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Future supply market arrangements – call for evidence

Submission by Limejump

Limejump is an aggregator and supplier in the fintech Energy Market. Through big data and innovative deep learning software we create new ways to simplify and increase value for Customers participating in the UK energy market. We currently manage the largest installed battery portfolio in the UK with 60MW and a further 83MW due to come on line this year.

Limejump are one of the few true technology businesses operating in the Distributed Generation (Power Purchase Agreement) and Demand Response markets independently of the larger traditional energy companies. Should certain barriers to entry be removed, Limejump have the ability to continue the innovative work through to Supply side C&I, SME and residential markets.

Our response and views on the supply market are provided below.

Topic 1 - Guiding criteria to evaluate a successful supply market

Q1 What are your views on the above criteria? Are there other criteria that should guide our assessment of current and possible future market arrangements?

We believe that the three aims of Ofgem are important:

- to promote competition for consumers
- to enable innovation in business models
- to ensure protection for all consumers

However, the first two aims are increasingly intertwined. What we see in the market the innovative low carbon energy suppliers are the most competitive. It is older legacy suppliers, who are failing to provide innovative new business models that are neither green nor cheap, that consumers are looking to avoid when they switch. This is particularly the case for a younger more engaged generation of bill payers.

However, despite increasing levels of consumer engagement, there are still huge numbers of bill payers who are being charged high prices and supplied high carbon energy that, given the choice, they would opt out of paying for. For this reason, Limejump would like to see the onus placed on energy companies rather than bill payers.

We note that the RIIO-1 price controls have been relatively successful in ensuring that network companies reinvest profits into innovation that helps to keep the lights on and create savings for the end consumer. We would like to see a similar methodology applied to the supply market that incentivises the procurement of low carbon energy, innovation in business models and low bills for consumers.

As part of this we believe that an index should be created by Ofgem, or another independent body or panel, that takes into account these criteria and rates energy companies. We would suggest that companies performing well in these areas be granted business tax relief on a sliding scale meaning that the greenest, cheapest most innovative companies would be rewarded for their work. The bi-product of this is that larger profiteering legacy supply companies would have no choice but to invest heavily in improving the service they provide to consumers and procuring clean energy.

Topic 2 – Barriers to innovation

Q2 What are the most significant barriers to disruptive new business models operating in the retail market? Please draw a distinction between regulatory barriers and commercial barriers (e.g. there may not be enough potential consumer demand to justify market entry).

Limejump believes the Central Volume Allocation (CVA) and the Supplier Volume Allocation (SVA) markets need to be radically reformed or replaced. Flexibility providers now operate more like generators, procuring unused energy from an area of low demand to supply energy as a balancing service to an area of high demand, much like a traditional plant generator would. As such, there is now a breakdown between the traditional distinctions of generators and suppliers. Currently, however the conditions for taking part in the market are different for both generators and suppliers which presents regulatory challenges for many, including aggregators like Limejump, that are licensed suppliers but provide demand side response in the same manner as generators.

Embedded generation is also still classified as a supplier when taking part, which requires revision as embedded generation is rapidly growing and has substantial capacity to provide balancing. Aggregating embedded generation enables organisations to effectively generate large power sources that can be used to provide flexibility for other parts of the broader system. Although the method is different, the end result and target is to provide the same response that could be procured from a CCGT plant through a STOR contract for example. However, the process of aggregating embedded generation is more efficient for the system producing a net energy saving.

A further barrier for many non-transmission connected generators is that they are currently required to partner with a supplier to enter the Balancing Market (BM), or alternatively pay for a generation license and enter as a generator. However, the BM market has changed in recent years, with an increasing number of parties providing balancing services outside of it. These parties, known as non-BM Units, often embedded within distribution networks, provide services to National Grid either directly through bilateral or tendered contracts or via a third party such as an aggregator. We believe that this should be changed and that these non-BM Units should have access to the same benefits as a BM unit as they are providing flexibility in the same way.

Trading arrangements

As a licensed electricity trader Limejump would like to see more transparency on broker profit margins and values. Limejump is happy to make clear its trading arrangements and its margins in relation to trade, however there are many organisations that are less willing to do this. We believe there should be a mechanism that would require brokers to disclose these figures, to prevent those who seek to take advantage of the lack of transparency and charging customers a disproportionally high rate to trade their energy.

By making this information available Ofgem are not just protecting the end user, but also protecting those that want to trade energy back into the market. As microgeneration increases it will also become more commonplace for generators to also be consumers that produce excess energy at times of low demand.

