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22<sup>nd</sup> June 2018

Dear Ms Rossington

### **Default Tariff Cap: Policy Consultation - Response from Ebico**

Thank you for the opportunity to provide input into this important consultation which I do on behalf of Ebico Limited. This submission has the full support of our licenced supply partner, Robin Hood Energy Limited.

Ebico is a not-for-profit social enterprise established in 1998 tackle fuel poverty. We do this in two ways:

1. We promote the 'Ebico Zero' evergreen tariff. This is a very unusual home energy supply proposition in that standing charges, for both electricity and gas, are set to zero. It is, therefore, tailored for households who find that their home energy costs are a major item of their household expenditure and who, as a consequence, need to budget prudently – without the added worry of a daily standing charge. For higher energy demand customers, whilst Zero may not be the best deal available to them in the market from a purely financial perspective, they know that their participation in the proposition assures its commercial viability and enables Ebico to continue to make it available to more financially vulnerable customers. Ebico Zero is, thus, a home energy proposition that needs customers of all energy demand levels to be viable and offers both financial and ethical advantages to different customer segments.
2. We use the financial surpluses, derived from the various propositions we offer, to support community energy efficiency and anti-fuel poverty projects throughout Britain. The Ebico Trust for Sustainable Development, now in its 10th year of operation, has made donations of £1.5M (approximately 15% of Ebico's turnover in the period) to charities, community groups and social enterprises in England, Scotland and Wales, to support projects tackling fuel poverty in sustainable ways – primarily by providing energy efficiency advice, practical home improvements and support with debt management and cost reduction through switching supplier.

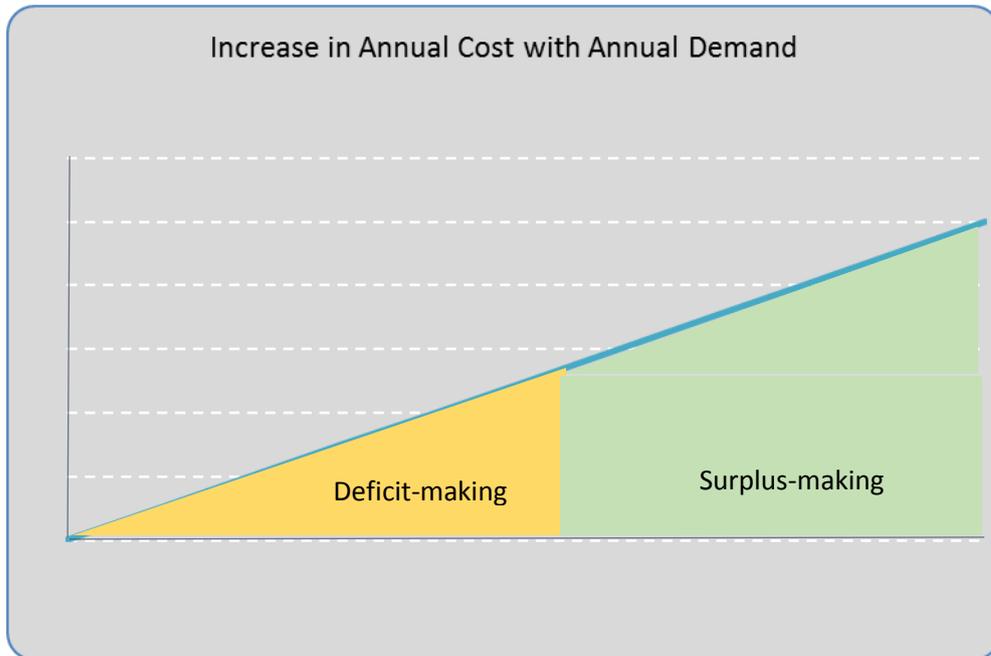
Because of its evergreen nature, it is our understanding that the Ebico Zero tariff will be subject to the Default Tariff Cap.

