



OVO Energy
1 Rivergate
Temple Quay
Bristol BS1 6ED

policy@ovoenergy.com
www.ovoenergy.com

18 January 2019

Remedies.reviews@cma.gov.uk

By Email Only

OVO Energy is the largest independent energy supplier in Britain. Founded in 2009 by entrepreneur Stephen Fitzpatrick, OVO Energy redesigned the energy experience to be fair, effortless, green and simple for all customers. Today, OVO Energy is a progressive energy company that serves 1.5 million retail energy customers, striving to deliver clean, affordable energy for everyone. Our core values encompass fair pricing, top customer service, clear and simple information, and innovative technology to make managing energy easier.

OVO Energy welcomes the CMA reviewing Energy Market Investigation (Prepayment Charges Restriction) Order 2016. We have always been supportive of a cost reflective price cap as this protects disengaged customers who often receive the worst deals in the market due to being disengaged.

That being said, OVO Energy thinks the market has changed significantly since the introduction of the CMA cap and we believe a thorough review of the cap and its interaction with the market is required as soon as practicable. This will ensure the cap continues to provide optimum protection for customers and be cost reflective in the future, is simple to understand and protects consumers.

OVO Energy has outlined our concerns and proposals on the scope of review below.

- **Interaction of Caps** - One of the benefits of a price cap is simplicity for consumers. In recent years the market has undergone transformation with the introduction of new price caps which cause additional complexity for consumers. In particular prepayment customers who are capped based on their meter type - CMA cap for SMETS1 and traditional meters and Ofgem for SMETS2 rates. OVO Energy thinks diverging caps based on meter type may substantially impact customer understanding of tariff offerings when switching as they may not know the meter type they have. This could lead to incorrect tariff quotes and increase customer mistrust in the market. Furthermore, customers who wish to have a SMETS 2 meter and benefit from the new technology may be paying a 'premium' due to the Default tariff cap being set at a higher rate.
- **Smart Rollout** - The industry target of SMART2020 has fallen behind due to numerous reasons. Therefore, less prepayment customers have benefited from

Smart technology. We believe introducing a cap which means SMETS2 customers are paying higher rates will like further disincentivise consumers from uptaking Smart technology and receiving the relevant benefits.

- **Timing-** Given the current market developments and opaqueness of some regulatory changes (capacity markets, Ofgem's review of Smart net costs) we think CMA should align the cap with Ofgem's default cap which is interacting with the changes in an agile way. Alternatively, CMA should allocate resource to react to any changes and be proactive in amending the cap. We think the cap should be reviewed annually, in line with the Default cap, to assess impact on market. If initial forecasts of market movements are diverging CMA should be able to amend the cap or remove it accordingly.
- **Methodology-** We welcome Ofgem's proposal to look into DCC costs and capacity markets. However, we believe the CMA should broaden the scope of the review and use this review as an opportunity to re-base the cap. We would propose the prepayment cap is re-based in line with Of. This would ensure both cap pricing moves in a linear with Ofgem's Default cap. Aligning the methodological approach will mean both caps are equally cost reflective and any risk of significant divergence is mitigated.
- **Costs of mutualisation-** Given the increased rate of supplier failures in 2018 and uncertainty about the future of some suppliers OVO Energy would urge CMA to assess how additional costs incurred in events of Supplier of Last resort can be added to the cap. We would propose Ofgem and CMA work together to ascertain the best way of including the additional costs in a single market wide cap methodology.

Finally, given the short timeframe allocated for review, we think CMA should consider aligning the cap to Ofgem's Default cap bottom up cost methodology instead of conducting a full scale review of the prepayment cap methodology. We think allowing Ofgem to fully manage price caps will ensure any regulatory changes can be reflected in the pricing, the caps are reviewed against the same criteria at the same time. This will lead to all disengaged customers being protected in a streamlined way.

If you have any further questions please do not hesitate to contact policy@ovoenergy.com

Kind regards,
Baiba Delvere
Regulatory Lead