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Dear Anna Rossington,

Default Tariff Cap: Policy Consultation

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

- Renewable electricity tariffs must be exempt from the tariff cap, or risk undermining innovation, consumer choice, and the transition to a renewable energy system.
- Renewable gas tariffs must be exempt from the tariff cap. Progress on decarbonisation of heat is significantly lagging behind electricity, and must not be further constrained.
- Exemptions should be based in the licence, not on derogation process.

Renewable Tariffs

We very much support OFGEM's consideration of the exemption for suppliers of green energy from the SVT element of the tariff cap. Consumers who wish to support the transition to an entirely renewable energy system should not be prevented from doing so.

However, in spite of OFGEM committing to publish a working paper focussing on the green exemption¹, which would have given an opportunity for industry engagement, no such paper was ever published. Therefore, this consultation represents the first opportunity for formal engagement between industry stakeholders and OFGEM on the subject of the exemption for renewable tariffs. This would not be of such concern, if it were not so apparent that OFGEM has already made decisions in this space, set out plainly in its 'minded-to' positions.

Offering a Renewable SVT

Our being able to offer a fair-priced SVT is fundamental to offering renewable generators a route to market through PPAs.

The way renewable PPAs come into the business (i.e. at different times across the year, with a variety of volumes and contract lengths) is consistent with industry-standard approaches to purchasing for an SVT product, in that the volume of power can be 'layered' into the position. This is not consistent with the practice

¹ See OFGEM Open Letter of 6th March 2018 'Update on our plans for retail energy price caps'

for offering a fixed deal however, which requires a large volume of power for a fixed price over a fixed period to volume-match the demand for the fixed tariff. Good Energy prides itself on providing a route to market for a diverse range of generators; no longer being able to offer a fair-priced PPA would significantly restrict our ability to do this.

This is particularly true for the very smallest generators. When a supplier signs up a PPA with a renewable generator, it must assess if this volume is beneficial for its position, or if it should sell that volume out to the market. To the best of our knowledge, Good Energy is the only supplier to offer PPAs to the very smallest generators (e.g. 50kW solar generators). The output from such sites is below a tradable clip size, meaning that volume from these generators cannot be sold out to the market without waiting for sufficient volume to come in to be aggregated into a tradable clip size. This leaves the supplier open to movements in the market. Offering an SVT enables the supplier to take the volume from these smaller generators into their position without being exposed to these market movements. This is because they are able to adjust the SVT to reflect the cost of the volume in its position.

Renewable Generator Revenue Streams

Contained within Appendix 13 of OFGEM's consultation are some assertions regarding revenue streams available to renewable generators. Some of these appear to be inaccurate. We feel it is important to highlight these, so decisions are not made on the basis of erroneous information.

"The Renewables Obligation placed an obligation on electricity suppliers to source a certain amount of their energy from renewable sources, which means there is a large base-load of renewable electricity that can, theoretically, be purchased by suppliers without facing additional costs"

The RO does not require a supplier to contract with any renewable generators or indeed to buy any 'renewable power', only to purchase a sufficient number of ROCs, or face paying the buy-out price. Although the RO has been instrumental in delivering renewable deployment in the UK, the requirement to buy ROCs does not imply that renewable electricity can be purchased without additional cost, failing to account for increased forecasting, imbalance, and contracting costs (among others).

"New renewable electricity generators also have access to various revenue streams other than consumer demand for their generation (via the capacity market and ancillary services), particularly when co-located with storage"

Although renewable generators that do not receive a subsidy are not technically barred from entry to the capacity market, the rules in effect preclude the majority of renewable technologies from participation, unless additional investment is made in co-location with battery storage. This implies it is in fact battery storage which is able to access these markets, not renewables. Similar issues affect variable renewable generators with regard to the ancillary services market.

Given the recent cuts to triad benefit for renewable generators, and anticipated reductions in other embedded benefits from OFGEM's Charging Futures and Target Charging Review work-streams, a robustly priced PPA is becoming an increasingly important revenue stream for renewable generators.

Renewable Gas

The Committee on Climate Change, among others, has repeatedly highlighted that renewable heat is one of the greatest challenges in decarbonisation of the energy system. Renewable gas is one of a range of solutions to

supporting that decarbonisation. Given that progress on heat is significantly lagging behind the electricity sector, with only 6.2% of heat coming from renewable sources², we have significant concerns that if Ofgem were to impose cap on renewable gas tariffs, progress would be further delayed. The Energy and Climate Change Committee has highlighted that the UK is currently on course to miss its legal commitment to 15% of energy being sourced for renewables by 2020³, owed in large part to a lack of progress in the heat sector. Therefore the UK cannot afford to take any decisions that further jeopardise progress towards the 2020 target.

