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via email to
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Ecotricity Response to the Default Tariff Cap Statutory Consultation

Dear Anna Rossington

Introduction

Ecotricity was the world's first green energy company when we established in 1995 and we have nearly 200,000 like-minded green domestic & non-domestic customers and almost 90MW of self-developed renewable energy generation capacity with more in our development pipeline. We continue to invest in new sources of renewable generation, including developing the UK's first national electric vehicle charging network which we call the Electric Highway and more generally promoting sustainable living through all of our activities in the sectors of Energy, Transport and Food. We are also a voluntary Feed-in Tariff licensee, acting for almost 70,000 installations and helping the continued rollout of domestic scale microgeneration.

As a supplier which supplies 100% renewable electricity and taking active steps to increase the amount of both renewable electricity and renewable gas available, we welcome the chance to comment on the tariff cap proposals which we support in principle subject to there being no freezing effect on our and others' renewable energy development activities.

Genuinely Green Tariffs Should be Exempt

The proposed tariff cap will protect energy consumers who have never switched, and those who have been snared by loss-leading, cheap energy tariffs, assuming that any subsequent default tariffs would also be good value when this is often not the case. However, we need to be careful that the effects of the cap are not detrimental to unintended areas, and especially renewable development.

Ecotricity is a vertically integrated British generator and supplier with a unique 'bills to mills' model – a model we have loyally pursued for over 15 years. Customers switch to us know that there will be a

positive change from their switch, rather than having green energy diverted to them whilst making other consumers receive more brown energy unwittingly – indeed, in many cases that is precisely why our customers switch to us and why they stay.

The Rt Hon Claire Perry MP's letter (enclosed) speaks of the danger of preventing genuinely green suppliers (such as Ecotricity) from offering standard variable tariffs at a level above the cap. Areas of innovation to boost the renewable energy infrastructure are at risk which go above and beyond green tariffs provided by suppliers/licensees who solely purchase certificates to make a brown energy supplies green and engage in cheap carbon offsetting. These 'light green' tariffs create a misleading picture of the cost of creating a greener Britain, much like loss making tariffs make financially sustainable tariffs appear unduly expensive.

We welcome the proposal to allow derogations for gas tariffs alongside electricity and the proposed fast track derogation process to avoid consumer detriment.

Research and Development

Investment (as opposed to donations) can be complex to quantify. In order to show the scale of investment from customer payments, a lot of areas need to be considered which include both backward looking and forward looking development costs. All aspects should be considered - from research to site selection, to construction, to commission and ongoing operation & maintenance costs.

Write down's of projects which cannot come to fruition also need to be taken into account. These should be able to go back up to three years rather than an arbitrary 12 months.

We would urge rules for the derogation application process not to be too prescriptive, so that when suppliers show the necessary cost from investment it can still be considered, even if it has not already been done so by Ofgem's economic advisers.

Storage

The Domestic Gas and Electricity (Tariff Cap) Act 2018 allows Ofgem to make standard variable tariffs exempt where "the rates in question appear to the Authority to support the production of gas, or the generation of electricity, from renewable sources." This is clearly not limited to the creation of new sources of renewable energy in itself, and investment in storage (or other technology that may emerge) should be allowable from derogated tariffs. Indeed, without derogation, Ecotricity would find it all but impossible to continue to fund the development of renewable generation assets due to the potentially high financial impact imposed on it by the cap.

Storage is the missing piece to the renewable generation puzzle, providing a solution to the intermittency problem and allowing for the creation of virtual power plants and smart grids to flourish. We think battery storage will become an absolutely integral part of all renewable generation (if it is not already) because of this positive impact positively– put another way, without storage there will be no new renewable generation - and, as such, should be included in derogation.

We would urge rules for the derogation application process not to be too prescriptive, so that when suppliers can show that their tariffs are supporting the intention of the Act, they are able to receive the enabling derogation.

Non Direct Financial Support

The statutory consultation makes reference to non-financial support for renewables. As part of this, PR work and general communications about the value of boosting renewable energy sources should be considered. Raising awareness can stimulate the market and see direct investment in renewable energy from outside the energy industry itself, and not directly from energy consumers' bills.

Conclusion

Ecotricity welcome the changes to the proposed derogation process for tariffs that support the production of gas, or the generation of electricity, from renewable sources. We would urge the requirements for any such derogation to be set carefully and not unintentionally restrictive to investment in key areas of the renewable infrastructure to help create a greener Britain. Careful effort will be need to ensure that all aspects of research & development, planning, construction and ongoing costs, as well as write down costs and non-direct financial support (such as PR) can be taken into account.

We believe Ofgem needs carefully to consider the impact of the cap on small, vertically integrated suppliers like Ecotricity who make a genuine and positive contribution to renewable generation in the UK and who, unlike the Big 6, have not inherited millions of incumbent customers.

If you would like to discuss any aspect of this further, please contact me directly on 01453 761 380 or via email at alan.chambers@ecotricity.co.uk.

Yours sincerely,

Alan Chambers
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