### **Response to Consultation Question 3:**

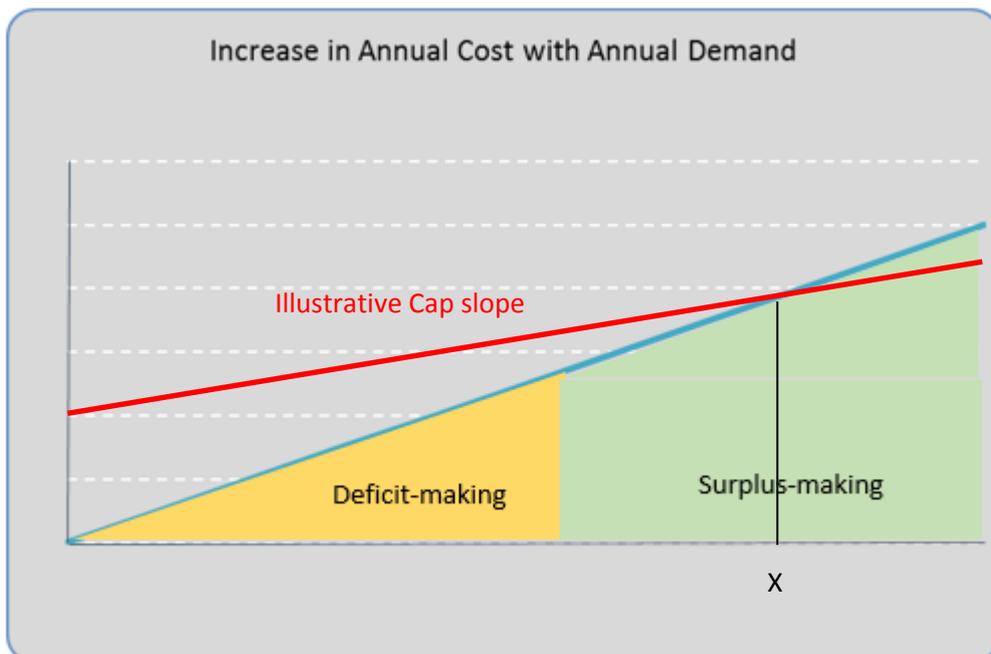
#### **Do you agree with our approach to accounting for different costs, in particular additional costs of serving consumers paying by standard credit?**

As a result of Ebico Zero's unusual zero standing charge pricing structure, the slope, representing the increasing annual cost charged to a customer with the increase in their annual demand, originates at zero. Clearly, there are costs associated with the provision of a home energy service through a meter even if no gas or electricity flows. Therefore, at this level of customer demand the service to the customer is loss-making.

This remains true at low levels of customer annual demand. At high levels of consumer demand, this loss must be recovered in order to make the proposition commercially viable. Customers at higher demand levels, therefore, see somewhat higher annual energy charges compared with what may be available elsewhere in the market. However, such customers actively chosen to join the tariff as the Ebico Zero proposition offers significant benefits to lower-income consumers. Ebico Zero is not a default, or 'roll-off', tariff. That function is performed by our 'Ebico Evergreen' proposition, so customers joining the Zero tariff make an active choice to do so.



By contrast, the proposed relationship, described in para 2.19 of the Consultation, between the capped cost and annual demand will have a non-zero cost at zero demand. This recognises the costs of providing a service to zero-demand meter. Given Ofgem's desire that the annual charge, at any level of demand, should represent a constraining but achievable amount, it seems likely that the surplus needed by the Zero proposition will not be taken-into account. The resultant capped cost slope is likely to constrain the Zero charge at higher demand levels.



Under this likely scenario, customers with an annual demand greater than X would see a greater charge than that allowed by the cap. The Consultation acknowledges this problem in para 2.80. The proposed solution is a derogation mechanism which requires the supplier of the low/no standing charge tariff to identify, following the close of each cap period, those customers who have had a demand that would be equivalent to annual demand of greater than 'X' and the amount, in excess of the capped level, that each of those customers had been charged. It would then be necessary for the supplier to reimburse each customer the appropriate amount.

In addition to this process being administratively excessively burdensome, the additional cost borne by the supplier would have to be recovered by from customers at below-cap demand levels – resulting in higher prices for these customers. The slope of the zero standing charge tariff would, as a consequence, steepen. As a result, the majority of customers on the tariff would experience material detriment.

