



Discussion paper: Developing a framework for assessing whether conditions are in place for effective competition in domestic supply contracts

Introduction

Founded in 2009, OVO Energy is the leading independent energy retail company in the UK and OVO Group's flagship energy brand, offering an unparalleled scope of digital energy services, solutions and technologies to its pay-monthly customers. OVO Energy redesigned the energy experience to be fair, effortless, green and simple for all customers. Today OVO Energy is a progressive energy company striving to deliver more abundant clean energy for everyone.

Executive Summary

OVO Energy was a vocal and prominent supporter of the price cap's introduction and has consistently campaigned against suppliers who overcharge their loyal customers and hook in new customers with loss leading tariffs. Such practices distort competition, destroy trust and discourage suppliers from becoming more efficient and innovative, which is essential if the UK is to transition to a decentralised, digitised and decarbonised energy system.

OVO Energy welcomes a number of the key indicators of the proposed framework, but note that little attention is paid to the energy transition and the shift that will take place towards a smart, agile and flexible energy system. As new propositions arrive and behind the meter storage assets are coupled with new sources of customer value, competition and types of tariffs in the energy market will change.

The price cap was introduced to drive efficiency in the market and protect customers who were being overcharged because they were loyal or disengaged. Structural change in the market to re-engage those customers has not taken place and for this reason, the removal of the price cap could see suppliers return to overcharging and under-serving those groups of customers. As such we believe there will always be a place for protection for those groups of customers and understand Ofgem is pursuing this workstream through its Future Retail Market Reform.

As the variety of tariff offers and propositions increase as we shift to the future energy system, we would urge Ofgem to take a principles based approach to pricing at tariff level and consider administering material fines for those charging unjustifiable prices.

Regarding procedure, we would also like clarity from Ofgem on the next stage of planned consultation in the development of this framework. We understand that there is no planned consultation between responses to this consultation and the decision on the framework. It would be valuable to industry to have the opportunity to communicate with Ofgem its views once more detail on how the key indicators, such as instances of SoLR, will be assessed and judged. Otherwise, the assessment criteria may not accurately measure whether genuine competition is being achieved.



Question 1: Are there any features of effective competition that are not covered in our definition?

We would suggest not enough emphasis has been placed on making sure the right market conditions are in place so that more flexible and decentralised tariff offers are appearing in the market.

For this to be achieved, the value that customers and the system can gain from using flexible technologies needs to be realised through better price signals. We would note that this could currently be achieved via Ofgem's network charge reform work package and upcoming RIIO-ED2 workstream.

Question 2: What are your views on the conditions for effective competition we have proposed? Are they clear and is there anything else you think we should take into account?

We welcome Ofgem's proposed definitions of effective competition but we do not see that sufficient structural changes have taken place in the market so that condition 3 can be achieved: "competition is expected to deliver good outcomes for most consumers, including those who are less-active in the market". We would welcome greater clarity on how this would be assessed.

None of the indicators address the disengaged dynamic that can result in overcharging. The discussion paper highlights this will be addressed in the Future of Energy Retail Market work package and we would suggest that when Ofgem uses this framework to submit its assessment to the Secretary of State, it should include an indication of which policies will address this dynamic and ensure it is being protected against.

To reiterate the answer to question one, competition should also be judged by how the market for delivering flexibility services at domestic level has evolved. These services provide the chance to deliver better outcomes for customers and to be future proof, the framework should take this into consideration.

We welcome the emphasis placed in Condition 2 on the need for business models to be sustainable, and would stress the importance of Ofgem's Supplier Licence Review in ensuring business models do not rely on unsustainable pricing practices to undercut the market in order to gain customers.

Question 3: What are your views on the structural changes that we propose to include in our framework? Are there any specific changes you think we should consider?

We welcome the structural reforms listed, but cannot properly assess whether they are effective indicators while little detail is available as to how the success of these reforms will be measured. We would value further consultation when this criteria has been decided.



We would emphasise the importance of delivering Half Hourly Settlement. We believe that whole-market half-hourly settlement (HHS) is crucial to realising the smart and flexible system of the future. Without it, economic distortions and operational barriers to a functioning domestic flexibility market cannot be overcome.

We urge Ofgem to ensure there are appropriate incentives in place for the industry to support consumer engagement through innovation. Consumer choice should be supported by outcomes-based regulation and a streamlined data access/sharing framework that enables suppliers to communicate benefits in the simplest, easiest and most compelling way to customers. In this way, a wide range of energy consumers will be able to directly and indirectly contribute to the efficient energy system that will deliver lower costs for consumers in a decarbonised future.

Question 4: Are there any indicators of the competitive process not listed here that you think we should consider in our analysis?

The current list does not provide any details of how Ofgem intends to assess the indicators, and so it is not possible to effectively scrutinise their inclusion within the assessment framework. We believe it's important Ofgem share a full list of how indicators will be measured once finalised for consultation.

However, while we welcome clarity on the approach Ofgem will take to judging success, we support Ofgem's position against specific targets or thresholds for each of the indicators particularly given the extent of market change and the different propositions coming to market in the coming years.

Question 5: What are your views on the consumer outcomes that we propose to assess in determining whether the conditions are in place for effective competition?

Domestic consumers have a broad range of behaviours, risk appetites and data sharing preferences. OVO Energy thinks the industry and Ofgem should be careful not to restrict customer choice by making assumptions based on historic behaviour, especially as the energy industry undergoes such rapid change. As consumers increasingly engage with decarbonisation of heat and transport their preferences and responses will be evolving too.

OVO Energy believes whole-system benefits will be maximised through simple, fair options that a wide range of consumers can engage with. To that end, we see indirect engagement through technology and automation as core to unlocking these benefits.

It would be useful to have further detail on how these conditions will be assessed in order to gauge whether they would truly determine whether the conditions for effective competition are in place.

We have concerns about how price differentials will be assessed and would note that Ofgem should assess whether suppliers are offering prices based on unsustainable business models that could ultimately result in higher energy costs for all customers should these suppliers fail. This should be tackled through the Supplier Licence Review.



Question 6: Is there any other aspect of effective competition that the framework should consider?

This has been addressed via points on flexibility and the protection of disengaged customers in previous questions.

If you have any questions about anything in the above please contact lizzy.roberts@ovoenergy.com