

Project Manager
Energy Market Investigation
Competition and Markets Authority
Victoria House
Southampton Row
London
WC1B 4AD

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Dear Sirs,

Good Energy's response to the updated Statement of Issues

Thank you for the invitation to respond to the above document. Good Energy is a fast-growing 100% renewable electricity supply company, offering value for money and award-winning customer service. An AIM-listed PLC, our mission is to support change in the energy market, address climate change and boost energy security.

Executive Summary

Good Energy welcomes the updated issues statement from the CMA and is generally pleased with the progress so far. We are pleased that the CMA is considering the impact on the complexity of regulation, but would ask that it takes a more aerial view of regulation to include not just licences and codes, but also the less accessible trend of using statutory Instruments and mandated "voluntary" agreements, which are very difficult for new market entrants to get a full knowledge of, or even awareness of their existence.

On Locational pricing we believe the CMA needs to look at the impact of locational pricing on generators embedded in the distribution network. Over the last five years there has been a significant increase in the amount of power generated closer to the point of use, but the CMA's working paper does not acknowledge this and focusses exclusively on the traditional model of large power stations connected to the transmission network delivering to passive consumers.

Finally, we disagree with the CMA's initial view on CFDs. Unlike fossil fuel generation, it is crucial that low carbon generation has a mix of technologies as they have different characteristics. As these technologies are at different stages of development and require different levels of support, then an auction which would deliver only the cheapest form of low carbon generation as proposed, would threaten the viability of a low carbon, secure energy system.

We believe the CMA should be encouraging the decarbonisation of the market in line with the climate change Act, not fix yesterday's fossil fuelled market.

Set out below are some of the key points we wish to bring to your attention. For your ease, we have listed them against the relevant paragraph numbers in your statement of issues and relevant working papers.

Updated Issues Statement

Paragraph 24

We note that the CMA has considered the survey by Which? into standards of service across different sectors. However, pan-industry comparisons can paint a misleading picture depending on the political and

media focus on certain industries creating misconceptions. A better source of information is Which?'s annual customer satisfaction survey of Energy customers¹. This shows a significant gap between independents and the large companies over several years which cannot be explained through different industry characteristics.

Paragraph 28

We welcome the decision to add an additional theory of harm but are concerned about its narrow focus on the codes. Whilst the codes are burdensome, complex and ever increasing in size, they are like the licences accessible. A problem for new market entrants is the number of obligations which exist in legislation, particularly statutory instruments, which are not transcribed into a code or a licence. For example, the guaranteed standards of service are set out in "The Electricity (Connection Standards of Performance) Regulations 2010" amended by later SI's. Or the current SI's setting out the need for suppliers to show a machine readable format code on bills. Maintaining compliance across a supply company with licence and codes is difficult enough without the burden of having to be aware of statutory instruments which may have been introduced several years previous.

Paragraph 41

Good Energy's position in the retail market is that it purchases the power it buys from renewable sources, and manages it position so that over the course of the year its total generation purchases from renewable sources matches its customers consumption. The system of self-despatch allows this differentiation through the commercial arrangements, even if the physical delivery is system led. If a move was made to centralised despatch, this arrangement could be broken meaning that all customers will receive whatever generation mix NGC decides (based on its despatching rules which currently take no account of carbon intensity, and thus depriving customers of a choice as to which type of generation they want on the system, subject to constraints). We therefore support self-despatch in terms of competition.

Additionally, the cost of moving from self-despatch to centralised despatch would be significant, the costs of which would be borne ultimately by the customer.

Paragraph 44

One of the unique features of cash out is that prices are not known until after the event. The prices can also be affected by unforeseen events such as a generator failure after gate closure. No supplier can accurately predict its customer's demand, and suppliers who contract with renewable generators are subject to variable output due to weather conditions. Larger suppliers who can support a 24/7 trading desk are better able to manage their position, than smaller suppliers with a typical working hours trading team.

If PAR pushes prices to be more volatile then this increases the risk of penal imbalance from unforeseen events, the cost of which must be transferred to customers. A higher PAR value socialises that risk across the industry and allows suppliers to collectively pass on that reduced risk to consumers.

If imbalance prices were known before the event, then there would be a stronger justification for PAR1.

Finally, with regard to single price cash out and low PAR we are concerned that this combination could lead to more sophisticated parties seeking to "beat the market" by being opposite to the market position rather

¹ <http://www.which.co.uk/energy/saving-money/reviews-ns/energy-companies-reviewed/best-and-worst-energy-companies/>

than seeking to balance. This “gaming” could be detrimental to competition and potentially to the party themselves if it goes wrong, causing a loss of confidence in the market.

Paragraph 46

The CMA’s working paper on locational pricing seems to have taken an historical view of the industry in that it pictures the industry in its old guise of large stations connected to the transmission networks delivering to passive consumers. In reality, partly because of the scalability of renewables, an ever increasing amount of power is being generated on the distribution networks, often closer to the point of use. This trend is likely to continue, and with the advent of greater demand side management and possibly storage the amount of power travelling on the transmission network is likely to decrease as a proportion of the energy generated. We therefore believe that to consider locational pricing without considering the contribution of and impact on embedded generation, is flawed.

