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22nd April 2013
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Summary

Ecotricity supports the principle of making the energy market more transparent, accessible and thereby competitive; however we do not believe that Ofgem's current proposals will achieve this. The latest proposals show some improvements over those outlined in October 2012. We are particularly pleased that Ofgem has put the Market Cheapest Deal on hold; requiring suppliers to work out and advertise the cheapest offering of their competitors was a rather absurd proposal, in our opinion. On the whole, however, the current position still imposes unnecessarily stringent prescriptions without addressing the real reasons for a lack of consumer engagement. Some of the proposals will actually make the situation worse – for example imposing uniformity in communications (such as bills) and preventing innovation and differentiation – which the market badly needs.

Tariff Simplification

Tariff Limit

Ecotricity takes a principled stand in relation to tariffs: no customers should be charged more in order subsidise cheaper tariff offerings to others. We currently have just two domestic tariffs: our standard mixed tariff and our 100% green tariff. Both are available to all customers. We strongly support proposals to limit suppliers to four core tariffs. This limit will reduce the scope for suppliers to bamboozle the marketplace, and will thus significantly reduce consumer confusion and hopefully raise levels of engagement.

Collective Switching

We strongly object to proposals to allow exceptions for collective switching. As stated in our response to the October 2012 proposals, we have serious ethical objections to the whole idea. Not only does it break the principle that all tariffs should be open to all customers - and Ofgem explicitly states that it must breach this principle; it is an illusory initiative. It promises lower prices predicated on a bulk buying capability (of people coming together) - but that is a false assertion. The prices may indeed be lower (although at least one recent

Staff discounts

It is not clear whether Ofgem will view staff, and friends and family discounts as a separate tariff, a prohibited discount, or a permitted discount and staff benefit. It is, and should be seen by Ofgem, as the latter and therefore not included in the tariff limit or the requirement to make all tariffs available to all customers. As with any industry, energy suppliers should be free to decide how to compensate their staff, including offering preferential rates for the product they sell.

Tariff Comparison Rate & Personal Projection

We support the requirement to give customers a Personal Projection before sign up, which essentially reinforces existing requirements to give customers estimated annual costs. As stated in our October response, however, the TCR is unnecessary. There are already plenty of simple price comparison tools available in the market. These tools give consumers what they really need to know – what it would cost them, for a typical year, on tariff x,y or z. They are widely available and easy to use. Customers that cannot access the internet can get Personal Projection quotes from various suppliers, which will be much more relevant in relation to what they will actually spend.

The TCR is also confusing. Although the move to regional TCRs is an improvement on the previous national average proposal, it is still not a figure that reflects what the consumer will actually pay in any meaningful sense. We anticipate many confused customers calling us to ask why this figure is different to the unit rate shown on their bill and how it relates to the charges.

Suppliers may set tariffs which are significantly cheaper at the national average than they are at the other consumption levels.

To illustrate how this might encourage consumers to choose tariffs that would be more expensive for them, we have enclosed a graph comparing different standing charges and units available in two different regions, MANWEB and Yorkshire, at different consumption levels. The figures used are based on one of our own tariff (which is price matched to the regional supplier) in two different regions, but could equally be two different suppliers/tariffs in the same region. Note, that this TCR only includes the standing charge and unit rate. As you can see, at the national average of 3,300 kWh, Yorkshire's TCR is 5% lower than MANWEB's and would therefore appear to be the obvious choice. At consumption levels over 5000 kWh per year, however, MANWEB is cheaper than Yorkshire. Although these are different regions of the same tariff; the same problem will apply when customers compare the TCRs of different suppliers in their own region: a customer with a higher than average consumption would lose out if they based their decision on the TCR. We do not believe that there is any way to resolve this: the requirement on suppliers to specify that the TCR relates to average consumption merely highlights the uselessness of this figure.

'winner' has publicly stated that those who switched to it as part of a bulk switch, could have got a cheaper price on their own) - but they are not lower due to bulk buying power.

In any event, even small suppliers have vastly more customers already on supply with them than typical 'bulk buying' auctions have to offer – making a mockery of the idea that it is the bulk buying that makes the difference. In reality suppliers are offering new customers a share in avoided marketing costs, if they bulk switch.

Bulk buying reintroduces the disgraced practice of price gouging, within an industry that was moving away from it. Ofgem and consumer groups have spoken against such practices in the past. And RMR is surely intended to reduce or prevent this from happening, by restricting tariff numbers. Bulk buying is price gouging by another name. It should not be encouraged let alone made exception for, and enabled, in RMR. Suppliers should not be able to exceed the four tariff limit for 'bulk switching' schemes.

