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David Hunt
Ofgem - Retail Markets
9 Millbank
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21st December 2012

Dear Mr Hunt

The Retail Market Review – Updated Domestic Proposals Consultation Response – Ebico Limited

Please find, herewith, the Consultation response on behalf of Ebico Limited, the UK's only not-for-profit electricity and gas company. Ebico has been active in the home energy market for nearly 15 years having been formed in 1998 to tackle issues of fuel poverty. Our tariff, EquiGas / EquiPower, is unique in that it charges all our customers at the same unit rate, irrespective of payment method, with no standing charge and no tiered energy rates. As such, it is designed to offer cash payment consumers, who tend to be on lower incomes, one of the cheapest rates available.

Being a small company, we operate under a 'white label' basis, to minimize our costs, and utilize the supply license of SSE plc. Our main concern with Ofgem's revised RMR proposals is that, as white label tariffs are included within the '4 tariff-cap' rule, SSE plc have indicated to us that, should the measure be included within supply licenses, it will no longer be willing to operate the EquiGas / EquiPower tariff. We strongly suspect that, given all licensed suppliers will be subject to this measure, we would be very unlikely to find a replacement supplier willing to offer a white label service to us. As a result, EquiGas / EquiPower would no longer be available to our customers many of whom, we believe, would suffer genuine financial difficulties as a result. As part of our Consultation response, we are requesting that Ofgem grant a specific derogation to SSE plc permitting them to continue operating the EquiGas / EquiPower 'evergreen' tariff without it counting towards its total number of tariffs for the purposes of the 4-tariff cap.

Our answers to the specific questions posed in the Consultation are detailed in the attached submission.

Yours sincerely

A handwritten signature in black ink, appearing to be "Phil Levermore".

Phil Levermore
Managing Director, Ebico Limited



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Section 2

Question 1: Do you agree with our characterisation of the problems in the retail energy market?

At a general level, we believe that the market weaknesses highlighted within the Consultation represent a fair reflection of the problems experienced by consumers and smaller suppliers. The central problem, as we see it, is that the majority of domestic consumers find domestic energy supply to be a boring household necessity which fails to grab their attention – other than when they have to pay for it. We agree with the propositions advanced within the Consultation that the multiplicity, opacity and complexity of tariffs are barriers to universal engagement with the retail energy market and that lack of trust in suppliers and the, not unrelated, paucity of clear information in bills tend to produce cynicism and detachment. However, our view is that this presents an opportunity to those suppliers who can innovate in such a way as to make home energy supply more engaging – be it through superlative customer service, innovative home service packages, novel cost-to-serve reductions or by making, as we at Ebico do, energy supply part of a bigger ethical picture. It is important for Ofgem to recognise that there are already successful examples in this regard. We believe that the fact that these examples have not been on a mass-market scale is a carry-over from the historic monopoly structure of the domestic energy market where each ‘Big-6’ energy company supplies large tranches of ‘legacy’ customers on evergreen tariffs. In order for the innovative offerings referred-to above to be successful, there has to be a ‘nudge’ for the consumer to reappraise market offerings. We believe that the end of a period supply contract should be just such a nudge and so, in general, we support Ofgem’s initiatives insofar as they encourage the trend away from evergreen supply arrangements for the bulk of domestic consumers.

Question 2: Do you agree with the findings of our evidence base?

In general, yes, although we do note that in qualitative consumer survey response data there is always the chance that consumers adjust their responses to what they believe they should think/feel – rather than report their actual thoughts and feelings. Such social acceptance bias seems all the more likely amidst the, currently, highly politically-charged public discourse regarding home energy supply.

Section 3

Question 1: Do you agree with our rationale for the proposed RMR package?

We agree that there is a need for reform within the retail domestic energy sector and, whilst it would have been preferable if this could have been agreed by the industry itself, we hope that the highly visible imposition of change by the sector Regulator will mark the beginning of a return of public confidence and trust in the retail energy market.

Question 2: What are your views on the proportionality of the proposed RMR package in the light of the evidence we have presented?

We are concerned that Ofgem has produced very little in the way of a cost/benefit analysis. Whilst our response to Question 1 signifies our general presumption to support significant change in principle, we remain concerned that the substantial additional requirements on suppliers will increase barriers to new entry.

Question 3: Do you agree with our reasons for not proceeding with the alternative options set out below?