Paragraph 54

We share the CMA’s concern that, during times of system stress, generators may be over compensated by the changes to imbalance market and the capacity element. Keeping the value of PAR higher would mitigate this possibility.

Paragraph 59

As an energy company that has supplied 100% renewable electricity for over 15 years, we are well aware of the need to ensure a mix of renewable technologies in our portfolio rather than being over dependent on one type. Solar and wind complement each other as solar is strongest in summer and day time. Wind, conversely, is stronger in winter and at night. Hydro and tidal technologies are better base load technologies. As we decarbonise the UK energy market, then it is important that the UK brings forward a mix of technologies and is not dependent on one type for security reasons. Put bluntly, if Solar was the cheapest technology and therefore won all the CFD allocation the UK would struggle to cope on a cold winter’s night. To this end we support the “pot” concept introduced by DECC as it will deliver the better and more efficient outcome for customers than supporting only the cheapest technology.

Paragraph 60

As mentioned above, we believe it is important that the support regime ensures a diverse mix of renewable technologies to ensure energy security. We are concerned however, that the process of support is decided by Government rather than an independent body and is thus open to manipulation by political ideology.

Paragraph 84

Good Energy is a vertically integrated supplier, although with a portfolio of embedded renewable generators (wind and solar). Overall, we believe this vertical integration provides us with a greater stability in pricing and reduces our exposure to other costs that we would have if we were not vertically integrated. However, our size means that our VI status does not confer on us any ability to manipulate the market. If anything it reduces our exposure to any such activities by larger parties. We therefore agree that Vertical Integration in itself does not create harm.

Paragraph 98

As we are exposed to the variances of renewable generation, Good Energy trades differently to other suppliers. Our long term hedging is based on developing our own generation as well as long and medium term Power Purchase Agreements. As we get closer to delivery our forecasting tools predict the likely

generation from these generators and we sell or buy any surplus or shortfall in the open market. As the short term is relatively liquid we do not have any problems trading. If collateral terms were better, then we could consider trading further out along the curve, but presently see no need to do so.

Paragraph 106

As a vertically integrated company, Good Energy shares the view that we do not have the ability to foreclose the energy market. Indeed we would argue that some non-vertically integrated companies have greater capacity for foreclosure than ourselves because of their market size.

Paragraph 120

It is worth noting that in the evidence presented for the implementation of RMR, Ofgem kept referring to the malpractice of the big6 suppliers. It did not provide any evidence that independent suppliers were acting in the same way, but the implementation of RMR was on **all** suppliers. Independent suppliers were required to make significant changes to billing systems at a much higher cost per customer than the larger suppliers with their significant economies of scale. Ofgem's (and to a lesser extent DECC's) practice of fixing the bad standards of one or several large suppliers by imposing licence changes across the market creates a barrier to growth by independents who have to divert limited resources to changes for problems not of their making.

Paragraph 131

We do not agree with the view the SVT market has weakened over time. Good Energy is now on average cheaper than the SVT's offered by the big6 suppliers and several other independents offer SVTs more competitive than the big6. SVT customers of the big6 energy companies are having their loyalty taken for granted, with better deals offered to new customers. Good Energy has only one tariff. The question not asked is whether serial switchers are more likely to be on fixed rate tariffs, which by their nature encourage customers on them to review the market on a periodic basis.

Paragraph 135

We strongly agree with the view that not every customer is purely price focussed in their choice of supplier. Good Energy has many customers who have been with us for over ten years. They are with Good Energy because of our ethos, and our quality of customer care. We believe part of the issue is that those who advocate switching do so primarily on price. This includes Ofgem and the recent Government campaign. If more emphasis was put on other reasons to switch such as customer service, or energy provenance, then some current "sticky" customers, who are not encouraged by the price message, may switch if other reasons were more prominent.

Paragraph 141

Good Energy supports Ofgem's recent decision on changing the confidence code. As a general rule, Good Energy will only agree to work with PCWs who offer customers appropriate filters to select Green tariffs, or at least rank on customer satisfaction. If the site ranks purely on price, then we are unlikely to get sufficient switches to make a commission arrangement worthwhile.

Paragraph 142

Whilst we are supportive of the view that smart meters create a real opportunity to engage customers with their energy use, we believe there are a number of barriers to reaching that potential fully. Firstly, the fixed cost of the smart metering programme that independent suppliers will have to implement is acting as

a substantial barrier to entry, and has the potential in the short term to significantly reduce the number of independent suppliers in the market as only those with strong balance sheets may be able to see the programme through. Many independent suppliers are either in denial of the costs or are worrying how they will raise the capital to meet the challenge.

