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Dear Anna Rossington,

### **Statutory Consultation – Default tariff cap**

Thank you for the invitation to respond to the above document. Good Energy supplies 100% renewable electricity and carbon-neutral gas to homes and businesses across the UK. Good Energy is working towards a 100% renewable future, helping to support technologies including wind, solar, biofuel, hydro and tidal. Our purpose is to power the choice of a cleaner, greener future together.

#### **Overview**

- Derogations provide an essential route to preserving customer choice.
- We strongly support the proposal to allow applications for derogation against green gas tariffs and welcome the clarifications regarding a possible derogation process.
- Assessment of ongoing consumer engagement should be based on if a supplier's offering has materially changed since it was chosen.
- We support proposals to examine rules regarding fuel mix disclosure.
- Some costs lie outside the criteria for derogation, but rather than being a sign of inefficiency, these are central to Good Energy's offering.

#### **Derogation**

Good Energy fully supports the need to protect consumers. It is clear that a large number of consumers are unengaged from the energy market, and face high prices as a result – as has recently been termed the “loyalty penalty”. Although Good Energy has trialled some fixed tariff offerings, by-and-large it has only ever offered a single variable tariff. This is why a nuanced approach to regulation is necessary – to ensure that this price cap does not result in eroding the choices made by those who have engaged in the market.

The opportunity for suppliers to apply for derogation preserves consumers' choice to support the transition to a renewable energy system, and will help OFGEM to meet the requirements of the Tariff Cap Act to maintain incentives to switch supplier. This appropriately balances the need to protect consumers, with the need to allow for business models which offer support to renewable electricity generation and green gas production.

We strongly support the change in OFGEM's position regarding the opportunity to apply for a derogation for renewable gas products. Our green gas tariff is an important part of the choice our customers make when coming to, and remaining with, Good Energy. Our green gas tariff offers significant value for green gas producers in the UK and further afield. The Committee on Climate Change has highlighted that progress in the decarbonisation of heat is lagging behind electricity, and this must change if the UK is to meet forthcoming

carbon budgets. Offering a derogation for green gas tariffs will allow consumers to continue to support the decarbonisation of heat.

We welcome the clarity included in the statutory consultation regarding the possible process for derogation application – previously this was a key risk area. Although OFGEM has yet to commit to offering a derogation route, having sight of what the process could look like if such an opportunity were to be granted, is hugely beneficial.

## **Consumer Choice**

The consultation raised questions around assessing if a customer's choice of energy supplier may be considered to be valid over time. There are some fundamental issues in this area worthy of consideration.

Small suppliers such as Good Energy did not inherit their customer-base as a product of liberalisation, but have had to win customers from the incumbent suppliers<sup>1</sup>. Market research shows that our customers have selected us because we offer a socially responsible and environmentally sustainable alternative to other suppliers. Good Energy has been operating in the market since 1999, and has a number of long-standing customers. However, it would be inaccurate to assume that customers that have remained with Good Energy for a long period have done so because they are unengaged. Research with our customers demonstrates them to be engaged with the energy market, and highly aware of our activity – something we keep them regularly updated with through our customer newsletter, emails, and social media feeds.

OFGEM has proposed challenging those applying for derogation to demonstrate that their offering has not materially changed since customers joined. We propose the appropriate criteria on which this is judged would match the criteria for assessing a tariff for derogation. I.e. Assessment should be based on if the level of support for renewable generation offered by a tariff has changed since sign up, and if the costs of delivering this green tariff have changed.

### Supporting Renewables

Good Energy originally only supplied 100% renewable electricity. In response to customer demand for a similarly ethical and sustainable approach to the supply of gas, we introduced a basic brown gas product in 2008. Having established stable mechanisms to supply gas to customers, we then looked to develop this into an environmentally sustainable offering, and in 2016 began sourcing biogas. In response to customer feedback, Good Energy also elected to offset the remaining carbon impact of all brown gas in its supply mix through verified carbon emissions reduction schemes, chosen by our customers. Three schemes were chosen, including supporting small-scale biogas production in Vietnam. This means that the product has become “greener”. This direction of travel is consistent with Good Energy's purpose, and is an important part of why customers switch to us, and remain with us. We therefore believe it would be counterintuitive to suggest that Good Energy's proposition has changed in a way that would invalidate the choices of our customers.

### Cost

Since its inception, Good Energy has worked to reduce costs, although there are some costs relating to a PPA-backed tariff which cannot be avoided. However, the costs of operating in this way should not be confused with the relative price point in the market. Good Energy has always prided itself on charging a fair price for a premium product – this has never changed.

This is not to say that Good Energy's position in the market, relative to other suppliers, has never changed. However such changes are largely symptomatic of the changing market, rather than a change in

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<sup>1</sup> The exception to this being a small number of customers on deemed tariffs.