Innovative Tariffs

We see a potential danger with having exceptions to the tariff limit: it opens the doorway to abuse and a proliferation of tariffs, despite the other controls of the RMR. Incentives for innovative green technologies must be allowed, but this should be done within the context of discounts rather than additional tariffs. They should comply with the general rules on discounts and Ofgem should clarify these rules to ensure that discounts for innovative technologies would be allowed.

Examples of these discounts include Ecotricity's proposed electric vehicle and heat pump discounts. These would take the form of a discount against the bill for customers that have the relevant technology. They would be continuous (£x per y time) rather than one off and would be available to and the same for customers on any tariff in any region. They would therefore comply with the proposed general rules on discounts; however this type of discount is not specifically listed as permitted. It is important that such technologies are incentivised: they have clear environmental benefits but are relatively expensive and consumption remains low. Promoting them via discounts rather than additional tariffs enables such an incentive without tariff proliferation.

Discounts

Ofgem plans to prohibit all one off discounts and special offers to consumers except where these are pre-sign up. This is presumably to prevent discounts being used to discourage switching; however, there are circumstances when discounts can encourage switching and there must be exceptions for these. For example, Ecotricity currently incentivises customers to recommend us to their friends by offering both the customer and their friend chocolate or wine vouchers, should the friend choose to switch. Encouraging peer to peer recommendations increases overall consumer engagement and awareness that switching is an option. As stated in our October response, our own customers are already engaged by virtue of the fact that they have chosen to be an independent supplier; the friends they promote us to, however, may never have switched away from their incumbent supplier. It would therefore be against the aims of the RMR to prevent such schemes.

Information Requirements

Although the latest proposals show a small reduction in prescription; it is still far too high and will not allow sufficient flexibility to account for different approaches to customer communications – or indeed for the continuing evolution of best practice. We do not believe that the proposals themselves will lead to clearer or simpler bills – we believe they will achieve the opposite: a uniform one size that (badly) fits all.

These information requirements are only considered necessary because of the complexity of the bills produced by the Big 6, who appear unable (or unwilling) to match our simplicity in this regard.

This prescription will stifle innovation and competition and is anti what Ofgem are trying to achieve – it will drive the market to the lowest common denominator, all bills will be equally mediocre.

We included a copy of our bill in our previous response and for your reference we have included it again. As you can see, it is simple and easy to read. We receive significant positive customer feedback on the simplicity and layout of our bills. It has been a challenge to achieve and maintain this simplicity with the inherent complexity of our industry and the current compliance requirements. A lot of work has gone into creating a bill we believe is class leading. We fear that the current RMR proposals will be a backward step for our own billing and our customers.

Summary Box on Bills

The proposed “Summary Box” on bills is not necessary where bills – such as ours - are already clear. The requirement that it must be over two pages wrongly assumes that more information and long bills are what customers want. As you can see, our bills are on a single page with information specific to the customer on the front and generic information that we are required to give to all customers on the back. This leaves no space for this “Summary Box”.

Furthermore, prescribing the location of particular information may unnecessarily increase costs. The information on bills is dynamic and will vary in length. Having to work this around the set requirement for a “Summary Box” spread over two pages, limits our flexibility in how we present this. Furthermore, our current systems do not allow us to vary the size of boxes: we can only insert a set box into the system, not change it once it is there. Where there is variation in the size of the box, this will need to be done manually, which will be costly.

Tariff Information Label

The Tariff Information Label (TIL) is too focussed on price alone: a problem that runs throughout the RMR proposals. In order for TILs to be useful to consumers; other factors that are important to them need to be added. This should include complaint levels as reported to Ofgem each year.

Current proposals state that the TIL would need to be provided alongside the Principle Terms, which would include placing it on marketing literature. This will be highly costly as suppliers will either need to make all marketing literature region specific or include several pages of TILs with all marketing materials. A better option would be to simply direct the customer to where they can find the TIL.

Annual statement

As stated in our previous response, we believe that annual statements are unnecessary and merely add to the amount of paperwork that consumers receive: resulting in communication fatigue and of course adding cost and environmental impact. Ecotricity includes the information that we are required to send as an annual statement on our quarterly bills, rather than sending it as a separate yearly communication. This ensures that consumers get all the information they need, more frequently, without adding to paperwork, cost and waste. We are opposed to any requirement to change this approach.

