

Ofgem  
9 Millbank  
London  
SW1P 3GE  
[vulnerability@ofgem.gov.uk](mailto:vulnerability@ofgem.gov.uk)

Ecotricity  
Lion House  
Rowcroft  
Stroud  
GL5 3BY

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Ecotricity Reference No.: 704  
[kit.dixon@ecotricity.co.uk](mailto:kit.dixon@ecotricity.co.uk)  
01453 840635

Dear Jemma Baker

### **Ecotricity Response to Financial Protection for Vulnerable Consumers consultation**

We are writing to you regarding the Financial Protection for Vulnerable Consumers consultation, and the ongoing work by Ofgem to protect consumers from unscrupulous energy companies.

Ecotricity, the world's first green energy company, was established in 1995 and now has over 200,000 domestic & non-domestic customers and more than 80MW of renewable energy generation capacity. We continue to invest in a green Britain through new sources of renewable generation, an Electric Vehicle charging network and promoting a more sustainable way of living through the Green Britain Foundation.

We recognise the need for increased consumer protection as too many vulnerable customers are on Standard Variable Tariffs that they did not choose. Steps need to be taken to protect these customers from exploitation and we welcome this market intervention.

#### **Cap Scope and Qualification**

The use of Department for Work and Pensions data to provide the list of vulnerable customers, based on eligibility for the Warm Home Discount, is practical given the circumstances. Whilst it does not provide a comprehensive assessment of vulnerability, Ofgem's decision to use it as a qualifying metric will expedite the process of cap implementation. This is preferable to placing an onus on suppliers to identify vulnerability as, without the customer's engagement, it can be extremely difficult to identify remotely and could lead to the most vulnerable customers missing out.

#### **Price Cap Design**

We believe that an absolute price cap is the wrong approach. An absolute cap will not solve the problem of price gouging where customers are lured to a new supplier with a loss making tariff before being moved onto a more expensive tariff at the end of the year for effectively the same product. These loss making tariffs are not only bad for consumers but also provide a false impression of the real cost of energy.

A relative price cap would stop this practice, encouraging customers to switch to a new supplier without the fear that they will be placed on an extortionate tariff if they don't have the spare time to investigate energy prices at the end of their contract. A relative price cap would ensure that a supplier's most expensive tariff is no more than a set percentage higher than their cheapest tariff, protecting customers in a way that is easy for them to understand.

An absolute cap does not take into account the different costs that a supplier incurs and could drive suppliers out of the market, lowering consumer trust, choice and competition. A relative cap would not have this problem, could be implemented quickly and easily, and achieve Ofgem's goal of providing comprehensive protections for vulnerable customers.

During the Select committee hearing on 20/10/17, Dermot Nolan suggested that a relative cap would see the cheapest deals offered by the big 6 suppliers disappear so they could continue to overcharge their disengaged customers rather than trying to win less profitable customers.<sup>1</sup> We expect a similar impact on fixed term tariffs should an SVT cap be introduced.

Research by Cornwall Insight<sup>2</sup> has shown that since the implementation of the prepayment price cap, the average cost of SVTs for both large and medium suppliers has increased above that of the prepayment cap. It has also shown that average difference between prepayment tariffs is now as low as £19 per year, reducing the incentive for consumers to engage in the market. This will also reduce competition as tariffs are squeezed together and suppliers are given far less opportunity to innovate.

Just this week, BEIS have released a report indicating that disengagement is highest amongst the fuel-poor.<sup>3</sup> If an absolute cap is extended to all SVTs and default tariffs, you could see both the cheapest fixed deals on the market disappear and lower levels of engagement in vulnerable customers, as there will be an assumption that there is little to be gained from switching suppliers.

## Number of Tariffs

Too many tariffs compound this disengagement. More than 300 tariffs from over 60 suppliers makes the market appear a lot more complicated than it actually is. This puts customers – vulnerable or not – off shopping around for the best tariff for them. Ecotricity offers one tariff per meter type ensuring that both new and loyal customers are charged exactly the same rate. Energy supply is an essential service and further steps (on top of the Informed Choices licence condition which require tariffs to be easily distinguishable from each other) should be taken to cut down on the number of tariffs for essentially the same product.

## Exemption for Energy Tariffs with Environmental Claims

We were pleased that the Draft Domestic Gas and Electricity (Tariff Cap) Bill, recognises that green tariffs with additonality should not fall under any cap, as for a tariff to be truly green it needs to help increase the amount of renewable generation and so will have increased costs. We urge Ofgem to follow the same principle with any cap they implement.

<sup>1</sup> <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/business-energy-and-industrial-strategy-committee/energy-price-caps/oral/71540.html>

<sup>2</sup> <https://www.cornwall-insight.com/publications/chart-of-the-week/chart-of-the-week/2017/chart-of-the-week-if-the-cap-fits-prepayment-tariffs-squeezed->

<sup>3</sup> BEIS, *Research Into the Behaviours and Attitudes of the Fuel Poor in England*



Both electricity and gas tariffs need to be treated the same way. It has been suggested in conversations with BEIS that this is as there is no equivalent legislation relating to tariffs with environmental claims. We would heavily encourage Ofgem to introduce gas tariffs with environmental claims into the Gas Supplier Standard Licence Conditions, mirroring the electricity equivalent. The exemption of green electricity tariffs from the cap can then be easily extended to gas tariffs in a straight forward way. A significant number of customers are on dual fuel tariffs and it would seem incongruous for 2 parts of their tariff to be treated so differently, which could reduce consumer confidence in the energy industry even further.

There is currently no minimum proportion of green energy required to be supplied for a tariff to have environmental claims under the electricity standard supply licence. It would be logical to set a threshold of at least 51% for the purposes of any cap. This is to prevent suppliers exploiting customers with a supply that contains only a token amount of green energy in order to avoid a cap. Green gas is currently less plentiful than green electricity. This is something we are working to change through the construction of green gas mills, but in the meantime we would suggest a lower threshold for gas, of around 10%, from green sources than for electricity, but with the same requirement for additionality as set out in the electricity supply licence.

## Conclusion

Ecotricity recognises the need to take steps to stop the exploitation of vulnerable consumers within the domestic supply market. We believe that a relative cap is a better option than an absolute cap, that the number of tariffs for the same product should be curtailed and that the exemption for electricity tariffs with environmental claims should be extended to gas tariffs.

We welcome any future contact in response to this letter. Please contact Kit Dixon on 01453 840635 or at [kit.dixon@ecotricity.co.uk](mailto:kit.dixon@ecotricity.co.uk).

Yours sincerely



Alan Chambers  
Head of Regulation & Compliance