Smart Meter Data

We would also like to see smart meter delivering high quality half hourly settlement data sets. Limejump as a fintech aggregator rely on data to operate at speed and with precision. The more high-quality data available the better our ability is to provide flexibility services in a timely fashion, ultimately providing greater system security.

Better data sets will also be key for consumers operating on increasingly prevalent time-of-use tariffs and will prevent customers from being overcharged or undercharged for the electricity they consume, or importantly sell back to the grid, helping to provide greater flexibility services.

Topic 3 – Alternative default arrangements

Q3 What other supply market arrangements would provide a better default for disengaged consumers, whereby they are protected adequately and are able to access the benefits of competition?

Limejump does not think that consumers are adequately protected by default supply arrangements. The default tariffs consumers are placed on under current arrangements are neither the cheapest nor the greenest.

A large number of those put on these tariffs will find that it is with a legacy supplier that enjoys its position due to historic arrangements. This is not compatible with the aims of Ofgem to promote consumer competition as these companies rely on disengagement for guaranteed income. New supply companies, on the other hand, have to work much harder to gain new customers. Despite this, disengaged consumers are inaccessible to new suppliers, even if they could save large sums of money by switching.

We believe that for consumers on default supply arrangements there should be a mechanism, taking advantage of the index outlined above, that means the default tariff is served by those companies at the highest achieving end of the index delivering low cost, green energy. Again, this would act as a major incentive for legacy companies to compete with innovative suppliers rather than relying on an unfair market advantage.

Ofgem could take this decision and decide to transfer disengaged consumers tariffs. If this approach were taken there would need to be communication from Ofgem to affected consumers, clearly explaining why they were transferring them to a new tariff highlighting the price difference. At this point consumers can be given an opt out and, if they so choose, remain with their current default supplier.

An alternative method would be auctioning default tariffs to the supply market. Blocks of default tariffs can be put out to auction and supply companies can offer bids for them. A block, for example, could be made up of residential properties in a particular area or of industrial users on an industrial estate. An independent panel would stress the best tariffs available citing the criteria outlined above relating to cost and carbon savings.

We appreciate, however, that these mechanisms are likely to lead to attacks and accusations of Ofgem distorting the market by selecting winners. However, there is a defence of this approach:

- By allowing current default arrangements to continue, Ofgem is selecting legacy suppliers as market winners
- The process by which the index is calculated can be made transparent and automated. For example, calculating the cost of energy per MW/h to the consumer vs levels of carbon produced per MWh
- An independent panel selecting what they see as the most competitive tariffs of supply offers will drive competition amongst suppliers

Limejump fully embraces competition in the market place, and we see ourselves as a highly competitive disruptor. However, ultimately the disengaged consumer market cannot be tapped into, even by the most competitive companies. Ofgem believes it should “regulate only where necessary to protect consumers” interests. Limejump views this as an absolutely necessary intervention for vulnerable disengaged consumers by shielding them from the poor value, least competitive tariffs that they have had no part in selecting and allowing the most competitive companies to bid to provide their energy services. This strategy would place the onus on poorly performing suppliers to innovate rather than consumers to engage.

Topic 4 - Consumer protection

Q4 How big an issue is it that we do not currently regulate intermediaries in the energy market? Is there a case for doing so? If so, how would we best do it? We are especially interested in frameworks that enable a wider variety and increased number of market participants to provide supply.

We believe that intermediaries, such as price comparison websites, energy brokers and energy efficiency advice providers, should be subject to direct regulation in the same way as an energy supplier because they can often have a larger influence in the choice of energy supplier than the supplier themselves.

It is not appropriate that they avoid Ofgem scrutiny and are only subject to general consumer protection rules as their actions have a significant impact on energy suppliers' business along the supply chain. TPIs (Third Party Intermediaries) have a key role to play and are useful for consumers, helping them navigate and increasingly convoluted supply market with multiple options available to them. They are also able to smartly save consumers money by providing innovative services.

Innovative services should always be encouraged and protected to help build a more resilient energy system that delivers for the consumer. As such, we would welcome the establishment of an accreditation code that TPIs should have to sign up to in order to operate in the supply market as well as an annual audit that they must pass. Its purpose must be to protect consumers from being taken advantage of by TPIs, not to stifle innovation by TPIs that are capable of saving consumers money.

For more information regarding this consultation please contact:

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