Even if this was solved (e.g. by turning the rollout into a network led operation), then Ofgem's current restrictions through RMR need to be removed and the ability of suppliers to innovate encouraged. This means that occasionally customers may end up on tariffs to which they are not suited (e.g. a Time of Use tariff that requires a behavioural change to maximise the benefit, but the customer behaviour does not change), but Ofgem's concern with customer protection, means they protect the few at the expense of the many. Finally, many of the benefits require the industry to move to half-hourly settlements. At the moment this is a costly change, on top of the cost of the rollout. Ofgem is also proposing next day switching reforms, which adds further additional cost.

Paragraph 151

If the CMA is to look further at price change announcements, it may be worthwhile to look at the timing of price announcements of the large companies against those of independents, especially those with SVTs. As a general rule independent suppliers are less able to carry cost increases and must make their prices more cost reflective. Indeed, one of the concerns raised by independents when Ofgem introduced its '30 days notice period for price increases' was that significant and sudden market movements would not always allow a supplier the option to wait 30 days to implement a price change.

Paragraph 163

One of the constraints of RMR was the reduction in sign-up incentives available. We fully understand Ofgem's concerns that some people were not choosing the cheapest option available due to sign-up incentives, especially cash incentives. However, we are of the view that because this restriction was placed across the board, it reduced the ability of independents to attract sticky customers away from the incumbents. Of course, whilst cash incentives were banned, reward points were not, but only the larger suppliers can negotiate terms with leading reward point companies such as Nectar, and were therefore were less reliant on cash incentives.

Allowing PCWs to offer incentives, whilst blocking independent suppliers from offering the same incentives is also a restraint on competition for any supplier whose product is based on more than price. If independent suppliers are to reach the sticky customers of the incumbents, then sign-up incentives should be left to the market provided they are properly explained (i.e. not included in any comparison)

Paragraph 164

Good Energy's view is that social obligations such as the ECO, Warm Homes discount and other fuel poverty measures should be financed through general taxation as this would be less regressive as the poorest in society would pay very little if anything towards them. Currently, they end up paying their share, sometimes more as they tend to live in less fuel efficient homes.

The ECO and other social obligations such as the Warm Homes Discount and Green Deal were predominantly designed by the Government after almost exclusive engagement with the larger suppliers who are often seen as quasi agents of the state. This means that the Government has not fully factored in the cost of delivery and thus created an obligation rather than an incentive. If the Government wanted these schemes to be successful, then suppliers or other parties should be incentivised to deliver. For example, the Green Deal provides a margin to be made by the financier, the assessor and installer, but

suppliers are expected to bear the costs incurred by them. Conversely, The Feed in Tariff, which Good Energy worked with DECC on, is the only scheme that properly compensates suppliers via Qualifying FIT costs. This in part has led to the schemes success.

We agree that the 250,000 threshold creates a constraint on growth but add that it also pushes independents to grow at a fast pace to get costs back down again once exceeded.. This can also create issues. Independent suppliers do not have the advantage of sticky customers and thus should not be obligated, but could participate if the proper commercial incentives were in place.

Paragraph 168

We concur with the view that these obligations fall disproportionately on electricity customers. This means customers off the gas grid are probably paying a disproportionate share of obligations. As mentioned above, removing social obligations into general taxation would remove this problem.

Paragraph 178

We agree that microbusinesses face many of the same issues as domestic customers in engaging with the retail market. As a general rule Good Energy treats its microbusinesses the same as its domestic customers by offering published tariffs. We are concerned about the actions of brokers, and have seen numerous occasions of Good Energy microbusiness customers being misled by brokers. We believe brokers should be regulated in a way that bad practice can be forced out of the market.

Paragraph 192

We are supportive of theory of harm 5. However, we would advise that whilst the licence and industry codes are complex and challenging, they are at least visible. Legislation, specifically statutory Instruments are only visible if you are aware of them. The same applies to mandated “voluntary” agreements. For new entrants, being aware of what SI’s are there to be compliant with is near on impossible. This has become more difficult given the trend in legislation to introduce primary legislation as enabling, with the detail of the legislation clarified by SI’s at a later date. Mandated “voluntary” agreements are often where the larger suppliers have agreed with Ofgem or the Government to deal with an issue on a voluntary basis, but in reality the rest of the industry has no choice but to comply.

Paragraph 200

One of the issues with code governance change is that industry working groups tend to drive the change. In most codes, members of the working group are supposed to sit as industry experts rather than company representatives, but this rarely is the case. Many working groups are self selecting and thus there is often no independent supplier representation in the working group, just the larger suppliers.

For larger changes, then only the larger suppliers have the resources to cover the multitude of working groups. The most obvious example is the smart metering programme where most working groups have just six members, one from each of the larger parties. Some may include one independent supplier, but no independent supplier has a full representation at all the various meetings. The result is that the smart meter rollout is optimised for delivery by the big6 suppliers most with their own in house metering businesses, and is likely to be unaffordable to some independent suppliers.

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

Kind regards,

Chris Welby

Policy & Regulatory Affairs Director