



Default tariff cap - statutory consultation

October 2018

Bulb welcomes the introduction of the price cap, which we will believe will benefit consumers and make the market more competitive.

We estimate our one “Vari-Fair” tariff will be under the price cap by ✂. It is a variable tariff our members have chosen - not a deemed tariff. This is different from how the majority of suppliers use Standard Variable Tariffs (SVTs) which are usually deemed tariffs that disengaged customers mature on to. By having only one tariff, we can make sure all our members are always on our best deal. Bulb demonstrates variable tariffs can deliver better value to consumers than fixed price tariffs and that not all variable tariffs are expensive deemed tariffs. We think it's important this behaviour is reflected in Ofgem's general policy changes to encourage switching.

In this response, we want to focus on two aspects of Ofgem's plans for the cap.

First, we want to **emphasise our support for Ofgem's intention to close the green loophole**. With over ✂ members, Bulb is the largest renewable energy supplier in the UK. Our growth in members over the last quarter is the largest seen by any supplier since 2006.¹ We are committed to buying 100% renewable electricity and 10% green gas for all our members. ✂

Our growth is evidence of the growing consumer demand for renewable energy tariffs across the UK. By designing an affordable and engaging renewable energy product, we support existing generators and encourage further renewable energy generation. ✂

Second, we want to **reiterate our concerns about the proposed wholesale allowance methodology**. We remain concerned this approach favours the hedging strategy used by the Big Six, over the more dynamic approaches used by challengers like Bulb and could lead to higher prices for consumers and a reduction in competition and innovation in the market.

¹ Cornwall Insight, Chart of the Week, 21 September 2018.



Closing the green loophole

Bulb welcomes Ofgem's proposal to close the green loophole. We see no reason why there needs to be an exemption for green tariffs from the default tariff cap as Bulb is living proof that suppliers can offer energy that is both green and affordable.

We echo Ofgem's concern that there is a risk of gaming if an exemption was allowed. We are consider any exemption for green tariffs could be exploited by unscrupulous suppliers to continue charging customers unfair prices above the level of the cap while claiming to support renewable energy.

Ofgem is also considering consulting on requiring suppliers to allocate the same fuel mix to all their tariffs. We would support this. Transparency on fuel mix is important to supporting renewable generation and supporting consumer engagement in renewable tariffs. In response to demand from our members, we also publish the generation mix of our energy supply online.

Bulb's commitment to renewable energy generation

We supply all our members with 100% renewable electricity and 10% green gas. This goes well above existing supplier obligations, despite it costing us more. Our renewable strategy provides routes to market and additional revenue streams for generators, while also providing an affordable and engaging product for consumers.

100% renewable electricity

We make sure for every unit of electricity a Bulb member uses, a unit is produced and put on the grid by a renewable source. We do this through entering into direct power purchasing agreements (PPAs) with independent generators and buying energy on the wholesale market backed by REGOs. ✂

10% green gas

We purchase 10% green gas for all our members. ✂ For gas accreditation, we rely on RGGO certificates awarded by the Renewable Energy Association and work with Green Gas Trading Ltd who use Biomethane Certificates.

Ensuring the wholesale allowances encourage competition and fair prices

Ofgem proposes to use the CMA's prepayment meter cap wholesale market model to calculate the majority of the wholesale allowance. As expressed in earlier consultations, Bulb is concerned this will undermine the overall value of the price cap to consumers.



We believe the proposed framework of making suppliers hedge up to 20 months in advance to set their wholesale costs would mean our members would get a worse deal. ✂ This means our tariff better reflects the true cost of energy. It also means we can offer our members more accurate information about price rises, as well as passing on savings.

In this context, we're concerned the proposed methodology for both setting and updating the wholesale allowance within the cap will have a number of consequences. In particular, we believe this methodology will:

1. Reduce the ability for suppliers to quickly pass on savings to consumers as wholesale costs go down (by making suppliers hedge up to 20 months in advance and codifying the common excuse of the "Big Six" suppliers for not doing so).
2. Increase prices for consumers (as smaller suppliers would be forced to adopt long-term hedging which requires large amounts of working capital / significant premiums to investment banks, or oil majors who provide liquidity for smaller suppliers).
3. Stifle innovation and competition in the energy supplier market, whilst benefiting the Big Six (by forcing suppliers like Bulb with innovative pricing models to hedge as the Big Six do).
4. Reduce transparency for the public (as the wholesale update mechanism isn't easily explainable to consumers and perpetuates the myth that energy bills are complex).