In general, yes.

Section 4

Question 1: Are our rules to reduce the number of tariffs appropriate? Have we set the cap on core tariffs at the right level? Should a different cap be set for time of use tariffs? What derogations from our tariff cap would be appropriate?

We do not believe that setting limits on the number of tariffs is either necessary or rational. We believe that the 'active switchers' – those amongst domestic consumers who are engaged with the retail energy market – are quite capable of using the services of the various third-party intermediaries (principally web-based price comparison services) in order to select the most appropriate competitor offerings for their circumstances. We do not believe that those who are currently detached from the market will become any less so by dint of there being fewer offerings from which to choose. We believe that forcing suppliers to compete with just 4 tariffs will result in service homogenisation and stifle innovation as companies will see the opportunity costs of developing an innovative new product/service bundle too high. As a result, we believe that the tendency will be for suppliers to stick with well-established, and therefore safe, offerings that focus on merely on price – which, as we have explained in our response to Question 1 in Section 2, is not likely to lead to any further engagement with the market.

Instead, we believe that suppliers should be able to offer as many contract types as they wish, on a fixed-term basis, but that, notwithstanding the derogation we are requesting below, they should be restricted to offering just one evergreen tariff. We believe that the pressure of Ofgem's other market remedies, which we support, will tend to make this evergreen 'default' tariff, on which terms most of the 'detached' customers will be supplied, more competitive. However, permitting unrestricted development of new tariffs, combined with communication-based remedies contained within this Consultation, will encourage innovation and, over time, greater consumer engagement.

Ebico designed the EquiGas/EquiPower tariff in order to tackle the issue of the effective price-premiums that 'cash' consumers (i.e. those not able/willing to use Direct Debit as a means of payment or those on low/uncertain income who preferred the budgeting security of a pre-payment meter) were paying for their home energy. The tariff had, and still has, unique market-leading features such as no premium for pre-pay or standard credit customers over Direct Debit-using customers, a zero standing charge and single, flat, unit energy rates. Ebico continues to attract plaudits from UK consumer organisations for the simplicity and clarity of our tariff structure of which we are very proud. However, Ebico, as a not-for-profit social enterprise has always had EquiGas and EquiPower operated for us, on a white-label basis, by SSE plc (and its predecessor, Southern Electric Limited). We are a small company and have never had the financial resources to make the very substantial investments needed to become a licensed supplier in our own right. Ofgem's proposal to include within the 4 tariff cap, those tariffs supported by white label agreements is, therefore, a major threat to the EquiGas/EquiPower tariff and, therefore, to Ebico itself. The number of customers using our tariff is very small compared with the numbers using SSE's 'own-brand' tariffs and SSE have indicated to us that they would not be able to continue to support our tariff if this were at the expense of one of their 'own' four tariffs. Given that all suppliers will face the same opportunity cost, we do not believe we would be able to find any supplier willing to take-over the

operation of the EquiGas/EquiPower tariff. Whilst we understand that Ofgem will be unwilling to grant an exemption to the '4-tariff' rule for white label tariffs as a category, as this would undermine the measure, we do believe that the closing of the EquiGas/EquiPower tariff is one of the unintended consequences Ofgem has been seeking to avoid in its revision to its original market remedy proposals. **We urge Ofgem, therefore, to grant SSE plc a specific derogation from its 4-tariff limit in regards, only, to its operation of the EquiGas/EquiPower 'evergreen' tariff.**

Question 2: What surcharges should suppliers be able to offer without this counting as an additional core tariff, and why? How could these be defined in a licence?

The fact that Ofgem is asking this question indicates a problem with setting caps on tariff numbers as, before a supplier is able to launch a new tariff feature, it will have to seek Ofgem's assurance that it does not constitute a new tariff – thus imperilling its regulatory compliance. For its part, Ofgem will need to resource the provision of such assessment and advice.

Question 3: Are our rules to simplify tariff structures and discounts appropriate? Should they only apply to open tariffs or be extended to cover dead tariffs too?

We support Ofgem's proposals to simplify tariff structures. Given the range of Ofgem's other proposed remedies, we do not believe that it is necessary to apply these rules to 'dead' tariffs.

Question 4: What categories of dead tariffs should be derogated from our proposals, if any? Are any other measures required to avoid any consumer harm?

