To: David Fowlis

Date: 11th November 2016

Dear David

1. Our Power Energy Supply response to the CMA

1.1 Our Power has been set up by Scottish social housing providers to reduce levels of fuel poverty by intervening in the energy market and is a fully licensed gas and electricity supplier. Our Power Group is asset-locked and nonprofit distributing and are unique in the market.

1.2 Our Power entered the market with one tariff price regardless of payment method; utilises smart pay as you go; currently operates in Scotland – both North and South (which is very unusual for a new entrant); entered the market with the lowest prepayment tariffs and has remained as one of the lowest; is driving innovation to be able to reduce levels of fuel poverty through wider interventions.

1.3 The following sets out some of the challenges that Our Power will face as a new entrant and with a focus on prepayment; or some of the unintended consequences that we are concerned will happen as a result of the way the cap has been designed to work.

2. Reducing competition

2.1 The cap level in the prepayment market looks like it will all but wipe out competitive tariffs and consequently there will be little or no incentive for prepayment customers to switch suppliers. While a number of suppliers offer smart pay as you go, we have concerns that this alone will not be a sufficient incentive to encourage switching (see below re impact of cap on smart roll-out).

2.2 In addition, new entrants and challenger brands are seeking customer acquisition and need a compelling offering across all tariffs. In Our Power case, this includes one price regardless of payment method and price stability wherever possible.

3. Restricting take up of smart meters amongst prepayment customers

3.1 We can understand the rationale for setting the cap on legacy prepayment and removing it for SMETS2 because SMETS2 roll-out is expected to see greater innovation in tariffs and the removal of a price differential. However, we are concerned that customers on legacy prepayment (and consequently covered by the cap) may refuse a SMETS2 meter because they will lose the protection of the cap. **This will be a devastating outcome of this intervention.**

3.2 Our Power are installing SMETS1 meters - with pay as you go and credit functionality - and these meters are getting very good feedback from our customers and are making a very real difference to the quality of their lives as well as them accessing a low tariff. Based on this evidence, we believe that there should be a reduction in barriers for prepayment customers to have smart meters and not an increase in barriers, and most importantly, any barrier should not be based on a perceived increase in price.

4. Six-monthly review of the cap level

4.1 Our Power is a new entrant that opted to engage in the prepayment market to make a difference to low income households. As a new entrant, we face several challenges including managing working capital, developing and implementing an effective forward purchase strategy while growing a customer base.

4.2 The impact of the six-monthly review based on forward price curve predictions is that we will be exposed to a considerable risk of price volatility within that six-month period. For a new entrant, this is a very real risk which will be a challenge to manage. In addition, we foresee this having an impact on the wholesale market as all suppliers will be forced to follow a similar forward purchase strategy therefore forcing up prices to accommodate a demand for a similar product.

4.3 Allied to this, Our Power has a tariff setting strategy of avoiding increasing tariffs in a 12-month period without having to lock a customer in. We have been able to achieve this over the past 12 months. The payment cap and six monthly review will remove our ability to deliver this business strategy both because of the relationship between the cap and wholesale prices, price volatility, and the impact of the market trying to buy a similar product therefore pushing up prices.

5. SMETS1 versus SMETS2

5.1 Our Power are using meters capable of operating as smart pay as you go and credit and which a number of other suppliers are also using. Of those suppliers that are using these meters, the meters are capable of switching and maintaining full functionality and we have seen this to be the case. We believe these meters are presenting our customers with a much improved offering and, as mentioned above, we are getting very good feedback on these meters and the tariff we offer.

5.2 We are aware that discussions are ongoing to improve the interoperability of these meters to expand the number of suppliers that will be able to offer full functionality of these meters under a switching scenario.

5.2 We would like the CMA to review the meters that might be considered as offering the functionality to sit outside of the cap.

5.3 Notwithstanding this, we think that a new entrant looking to acquire customers will need to stay at the cap in order to gain customers however having the flexibility to go above the cap will remove some of the risk associated with wholesale volatility.

6. Delivering industry improvements

6.1 Ultimately, this cap may not have been required if DCC and Nexus had been delivered on time or near to time. The delays are one of the main reasons why an intervention is required at this time. It is clearly unreasonable that prepayment customers should pay more for their energy and Our Power has shown that the price differential can be removed however it is not possible to do this and be competitive across all tariffs while building a viable business.

7. Impact of acquisition tariffs

7.1 One of the challenges of being a new entrant seeking to offer a fair and affordable tariff and with an intention to grow an enduring business is that the very low cost acquisition tariffs are not replicable. A price cap which is based on a cost-stack relating to these (what we suspect to be loss-leading) tariffs is not a sustainable position for a supplier to be in and we believe this needs to be considered in setting the cap.

8. Conclusion

8.1 In conclusion, Our Power sees a number of adverse and unintended consequences of the price cap including:

- Reduce/wipe out competition
- Reduce prepayment customers' switching rates and removes any incentive for switching
- Differentiated impact on different suppliers with a disproportionate impact on new entrants and challengers which may reduce the number of suppliers in the market
- Increase the energy costs for direct debit customers of larger suppliers
- Disincentivises legacy prepayment customers to accept SMETS 2 meters
- Increases the risks to new entrants disproportionately of wholesale energy volatility.

8.2 Our Power believes that prepayment customers should not be discriminated in the market and our job is to provide as low a tariff as possible along with an excellent customer experience. We want our customers to have the benefits of smart meters as early as possible and for us to have our customers each having the benefit of our tariff rather than some customers who may benefit from an acquisition tariff and others stuck on more expensive tariffs.

8.3 The impact of the mechanism of the cap has the potential to significantly reduce our ability to deliver this.

Should you require any additional information, please do not hesitate to contact me.

Yours sincerely,

Dawn Muspratt
Founding Chief Executive
Our Power Community Benefit Society