proposed approach to those costs that should be recovered through a standing charge and those costs that should be recovered through a unit rate?**

   No. We believe that Ofgem is over simplifying the exact nature of costs and making a move from cost reflective tariffs to one of cross-subsidisation and fudge to the detriment of consumers and competition. Without the competitive challenge to keep fixed costs down, suppliers will be less inclined to manage these costs efficiently.

   We are particularly concerned about metering costs (assuming data collection and aggregation is included), as these vary significantly between suppliers with in-house metering businesses and smaller suppliers who use independent agents. In addition this variance will widen as suppliers install smart meters at different levels. Smaller suppliers are unlikely to have a smooth install rate due to using 3rd parties and less control over these costs as they inherit "smart" installed by other suppliers.

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We also note that there is no reference to Feed in Tariff costs in the analysis of environmental obligations. The recent decision by DECC to significantly reduce the administration charge means this is now a burden on suppliers who participate.

2. **Do stakeholders have any comments on the proposed broad assessment of the possible elements of the standing charge (set out in appendix 1)?**

   Network Charges
   Due to the fact that Good Energy sources significant volumes of energy from decentralised renewable generation, our TNUoS costs are more volatile than most suppliers as it is out net position in each GSP group (i.e. Demand less generation) that is the basis of our TNUoS charges. Currently this is mitigated through regular review of our prices to ensure costs and charges are in sync. If Good Energy was to loose control of this element, then it would put us at a potential disadvantage compared to other suppliers by introducing a financial risk that is currently not there.

   Environmental Obligations
   As a small supplier we are exempt from several of these obligations, which means our standing charge is likely to be inflated to the detriment of consumers. We are hoping to participate in the Green Deal, but the proposals here add an additional incentive not to participate which in our view will reduce choice of suppliers to customers, and put some customers of limit to smaller suppliers if they have a green deal plan.

   There is no consideration of the Feed in Tariff in this analysis, which needs to be considered.

   Metering and suppliers' other fixed costs
   We believe that the variation in Metering and data collection services between companies with integrated metering businesses, and those using external agencies is significant. This is accentuated for meter reading by new entrants lacking a "concentrated" home patch of sticky customers. The roll out of smart meters will quickly change the dynamics of these costs and the ratio of smart to dumb will vary significantly between suppliers. This is of particular concern for us, as it means our roll out plan will now be influenced by Ofgem's "allowed" costs rather than the demands of our customers.

   By nature smaller suppliers have higher fixed costs per consumer than larger suppliers. To date, these issues have been mitigated to some extent by innovative approaches to working. With RMR's leaning towards standardisation of supplier deliverables, and ongoing compliance to sameness work by Ofgem, then the opportunities to mitigate via innovation is reducing. There are also fixed costs of managing the transition.

   Overall, we believe that the standardisation of the standing charge favours the larger suppliers, rather than the new entrants.

3. **Do stakeholders have any comments on the treatment of regional cost differences? Do they favour option 1 or option 2?**

   We believe that the concept of a national standing charge is cross-subsidisation and will result in suppliers focussing their switching efforts in areas where the margin in standing charges is greatest. The likely losers are customers in Wales and Scotland, where there is lower switching rates than the UK average already.

   Customers have demonstrated, and evidence from Ofgem's own research show that customers are more interested in the £/month or £/year, than the p/kWh or day. Therefore persuading consumers to switch on a headline p/kWh comparable figure is unlikely to deliver fruit. We are also concerned that to advertise on the supplier element alone would fall foul of ASA standards thus requiring the regulated elements to be shown as well, so as to not mislead.

Of the two options, then our preference would be option 2, as we believe creating a 3rd element to prices, far from simplifying tariffs, in fact complicates them for consumers. It also allows suppliers to reflect real cost differentials in their unit charges even if these are curtailed in fixed costs. If implemented with a national standing charge, it will also give suppliers who wish to do so, the opportunity to pass to customers some of the over/under charge on the standing charge into unit charges.

4. **Do stakeholders have any comments on the assessment of the individual elements of the possible regional adjuster (set out in appendix 2)?**

   We believe the assessment is flawed as it requires too many assumptions. It relies on a p/pdKWh to p/kWh calculation which is difficult and the exact amount will vary depending on profiling. Profiles are temperature sensitive, and the base profiles are adjusted every year by Elexon, thus the calculation will always be out of date.

   Also, we believe the mapping process of Gas charges onto DNO area, is simple it means suppliers will not be passing through the correct charges for a minority of sites on the borders where they are connected to a different gas network. These costs are therefore not reflective.

   In our view, Ofgem should drop option 1 and leave suppliers to manage their costs as they impact them individually.

5. **Do stakeholders agree with our proposed treatment of the standing charge (based on a broad assessment) and possible regional adjuster (using a formulaic approach) in the license conditions?**

   No. In a competitive market we see no justification for the regulator setting retail prices. This does not occur in any other market. Each supplier has a different fixed cost base, and Ofgem's standardisation of the cost means that cross-subsidisation will occur not just across customers, but suppliers.

   Customers are familiar with regional variations in their energy costs and believe the regional adjuster element adds a level of complexity that runs counter to the aim of simplification.

6. **Do stakeholders agree with the proposed timing of any changes to the standing charge and regional adjuster?**

   No. The document acknowledges that the time lag is not ideal, but states that "this does not change the way suppliers operate now". This is incorrect. Suppliers currently assess changes in costs in the light that they have control. So whereas there are costs that rise in April, which are not passed through until June, the new prices could reflect the time lag in implementation. Equally a supplier may find an increase in fixed charges are offset by a temporary fall in energy costs and defer a price change until the difference becomes significant. Good Energy has taken this innovative path and has not changed its electricity tariff for three years, offering customers price stability, something we will lose under these proposals.

I hope you find these responses useful. If you would like to discuss these matters further, please contact me.

Kind regards,

Chris Welby

Chris Welby
Policy & Regulatory Affairs Director