With respect to avoiding customer harm, as stated in our response to Question 1, we believe that a closure of the EquiGas/EquiPower tariff, as a result of the proposed 4-tariff cap rule, would cause genuine financial difficulty to many of our lower income cash customers. To prevent this, we urge Ofgem to provide SSE plc with a derogation in respect of their provision of a white label service to Ebico for the EquiGas/EquiPower 'evergreen' tariff.

Question 5: What would be the implementation issues and costs of our proposals?

We believe that, absent some form of derogation, implementation of the 4-tariff cap will result in the cessation of our commercial operation in the UK retail energy market. It would also have serious cost implications for fuel-poor customers that have lower fuel bills with our tariff.

Question 6: Is our proposed timeframe for implementation appropriate?

Given the likely outcome for us, the exact implementation timescale is somewhat academic.

Section 5

Question 1: What are your comments on the degree of prescription proposed, and on the design of the documents and messaging?

We understand Ofgem's motivation for seeking to impose the exact content and format of key customer communications. Whilst we find this degree of regulatory micromanagement highly unfortunate, we do believe that the resulting standardisation and simplification of information has merit and we hope it will be a very visible first-step in re-establishing consumer confidence in the sector. We propose that Ofgem include a 'sunset' clause into this proposal such that, once it has been established as the 'norm' in customers perceptions and consumers have understood the

meaning of the contents and expect this information, the market will then be allowed to return to designing their own customer communications.

Question 2: What are your views on the appropriateness of content requirements for each of the communication channels?

We have no further comments on the specifics of this proposal

Question 3: Should Ofgem explore further ways in which suppliers might increase the effectiveness of online/paperless communications?

We consider that this activity should be left to those companies sending-out the email communications.

Question 4: Should Ofgem consider making further recommendations, or issuing best practice for enhancing the impact of Annual Statements by looking at messaging and co-branding of envelopes?

We consider that this activity should be left to those companies sending-out the communications.

Question 5: Do you agree with the view additional contractual information can be included on an additional page on the Annual Statement?

We have nothing further to add regarding the specifics of this proposal

Question 6: What are your views on the classification of dual fuel for the purposes of the template designs?

We have nothing further to add regarding the specifics of this proposal

Question 7: What are your views regarding including energy efficiency advice in Annual Statements?

We support this proposal.

Section 6

Question 1: Do you agree with our view that the cheapest tariff message should include both supplier's cheapest tariff for their payment method, consumption and meter type, and the cheapest overall tariff from their supplier irrespective of their current circumstances, personalised by consumption?

In general terms, we are concerned that the Supplier Cheapest Deal proposals will encourage an exclusive focus on price. As we explained in our response to Question 1 of Section 2, we believe that it will be provision of energy as part of a wider story, be that customer service, environmental or ethical, that will lead to genuine popular re-engagement, not a focus on price. None the less, we do believe that Ofgem's proposals will have the effect of delivering 'nudges' to those customer segments which are currently indifferent to the home energy service that they receive and, thus, we support them. On that basis, we support Ofgem's view stated in the above question.

Question 2: Do you agree with the approach to tariff eligibility criteria proposed for supplier's cheapest tariff?

Yes.

Question 3: We seek views from stakeholders on whether consumers with smart meters and any relevant time-of-use tariffs that the supplier is offering require separate consideration in relation to this policy proposal.

We suggest that the cheapest tariff message should also say that the customer would pay less if they moved from an Economy 7 tariff to a general electricity tariff for those customers where this is the case

Question 4: Do you have any suggestions regarding additional rules which they consider relevant for the construction of the cheapest tariff messaging?

We have no particular views in this regard.

Section 7

Question 1: Do you agree with our proposal to introduce a price comparison tool?

Yes, we support this proposal.

Question 2: What is your view about the terminology we are proposing for the two price comparison metrics? Are they clear and easy for consumers to understand?

We believe the proposed terminology is appropriate.

Question 3: In your view, does our proposal for the TCR strike an appropriate balance between different trade-offs in terms of simplicity, accuracy, confusion and saliency? Please explain the reasons for your view.

Yes we believe that the balance is appropriate

Question 4: Do you agree with our proposal for the different features of the Tariff Comparison Rate, and our related proposal on the personal projection? Do you have any thoughts on whether and how time of use tariffs should be accommodated in the TCR and personal projection? Please explain the reasons for your view.

