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Ecotricity Response to the Default Tariff Cap: Policy Consultation

Dear Anna Rossington

Introduction

Ecotricity were the world's first green energy company when we started in 1995 and we now have almost 200k domestic & non-domestic customers and almost 90MW of self-developed renewable energy generation capacity. We continue to invest in new sources of renewable generation, Electric Vehicle charging through our Electric Highway and more generally promoting sustainable living through all of our activities in the sectors of Energy, Transport and Food.

We also invest in research and development; we are currently developing a ground breaking 'grass to gas' green gas mill.

As a pioneer in the renewable energy market we are interested in developments with The Domestic Gas and Electricity (Tariff cap) Bill and the approach set out within the policy consultation. We have answered each question in turn below.

Question 1: Which approach for setting a benchmark for efficient costs do you think would be most appropriate?

Method 4 (the bottom up approach) is the most appropriate method for setting any cap to assess supply cost.

Question 2: What are your views on the issues we should consider when setting the overall level of the cap, including the level of headroom?

The main issues to be considered when setting the overall cap are diversity of supply, cost basis and offerings (for example customer service levels) and cost effective purchasing of energy.

Headroom is also a necessary aspect of any cap. This will allow for many short term factors that can affect the market significantly well before any review of the cap can take place. These are factors such as the diversity and cost basis mentioned above, as well as fluctuation in the wholesale energy market, unforeseen market events (such as the 'beast from the east' in late February) and energy companies having different hedging strategies.

Question 3: Do you agree with our approach to accounting for different costs, in particular additional costs of serving consumers paying by standard credit?

No comment.

Question 4: Do you agree with our proposals for how we will use cost data to update the cap?

No comment.

Question 5: Do you agree with our assessments of whether an exemption for tariffs that appear to support renewable energy is necessary and workable?

We disagree. We share the views of Claire Perry, set out in The Minister of State for Energy's letter of 25/3/18 to the Bill Committee.¹ Not including an exemption or derogation for tariffs which genuinely support the production of gas, or the generation of electricity, from renewable sources will restrict innovation in renewable energy and reduce consumer choice. These are consumers who have chosen these tariffs and will have engaged in the market and know that they are paying more, but are happy for this to help fund renewable energy generation and production. They are not victims of the extortionate SVTs used by suppliers with cheap fixed tariffs to win customers, or large disengaged customer bases.

Ofgem has had licence conditions in place for a number of years to prevent suppliers from misleading customers about green electricity tariffs. Under Condition 21D of the electricity supply licence (Tariffs with Environmental Claims) there are already transparency requirements to ensure that customers are aware of the genuine benefit from choosing such a tariff. As long as these benefits do support renewable generation/production, there is no reason why this requirement cannot be tweaked to cover a tariff exemption (or derogation) under the requirements set out by the bill.

Carbon offsetting measures should be excluded from any additional requirements. They are cheap to administer and have no long term impact on the sustainability. However, projects that do demonstrate genuine, long lasting environmental gain (habitat creation for example, where land is given back to nature) should be considered.

The renewable gas market is still in its infancy and so requires even more support than renewable electricity. It should be included in the same exemption/derogation process as electricity tariffs.

An exemption would make the most sense unless derogations can be applied for in advance and do not lead to negative consequences for consumers. Suppliers who already have green tariffs that satisfy the requirements for a derogation, should be able to keep their prices as they are until Ofgem have had a chance to review their application. To do otherwise would cause chaos as customers of these suppliers would see their tariffs fall and then rise. If a supplier is not granted a derogation, they could then refund any affected customers.

¹ <https://publications.parliament.uk/pa/bills/cbill/2017-2019/0168/Perryletter.pdf>

Question 6: Do you have any views on what information we should use to assess the conditions for competition?

No comment.

Conclusion

We believe that an exemption for green tariffs is workable, and failing that a derogation process. Any derogation process should be set up in order to minimise consumer detriment, and so should not affect green tariffs already in the market until Ofgem has had a chance to review any applications.

If you would like to discuss this further, please get in touch with me directly on 01453 761 380 or via email at alan.chambers@ecotricity.co.uk.

Yours sincerely

Alan Chambers
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