

Which?

Technological change and innovation in the GB energy market - how might it be impacted by the default tariff price cap?

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APPENDIX: Participant interviews

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1. Industry participant views on the default tariff price cap

1.1 Introduction

To obtain the views of the wider energy industry as to the implications of the price cap, Cornwall Insight and Which? jointly drafted a questionnaire to examine the perceptions of market participants. This questionnaire was drafted over the period February 2018 to March 2018 and agreed for use in March 2018. In undertaking the interviews, the intention was to obtain responses from as wide a cross-section of the energy sector as possible. This was therefore broken down into the following groups:

- Suppliers (further delineated into small, medium and large suppliers);
- Network owners and operators (e.g. transmission and distribution assets);
- Electricity generators;
- Battery storage providers;
- Aggregators;
- Technology providers;
- Investors; and
- End user groups.

Cornwall Insight used contacts from its existing industry forums in the first instance, these being supplemented by companies with which Cornwall Insight has a commercial relationship and also contacts from Which? In total, a possible sample size of **70** respondents was identified, of which **19** agreed to be interviewed for this project¹. These interviewees were broken down as follows:

- 9 suppliers;
- 2 network owners and operators;
- 3 electricity generators;
- 1 battery storage provider;
- 1 aggregator;
- 1 technology provider;
- 2 investors; and

Interviewees were given the choice to have their comments from the interviews attributed directly to them, to have them attributed as a representative of the industry group to which they belong (e.g. “a supplier stated”) or to be anonymous. Prior to commencing the interview, respondents were presented with a high-level overview of the cap upon request, this being based upon the policy statements from BEIS as follows:

“The Domestic Gas and Electricity (Tariff Cap) Bill will put in place a requirement on the independent regulator, Ofgem, to cap energy tariffs until 2020. It will mean an absolute cap can be set on poor value tariffs, protecting the 11 million households in England, Wales and Scotland who are currently on a standard variable or other default energy tariff and who are not protected by existing price caps.”

¹ A minimum of 12 interviewees had been agreed as part of Cornwall Insight’s proposal of services.

In setting the cap, Ofgem will also take into account the need to create incentives for suppliers to improve efficiency, the need to set the cap at a level that enables suppliers to compete effectively for supply contracts, the need to maintain incentives for customers to switch and the need to ensure that efficient suppliers are able to finance their supply activities. This will make sure the cap reflects the interests of both consumers and suppliers.

It will be in place until 2020 when Ofgem will recommend to government whether it should be extended on an annual basis up to 2023. In line with the Committee’s recommendation, the government will ensure Ofgem reviews the level the cap is set at every six months while it is in place.”

The findings of the questionnaire interviews are presented in the following sections.

1.2 The price cap – initial views

Question 1	Agree	Disagree	Other/Depends
According to BEIS, the planned cap “reflects the interests of both consumers and suppliers”. Do you agree with this statement?	2	11	6

Responses to this question were mixed, although **a common view among the respondents that disagreed with the statement was that the cap was driven more with consumers than suppliers in mind.** Some respondents also argued that it risked harming customers in the long-run, specifically in terms of the adverse effects on innovation and the possibility of cheaper tariffs being removed from the market as a result of the cap, and that promoting engagement would be a more appropriate goal.

Other participants were opposed to the cap on ideological grounds – specifically that it was incompatible with a deregulated market and was, in their view, based on political concerns rather than economic ones. Several respondents stated that the cap risked distorting the supply market as its impact would depend upon each supplier’s cost base and customer base (see main report for more information).

Question 2	Yes	No	No comment
Do you believe that BEIS has given enough consideration to the wider market, e.g. battery storage, aggregators, etc in proposing the cap?	2	11	6

Responses here echoed the views expressed in the feedback to Question 1, namely that **the political nature of the decision-making was an overriding concern.** Several of participants stated that little or no regard had been given to the wider energy market, and also that it also disregarded the way in which suppliers actually make their retail margins.

For the respondents who stated that the cap had considered the wider market, feedback included that **competition in the supply space would drive efficiency and encourage innovation.**

1.3 The cap’s impacts on innovation

Question 3	Smart meters	Time of Use (ToU) tariffs	Connected devices	Storage	Electric Vehicles	Other
What do you see as the main technological or commercial innovations in the domestic supply market?	5	5	1	1	2	5

Responses here focused on specific innovations or combinations thereof, notably in terms of smart meters in conjunction with Time of Use (ToU) tariffs. The ability to expose customers to the costs of their actions was cited as important – this being through the combination of a smart meter and a ToU tariff and enabled through half-hourly settlement (HHS).

The combination of a suite of services through the connected homes offering (the “Other” section above) was proposed as a game-changer for energy suppliers. However, some respondents argued that the rate of technological innovation was so rapid that the greatest innovation for consumers may not in fact have been invented yet.

