

OFGEM  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

27 September 2018

Dear Sir/Madam,

## **RE: Default tariff cap – Consultation response**

Thank you for the opportunity to respond to the documents you released on the 6<sup>th</sup> September 2018. We have read through them, and while we believe competition is working, we appreciate the work that OFGEM has carried out to clearly represent how the capped prices have been derived.

Green Energy is an independent supplier providing both domestic and commercial customers with 100% renewable electricity and 100% green gas. We have been in operation since 2001 and have navigated the often complex regulatory framework over this period whilst maintaining the goal of 'treating customers fairly' and 'doing the right thing'.

We realise that the disengaged consumer is routinely being charged on Standard Variable Tariff (SVT) rates which are generally considerably higher than the cheapest-in-the-market. We are pleased that a benchmark cost price is now available. We would urge OFGEM and BEIS to now use the default cap rate for comparison, rather than loss leading tariffs which serve to confuse and purely aim to grab market share and not offer long term savings.

As a small supplier with a clear green offering we pride ourselves on high levels of customer service; we have three causes of concern within the default tariff cap which we would hope OFGEM will consider.

### **1. Innovation**

Green Energy has always aimed to be at the forefront of the market when it comes to offering innovative products. We offered small generators a fair price for their power long before the Feed in Tariff was introduced, and we continue to work in the fields of battery storage and virtual power stations. This desire to innovate led us to introduce a tariff that we call TIDE in January 2017. TIDE is a Time of Use (ToU) tariff that encourages customers to shift their consumption out of peak times using price messaging. Customers are rewarded for avoiding consumption at periods of peak system stress, and conversely penalises for consuming during these periods. Not a tariff for everyone, but it does enable an engaged consumer to take control and substantially reduce their bill. This has not been a simple tariff to administer, it has meant installing smart metering for each consumer who opts into the tariff and ensuring that the tariff is properly understood.

Furthermore we have used the elective Half Hourly Settlement process with willing domestic customers to establish if we can offer a more dynamic and reactive version of this tariff in the future. We have learnt a number of lessons from this, both in terms of messaging and technical hurdles. We believe that this experience will be essential to the whole industry if Ofgem decides to move forward with Mandatory Half Hourly Settlement.

However this tariff would fall foul of the default tariff cap. We do not tie customers on the TIDE tariff into fixed term contracts, so even though they have opted for this tariff it would be defined as an SVT. For such a tariff to operate we charge customers the full cost of DUoS, BSUoS, TNUoS, Capacity etc during the peak times of week days, which enables us to offer savings at all other times. The majority of tariffs on the market spread the costs incurred at these times of day across all units consumed. In the event of the default tariff cap being introduced with no derogation for TIDE we would have to close it and migrate the customers onto another tariff. We do not believe that this is the intention of the policy, and as such we fully intend to ask Ofgem for a derogation. However, it does raise the question of whether the default tariff cap will stifle such innovation in the future. At a point in time where the industry is rolling out smart meters it would seem counterproductive not to utilise the increased levels of functionality they provide by reducing the number of products suppliers can offer.

## **2. Green Offerings**

Green Energy only supplies 100% renewable electricity backed by a REGO (Renewable Energy Guarantee of Origin) and 100% green gas backed by a RGGO (Renewable Gas Guarantee of Origin). We have Power Purchase Agreement (PPA's) and balancing arrangements in place to ensure that we never buy any brown power. The cost of operating in this way is considerably higher than we could achieve by altering our business model. The certificates themselves come at a price which is not factored into the price cap workings; additionally green power is far more likely to be intermittent and therefore the balancing risk is higher. We note that Ofgem has laid out its thinking on Green Tariffs, and again we fully intend to apply for a derogation on the basis that we would have to materially change our business otherwise. Both Ofgem and BEIS have recognised the importance of Green Tariffs, and while we share the desire to ensure consumers pay a fair price for their power, we do not believe this should be done at the cost of environmental choice.

## **3. Economies of Scale**

Appendix 6 of the consultation document states that smaller suppliers with higher operating costs should not have these reflected in a higher level of cap, it then implies that the differential between the costs faced by small and large suppliers is insignificant. We would dispute this. Clearly we have not done the analysis that Ofgem have, but looking at the costs which are built into the cap we can immediately see that ours are higher. We do not believe this is because we run an inefficient business. We choose to invest in our customer service, IT and back office teams to ensure customers receive a standard of service which surprises and impresses the majority who have come into contact with other utility providers. Given that one supplier has just been pilloried by both the regulator and the media for the levels of customer service they provided, we do not see this as inefficiency.

The suggestion that smaller suppliers enjoy similar pricing to a large supplier for metering, data collection, aggregation, retrieval or funding is very hard to believe; it would fly in the face of conventional wisdom from a host of other industries. We would urge OFGEM to consider derogations for suppliers with fewer than 50,000 customers. Few of the customers coming out of fixed term contracts and being migrated to the most expensive market rates will be with suppliers of this size. While the current definition of an SVT tariff is broad, the default tariff cap is likely to hamper innovation within tariff structure and terms from smaller, flexible suppliers. As the price cap is likely to have a detrimental impact on switching anyway, imposing it onto the smallest in the market with the highest per customer cost is highly likely to raise a barrier to entry and stifle competition.

Should OFGEM wish to discuss any of the points raised in this letter please do not hesitate to make contact, we know that bilateral meetings are being arranged which is welcome.

Kind Regards,

A handwritten signature in black ink, appearing to read 'Chris Greer', written in a cursive style.

Chris Greer