Beyond its 'minded-to' position not to include licence provision for an exemption to the cap for renewable gas tariffs, Ofgem has stated a 'minded-to' position that it will not accept requests for derogation relating to green gas. This is before any formal consultation has taken place. This is cause for concern for three reasons:

1. Good Energy offers a green gas tariff which appears to meet each of Ofgem's criteria for a renewable electricity green exemption. In spite of this, Ofgem appears unwilling to even review such evidence.
2. Irrespective of any decisions that Ofgem has made regarding green gas tariffs that are currently available in the market, an unwillingness to offer exemption to any green gas tariffs risks choking innovation in one of the least developed areas of the energy transition. Ofgem suggests that the niche nature of green gas means an exemption is not justified. However, given the need to support the decarbonisation of heat, niche products such as these should be protected, or risk undermining an essential nascent industry.
3. Given the requirement to consult on a green gas exemption being set out in primary legislation, there is a risk of challenge by judicial review.

Including an exemption for green gas products in the licence would be consistent with addressing each of these concerns. We understand that Ofgem has concerns regarding their ability to police the green gas tariffs, in absence of an equivalent to the REGO scheme for accrediting that output has come from genuine sources. We propose that this could be easily remedied through use of an external auditor to sign off that green gas purchases are sourced from a RHI-backed plant.

Consumer Choice

The Bill specifies that the green SVT exemption can be applied 'only if chosen by domestic customers'. However, no definition of what might be considered 'a choice' has been given. We propose that wherever a customer has contacted the supplier and requested to begin a contract on the basis of an SVT tariff, this would constitute a definition of 'choice'. We believe this is a simple test which effectively reflects the spirit of the Bill, that customers should have to have chosen their supplier. We do not believe it would be appropriate to put any sort of time limit (e.g. customers much have joined in the past 5 years), because this creates a disincentive for supplier

Derogations

We have a number of concerns relating to the current proposal to allow suppliers to apply for exemption by derogation.

The principle of using a derogation in this way risks creating a barrier to entry for suppliers that wish to enter the retail market to offer genuine renewable tariffs, backed by PPAs. It is not clear that any supplier intending

² BEIS (2017) Digest of United Kingdom Energy Statistics

³ Energy and Climate Change Committee (2016) 2020 Renewable Heat and Transport Targets

to launch a genuine green SVT product would be able to demonstrate how a product which does not yet exist, complies with criteria for derogation. This creates an incentive for suppliers who wish to market themselves as green taking advantage of shortcomings in the fuel mix disclosure regulations and simply 'greenwashing' their supply with REGOs. This does little to support renewable generators.

We also have a number of procedural concerns regarding the derogation process:

- **Sufficient Evidence** – There is no clarity regarding what format OFGEM wishes to receive evidence in, or what it will consider sufficient evidence regarding qualification for the derogation.
- **Benchmark for cost** - Within OFGEM's proposals for outcomes of the cap, it is not clear which benchmark will be used for costs. Outcome 2 references a comparison to 'standard tariffs', with no explanation what might be considered a standard tariff. Outcome 3 references a comparison to the level of the cap. It is not clear which level, or indeed if both levels, act as the benchmark materially above which a tariff must cost in order to qualify for derogation.
- **Timing** - There has been no clarity from OFGEM regarding what the timescales around a derogation application would be. The derogation process for RMR allowed OFGEM a 60 day response time after having received what OFGEM deemed to be sufficient evidence. Even if a supplier was successful in lodging an application for derogation, such a long response period could easily lead to the price cap being introduced ahead of a supplier receiving a response from OFGEM. This would result in a supplier having to reduce its prices in order to comply with the cap, and then increase them again in order to be able to continue operating – this would lead to poor customer experience, and lead to the supplier incurring greater cost. This issue is compounded by the mixed benchmarking in the three outcomes (set out above). Given there is an expectation that the final prices for the cap will not be published until the end of October 2018, this gives little time for OFGEM to assess if a tariff costs materially more than the cap level.
- **Data Security** – Much of the information, such as cost data and operating models, that suppliers would be required to submit to OFGEM in order to make a derogation application are highly commercially sensitive. It is not clear how much, if any, of a suppliers' derogation application could be requested by FOI. Unless OFGEM is able to offer assurances that none of this information could be released under an FOI request, suppliers' willingness to lodge an application (or at least the information they are able to share in an application) is likely to be significantly reduced.

The most straightforward and proportionate solution to all of the above issues would be to include a provision within licence for exemption that suppliers must adhere to. The foundations for such an exemption has already been laid in the consultation, both with regard to REGO-backed tariffs being insufficient, and a future reform of the fuel mix disclosure rules preventing suppliers simply 'redirecting' renewable tariff purchases at green tariffs. Including an exemption in the licence is consistent both with supporting innovation, and the move to principles-based regulation.

Unidentified Gas (UIG)

Given the significant scale and volatility of unidentified gas (UIG), and the significant financial impact (particularly on small suppliers), we would welcome more clarity from OFGEM regarding how this is going to be considered in the cap methodology.

Fuel Mix

We very much share OFGEM's concerns regarding the ability for suppliers to attribute purchases of renewable electricity to one tariff or another, in order to be able to offer a renewable tariff without requiring any change in their business model. We therefore strongly support OFGEM re-examining the rules regarding fuel mix disclosure in order to require all tariffs offered by a supplier to share the same fuel mix. We would welcome ongoing engagement with OFGEM on this issue.

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

Kind regards,

Dr T. Steward