A follow up question of which innovation would have the greatest benefit for consumers yielded a view that smart meters and ToU tariffs in combination had the most potential, given that one needed the other to function effectively. **One respondent (small supplier) stated that innovation would not be technical but rather in new attitudes to customer service that the price cap would engender through the competitive process.**

Question 4	Helping	Hindering	No impact/Depends
How do you see the price cap affecting the progress of these innovations?	1	5	13

Of the respondents interviewed, only one stated that the price cap would help these innovations, stating that the cap “had the potential to accelerate” their deployment. Overall, the most common view was that the cap would either impede innovation or that it was too soon to say given uncertainty over the cap level and structure. The role of the cap, the political nature of the move (see above) and the message that it sends to the energy industry as a whole were also cited as issues.

1.4 The regulatory environment, the cap and innovation

Question 5	Helping	Hindering	Neither	Both
Do you believe that the changes to the current regulatory and legislative frameworks are helping or hindering innovation?	2	9	2	6

The respondents’ view of the current regulatory climate was largely negative as far as the impact on innovation was concerned, with the specific issue of the number and complexity of the legislation cited as a problem. Participants stated that the unpredictable nature of the regulatory climate was a problem for them and risked discouraging investment.

As a follow up question, interviewees were asked how they saw the price cap in particular impacting on innovation. Although most respondents declined to comment (mainly on the grounds that it was too soon to say), some of the feedback highlighted the potential for supplier diversification into other markets and other products, and the advent of bundled services.



Question 6	Yes	No	No comment
Do you believe that sufficient consideration has been given by Ofgem and BEIS as to the impact of the price cap on innovation?	0	11	8

On the issue of whether sufficient consideration had been given to innovation in the establishment of the cap, the responses were overwhelmingly negative – the view being that this was being driven as a political decision. Some respondents argued that the cap would not consider innovation anyway as the two were separate issues for the regulator and government. In terms of whether any change could be made to the price cap to promote innovation, respondents largely refused to comment pending clarification on the design of the cap itself.

1.5 Impacts on participants and customer engagement with the energy market

Question 7	Agree	Disagree	Other/Depends
According to BEIS, the cap will consider the need to create incentives for suppliers to compete effectively and improve efficiency, while ensuring that “efficient suppliers” can finance their activities. Do you agree with this statement and do you think it will be possible?	4	6	9

The view here was that the outcomes would depend on the level of the cap, how individual suppliers responded to it, how it was implemented and how it would be reviewed on an ongoing basis. A repeated view was whether it was possible to define what an “*efficient supplier*” was – particularly given that suppliers’ costs will reflect their customer base and that costs to serve were not uniform across customer types, e.g. standard credit versus direct debit.

In addition, the view was voiced that **the number of suppliers present in the market already meant that there was competition and the promotion of innovation and efficiency.** There were concerns voiced that a focus on efficiency through reducing costs would lead to a deterioration of customer service and ultimately harm consumers, and – reiterating the point above – that promoting engagement would be a better outcome.

Question 8	Agree	Disagree	Other/Depends
According to BEIS, the cap will maintain incentives for customers to switch? Do you agree with this statement?	2	7	10

A commonly cited view was that the cap would make customers less engaged rather than more engaged in the energy market on the grounds that they would believe that the government was looking after them. Poor communication of the existing state of the energy market was also given as another problem, particularly in terms of the tariff and supplier options that are out there for consumers.

The more active customers were seen as a small subset of the total customer base, and these would continue to switch regardless of the introduction of the cap. An approach that would yield better outcomes for consumers would be to do more to encourage engagement and increase the pool of active customers, it was noted by several participants.



Question 9	Yes	No	No comment
Do you see the retail price cap as affecting the way in which (your) customers engage with the energy market?	3	5	11

Most supplier respondents to the question refused to comment, although those that did were small and medium suppliers and referred to the fact that they had a largely engaged customer base, rather than a large number of default tariff clients. The non-supplier respondents observed that a supplier’s strategy and business model would be the main determinants in terms of possible reactions, e.g. the number and extent of default tariff customers and the extent to which the reaction to the cap by suppliers was to focus on customer retention or market share.

1.6 Will the cap succeed in its objectives?

Question 10	Yes	No	No comment/Depends
Overall, do you believe that the price cap will have what Ofgem and BEIS view as its desired consequences, and why?	0	3	16

The general tone of responses to this question was, “*It depends*,” although many participants warned of possible unintended consequences from the introduction of the cap. A general comment was that the cap would achieve the short-term objective of reducing bills for default tariff customers but that the long-term consequences could not be seen and may be overlooked in favour of the headline cost reductions.

From the perspective of innovation, respondents warned of “*wider ramifications*” from the cap that had not been considered by the government. **An investor noted that the possibility of the price cap reducing the possible rate of return from the energy sector – as well as the uncertainty caused by the six-monthly review process – would compromise business confidence.** One interviewee commented that the approach to innovation at the legislative level was “disjointed” due to the lack of common thinking among the government, Ofgem, DNOs, and the different pots of project funding.

A counterpoint was provided by another interviewee, who stated, “*Markets adjust and they adapt. If there is an appetite for consumers to engage with energy, then that appetite will remain and will need to be met by innovative retailers, regardless of whether the cap is there or not. The cap will just set a baseline around which competition and innovation adapt.*”

Control sheet

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