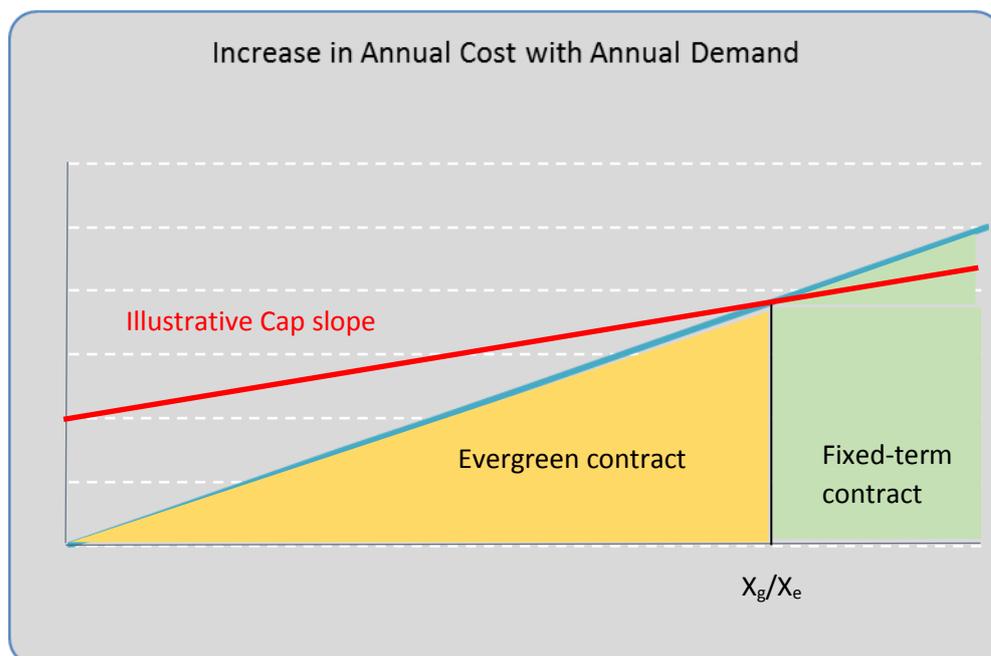
When this zero standing charge derogation mechanism was established, by Ofgem, under the Pre-Payment Meter (PPM) Price Cap regime, Ebico and its licenced supply partner took the view that the a zero standing charge tariff was no longer commercially viable, and the tariff was closed to PPM customers. These customers were, therefore, materially adversely effected. We propose, therefore, that the derogation mechanism for low/no standing charge tariffs be amended.

### Proposed Zero Standing Charge Tariff Derogation Mechanism

Prior to the implementation of the Cap, a supplier of an evergreen zero standing charge tariff would amend the terms and conditions of energy supply to introduce maximum annual gas and electricity demand levels ( $X_g/X_e$ ) above which the tariff will no longer be available. In the event that a customer's AQ/EAC exceeds this level, they would be transferred to the supplier's cap-compliant default tariff, pending the customer's active selection of an alternative. Customers with a higher demand than  $X_g/X_e$ , and those whose AQ/EAC increases above these levels, could then be offered a fixed-term zero standing charge contract.

Each time the Cap is published for a Cap Period, the supplier of a zero standing charge tariff would:

- Amend the levels of  $X_g/X_e$  such that all consumers with a demand at or below these levels would be charged less than, or equal to, the Cap level.
- Roll those consumers whose AQ/EAC exceeded these levels onto a compliant default tariff pending their active selection of a fixed term zero standing charge contract.



In this way, all customers whose annual charges would otherwise exceed the Cap level would be moved onto contracts which were either cap-compliant default tariffs or fixed term zero standing charge fixed term contracts which, themselves, would roll-onto a cap-compliant default tariff.

Applying this derogation mechanism to the Ebico Zero proposition would enable customers, at the higher end of the demand range, to choose to remain part of the overall benefit-sharing concept by switching to a fixed-term version of Ebico Zero. From a commercial perspective, their continued participation, albeit now on a fixed contract, would maintain the viability of the overall Zero portfolio and enable Ebico to continue to offer this ethical proposition to all customers. Higher demand customers would be required actively to choose to remain part of the scheme at the end of each fixed contract period. This would have customer transparency and engagement advantages.

This proposed compliance mechanism for zero standing charge tariffs has been developed following discussions with officials from the Department for Business, Energy and Industrial Strategy.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Phil Levermore', with a long horizontal stroke extending to the right.

Phil Levermore

CEO  
Ebico Limited