Good Energy's proposition. Since Good Energy entered the market, other suppliers have altered their pricing strategy, and recent years have seen new suppliers enter the market with low-price (often below-cost) offerings. This has the effect of pushing Good Energy's tariff further away from the cheapest in the market. However, it would be counterintuitive to suggest that other suppliers' behaviour should have a bearing on whether Good Energy's customers' choices may be considered valid or not.

We propose that wherever suppliers have reduced the "greenness" of their offering, e.g. if a supplier previously matched customer demand with output from their own generation sites, then later moved to a partial or complete 'greenwash' model of operation, that this would demonstrate that the offering has materially changed since customers signed up. However, wherever the "greenness" has been maintained or improved over time, meaning consumers are continuing to receive a comparable or better product to that which they chose, this choice should still be considered valid.

Similarly, where the costs behind a tariff have materially changed (except where costs have altered as a product of delivering additional environmental benefit), this too could justify a challenge around the validity of a consumers' choice.

### **Fuel Mix Disclosure**

The current fuel mix disclosure rules do not appear to be fit for purpose. We support OFGEM's statement "*We do not believe that a 100% REGO-backed tariff in itself offers substantial environmental benefits*"<sup>2</sup>. However, a number of suppliers in the market are making environmental claims regarding the benefits that such tariffs bring. Although such claims are consistent with the letter of the regulation contained in SLC 21 (fuel mix disclosure arrangements) and SLC 21D (tariffs with environmental claims), they do not appear consistent with the spirit of the regulation. We also have concerns that the retrospective nature of fuel mix disclosure allows suppliers to make claims based on information which is up to 15 months out of date, rather than reflecting the live operation of the business.

We have anecdotal evidence of growing consumer sentiment that selling "greenwashed" tariffs as 100% renewable is misleading. This is particularly problematic in the context of increasing focus on fixed-term tariffs which mean customers may be unable to switch, even if they feel misled by a supplier's offering. These issues are set out clearly in a recent blog by the trade association REGEN<sup>3</sup>.

We therefore propose that the time is right for a review of these aspects of regulation, and would welcome the opportunity to engage with OFGEM on how these rules may be made fit for purpose.

### **Efficient Suppliers**

We are mindful that OFGEM is bound by the constraints of the Tariff Cap Act, and therefore is only able to consider the cost implications of supporting renewable electricity and gas production when considering a derogation request. However, we would challenge OFGEM's current framing that where a supplier's costs exceed the cap level, this can only be a product of green costs, or supplier inefficiency. A number of Good Energy's practices are based upon an ethical and sustainable approach to doing business (such as paying a full living wage to all staff, and operating as a largely customer-owned business). While these practices increase costs, they do not relate directly to the renewable nature of the tariff. However, research with our customer base shows these aspects of our business to be a key part of why our customers choose, and stay with, Good Energy. We understand the constraints of the Tariff Cap Act, however it is important that OFGEM's framework

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<sup>2</sup> [OFGEM \(2018\) Default Tariff Cap: Statutory Consultation Appendix 10 - Exemptions](#)

<sup>3</sup> [REGEN \(2018\) We need to talk about green energy tariffs](#)

for assessing derogation applications acknowledges that although there are costs which may not be associated with the renewable nature of a tariff, that they do not necessarily signal supplier inefficiency or customer detriment.

### **Quantitative Evidence**

OFGEM highlights the need for quantitative evidence to support the case for derogation for renewable tariffs. We are in the process of compiling this evidence for submission as part of a derogation application, and the recent RFI. However it is important to highlight that due to the nature of Good Energy's operation, such data is not straight-forward. There is not a single cost-line in the tariff which relates to the cost of offering renewable electricity and gas, rather these costs manifest across the entire operation.

### **Unidentified Gas**

A particular area of concern regarding the price cap methodology relates to the level of unidentified gas (UIG). We understand OFGEM's reasoning that it is important that there is an incentive on suppliers to reduce the level of UIG. However, the proposed level of 0.96% is far below the level we have experienced since Nexus go-live, which has been on average ~6% of wholesale gas. We are taking every step to reduce this figure, however there is a limit to how much can be achieved by individual market participants, particularly those that rely on third party shippers. We would argue that the significant cost of UIG is already providing sufficient incentive on domestic suppliers to support its minimisation, therefore the value included in the tariff cap methodology should be more reflective of the experiences of suppliers.

We recognise that OFGEM is tasked with balancing the requirements of its statutory mandate against those of the Tariff Cap Act and we believe the approaches we are suggesting strike that balance in a proportionate manner. We would welcome the opportunity to engage further with OFGEM as thinking develops, and to contribute our particular expertise in renewable energy to support the design of the eventual approach.

I hope you find this response useful. If you have any questions, please do not hesitate to contact me.

Kind regards,

**Dr T. Steward**

**Regulation and Compliance Manager**