We are concerned that the personal projection that Ofgem proposes could be highly misleading in those circumstances where a supplier has little historic information regarding the consumer's annual usage. We believe that the provision of the TCR, along with a generic description of the types of dwelling that would normally experience a low, medium and high demand, would be sufficient.

Question 5: In your view, should suppliers be required to make available up to date information on TCRs for their tariffs? What is your view on the barriers to the publication of best buy tables, and how could we better facilitate publication by third parties?

We would strongly support the requirement on suppliers to make available up-to-date information on the TCRs of all their tariffs, i.e. both open and closed tariffs. To enable third parties to collate this information, suppliers should be required to have a single 'TCR page' on their website.

Question 6: Do you have any concerns regarding the implementation of this proposal? How long after a decision has been made would you take to implement this proposal? What drives those timescales?

Effectively, Ebico already publish this information as our EquiGas/EquiPower tariff has no standing charge, no discounts and a flat unit rate. Thus, our advertised unit rate is the same as the TCR.

Section 8

Question 1: Do you agree that the revised Standards of Conduct (SOC) will help achieve our objectives?

We strongly support Ofgem's revised SOC. The evidence from our own consultation exercise with our customers is that a set of specific and enforceable standards will be critical in rebuilding trust in the sector.

Question 2: Is there a different name for the SOC that will have more meaning to consumers and can be used by stakeholders across the industry?

We would be very happy for Ofgem to use the name we gave our proposed set of standards (see below) when we consulted with our customers, as it proved very popular. This was *The Expectation Charter* and it is framed from the perspective of the customer and expressed in terms of what they can expect from a supplier.

I expect that my supplier will:

Openness

1. Review my tariff annually to check I'm on the their cheapest plan for my energy use
2. Provide information on the lowest price plan they currently offer and conditions attached
3. Create a consistent format for publishing price plans expressed in plain English

Fairness

1. Use a common standard method of bill estimation if no meter read is available
2. Never make me feel I've been treated aggressively, deceitfully or manipulatively
3. Ask me every 12 months if any credit on my account should be repaid

Honesty

1. Ensure that anyone selling energy supply to me will give me a direct comparison using my actual use
2. Not try to sell me other products when speaking to me about non-sales matters
3. When I switch to them, tell me how to switch away, including any costs

Question 3: Does our approach to enforcement mitigate stakeholder concerns about clarity and regulatory risk?

We believe Ofgem's statement helps in this regard.

Question 4: Do you have any information regarding potential costs this may impose on suppliers?

We have no specific information.

Section 9

Question 1: Do you agree with our proposal for rules to be applied to fixed term offers in the domestic retail market?

We strongly support Ofgem's proposals in this regard.

Question 2: Do you agree with our proposed strategies to mitigate concerns regarding increases in network charges?

We have no specific comments.

Question 3: Is 30 days the appropriate notification period for mutual variations? Should there be any exceptions to our proposals for mutual variations (e.g. direct debit amount variations)?

We have no specific comments.

Question 4: Are there any expected implementation issues or costs associated with this proposal?

We have no specific comments.

Question 5: Do you agree with our proposed timetable for implementation of our proposal?

We have no specific comments.

Section 10

Question 1: Do you agree that we should trial a Market Cheapest Deal initiative?

We believe that the principle of forcing suppliers to provide information regarding their competitors' products and services is profoundly wrong and, absent evidence of grossly anticompetitive behaviour, unnecessary.

Question 2: Do you consider there are other approaches we should consider to address the particular issues with engaging sticky and/or vulnerable consumers? If so, what are they?

DECC is already supporting group switching through the provision of £5M in FY 12/13 to help such groups get established. We doubt the efficacy of this particular initiative but believe that it does point the way to a longer-term solution to the 'sticky customer' problem. Specifically, we know, through the support that the Ebico Trust gives to community energy saving/anti fuel-poverty groups, that vulnerable customers can be helped to lower their energy cost and switch to a cheaper supplier if they are engaged by a local, trusted, third-party. **We believe that, rather than wasting public money on group switching schemes, Government should be encouraged to fund, and help coordinate and develop, the work of the many local community energy organisation that already exist which can, then, work to build relationships with vulnerable consumers in their area.**

Question 3: Would you be willing to work with us in conducting the trial?

Given our response to Question 1, no.