Under the RMR proposals the way we currently work would not be possible: annual statements will be required to be sent as a separate document. This is unjustified in our opinion: it is bills, not annual statements that consumers are most likely to keep for future reference. If information is necessary – and much of what Ofgem is mandating is not – the bill is where it should go.

If there must be an annual statement, then it should be kept as concise as possible; should not duplicate information that is already on the bill and customers should be able to opt out from them. Repetition will merely irritate consumers and make them less likely to read either document carefully, as will forcing them to receive an unwanted document. This principle of no duplication should apply to both existing requirements and new ones that come in with the RMR.

We do not believe that annual statements achieve anything meaningful in respect of solving the main problem of the energy market, which is lack of competition.

Supplier Cheapest Deal Messaging

We are pleased that there is less prescription for the wording and formatting of the Supplier Cheapest Deal than in the October proposals, but we remain of the view there is no sense in this proposal.

In fact some of the latest changes make it even less sensible. Ofgem is still proposing that suppliers be required to advertise both a “narrow” and “wide” definition of cheapest deal, with the objective being that the “narrow” definition respects consumer preference whilst the “wide” one does not. However, the “narrow” definition will no longer respect the consumer’s choice of payment method or the choice of mode of their meter (where there is a choice between time of use or standard): it is therefore not a message that respects consumer preference. The “wide” definition is of even less use since it would advertise credit tariffs to customers on prepayment meters (albeit whilst informing the customer that they would need to change their meter) and ignores online versus offline account

management preferences. What use can information about other tariffs be, if it ignores the realities of a customer's situation and preferences?

Given that RMR will mandate a maximum of four tariffs per supplier, there is a good argument to be made that the range of options in the market have been so significantly reduced, that supplier cheapest options has been rendered obsolete.

It is still not clear whether fuel mix would be considered a consumer preference under the "narrow" definition; but in any event customers who have chosen to pay more for their supplier's greenest tariff, do not need reminding that their ethical decisions cost them money. This will only surely irritate them and undermine the green market.

In order to determine whether customers on E7 tariffs would save by being on a standard tariff we would need to have at least 12 months consumption information. This is because both total consumption and the spread of consumption between on-peak and off-peak will vary throughout the year. Advising customers that they would benefit from switching, before we know this to be the case would be misleading and reduce confidence in suppliers.

Standards of Conduct

As outlined in our previous response, we already apply the Standards of Conduct (SOC) and support the principles behind them. We pride ourselves on our customer service and ensure that customers are treated with honesty and respect. Our written information is clear, simple and accurate. When we say we will call back, we do.

Nonetheless, we are concerned about the regulatory risk that including the SOC in the licence conditions poses. Although Ofgem has outlined the factors it will take into account when investigating a potential breach; there remain many uncertainties and much is left to interpretation. For example, giving a customer too much information on the phone might not be considered "appropriate" as it would be information overload; on the other hand giving too little information could make the representative in breach of the requirement to give "complete" information. The point where the amount of information given is neither incomplete nor inappropriate is highly subjective and having this as a licence requirement exposes suppliers to a high level of regulatory risk.

In addition, proving compliance will in itself be a high cost. We will need to increase our paperwork, not in order to serve customers better; but merely to prove we already serve our customers well.

We believe that there are more effective ways of ensuring suppliers treat their customers fairly. This could be achieved through the implementation of a "best service table" showing information such as customer complaint levels, as reported to Ofgem, perhaps even the setting of limits, in terms of complaints per thousand customers that would be acceptable under the proposed SOC – actual hard numbers.

Conclusion

We support the principle of making the energy market more accessible to consumers and thereby more competitive; however, we believe that the majority of the current RMR proposals will reduce consumer engagement for the reasons set out above.

The energy market needs consumers to be educated and encouraged, to go shopping around. And it needs suppliers that are able to innovate, evolve best practice and differentiate themselves (on more than just price). We do not need homogenised communications or identikit bills, or national price indexes in a market that has no national prices.

Much can be learned by considering the other markets in the UK which are dominated by oligopolies – but which are considered to function competitively, and to engage consumers. None seem to have done so with the aid of RMR type regulation. We refer here to petrol stations and supermarkets as two good examples.

We welcome any further contact in response to this letter. Please contact Emma Cook on 01453 769301 or emma.cook@ecotricity.co.uk.

Yours sincerely,



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