The New Power Interview

AMIT GUDKA & HAYDEN WOOD, BULB

Amit Gudka and Hayden Wood saw the energy industry from the inside and thought they could do better. Janet Wood spoke to them

Bulb founders Amit Gudka and Hayden Wood tell me they set up the company because they experienced the energy industry from the inside. They weren't impressed – in fact they thought they could do much better.

Gudka had worked for eight years trading gas and electricity across Europe for Barclays. Wood, meanwhile (no relation) was a strategy consultant at Bain and at Monitor. He says, "I had some big six clients at that time and it was then that Amit and I started chatting."

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They decided that, "there are lots of things about the energy industry that the general public aren't aware of because of the sensational coverage. We saw that things could be done differently to give consumers a better deal."

Their conversations back in 2013 coincided with the launch of Ofgem's Retail Market Reform package, which limited companies to providing four tariffs. Wood says, "We didn't really see the consumer benefit in having four. It's better to know that you are on the best deal, that you are getting an excellent standard tariff."

He has a recent example – a new British Gas tariff that is available exclusively through USwitch and existing British Gas customers are not allowed to switch to it. "That seems really unfair… but the Competition and Markets Authority [CMA] has made it possible. So millions of British Gas customers who could be getting a better deal aren't allowed to switch to this. If that were me I would feel that was unfair."

I ask where else the friends saw utilities failing. Wood says, "If you call your supplier it takes five, ten, 15 minutes to get through to someone and when you do get through you are passed on because people are specialised. There are a lot of other companies that deliver really great customer services over the telephone – Metrobank is one I have been quite impressed with, and First Direct changed the way people experience companies over the phone."

He says a BT survey revealed that people were typically waiting at least five minutes, and Wood

BIOGRAPHIES

Amit Gudka has a mathematics degree from Cambridge University. He spent nearly seven years with Barclays Investment Bank, finally as vice president, trading across gas and electricity markets.

Hayden Wood has a BSc in economics and economic history from the London School of Economics. After five years with consultancy Monitor, he joined Bain & Co in 2010.

says, "even that for us is extremely long. We track times weekly and it's an average of eight seconds for a caller to speak to someone". I have to admit that I start most utility calls with a job in hand for the waiting time and he says it's true of many people: "We answer the phone, people go 'oh!' and 'am I speaking to a person?'"

Gudka's observation as a trader was that "large companies with big supply and generation portfolios, and a trading desk that sits in between, increasingly take on speculative risk. Ultimately that comes down to having a liberalised market, but should [taking speculative risk] be the role of utilities? You could argue that even banks should not do that – it should be left to the hedge funds who are in a position to take the risk.

"Banks should be providing liquidity with their balance sheets – that helps small and medium utilities – but the large utilities' trading desks should be optimising their portfolio. Speculative markets are a zero sum game, so either a utility loses money on speculative trading and that gets passed on to consumers through their bill or they make money and shareholders get a bonus."

Is that because trading desks are profit centres? "Yes, and some are set up as different companies. Risk-taking companies in liberalised markets will always exist, that's what gives markets liquidity, but should that be the role of utilities? If you optimise supply you will be increasingly efficient and get a good price for consumers."

Wood says: "We saw the market was broken, we saw there was very low customer satisfaction. That had been the case for a while and we didn't really see any progress. We thought there has to be a better way of doing this." The pair quit their jobs, and started working on it full-time.

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Wood continues: "When we looked into it in more detail we made some more discoveries. The first one was around renewables. In the retail market they have traditionally been very expensive. Ecotricity and Good Energy have done an amazing job being pioneers in this space but their tariffs were at or around the same rate as big six standard tariffs. But if you look at the wholesale cost, renewables wasn't that much different.

"When we spoke to consumers they said they wanted to switch to renewables but the big blocker was price. Most people get their energy supply based on price.

"So we thought if we could make savings in operation, make savings on trading, and be more efficient in the way we ran our supply business we could pass on those savings to our customers and make renewables something that everyone can afford instead of a premium segment."

ENTERING THE MARKET

I ask how easy it was for Bulb to enter the market just over a year ago, and both Wood and Gudka suggest it was fairly straightforward. But Wood says: "First you have to work out what you are doing to be genuinely different and what you have to offer. We did a lot of research.

"You also have to set up your business model. Some suppliers outsource almost everything but when we explored that we thought it was not a very good idea. If you want to give a very good service and have control you need it in-house.

"When we had our recipe, that's when we started going out to raise money, and recruit."

They say that investment came from "a series of business angels, old contacts in our previous careers that we know well and have good relationships with". This is equity financing and they are now shareholders in the business as well as the founders.

I ask them how much was required and they are not keen to talk numbers. "We are not talking tens of millions of pounds or thousands of pounds," says Gudka, pointing out also that the costs would vary depending on how you manage the company – "will you focus on having a big team to begin with or developing the technology?" – and the 'runway' to launch.

The set-up started with the billing process, how you communicate with customers, something where the pair say there are "quite a lot of regulations". Next is communicating with other parts of the industry, so "you have to create robust automatic processes, don't create errors".

Bulb is working with Junifer for its billing system and a "Utilisoft alternative" for its other software.

TOUGH TIMES

Although Bulb had "no problems at all" entering the market, they say "there is a bit of a growing burden placed on small suppliers".

That's clearly not government or industry's aim, so I ask why they say that. Wood thinks: "The previous government did a really good job of encouraging new entrants into the market. Now there are certain things that pop up." One example that could have stopped the fledgling company in its tracks was the government's promise of a small 'rebate' on bills. "We had to pass on… £25 over two rebates. That was designed with larger suppliers in mind. The fact that you have to make that rebate to customers >

before you get paid by the government – it's a big cashflow issue. That would have really worried us if we were at the stage we are now." Luckily for Bulb it had recruited few customers at that time.

Wood adds: "There is a risk that additional regulation when things change will affect small suppliers worse."

CMA CONCERNS

In broad terms, Wood says the CMA remedies as they currently appear will make the environment harder.

"The CMA is great for the big six and the price comparison sites. It doesn't make it harder for us per se, because we have grown very rapidly through word of mouth and we don't rely too much on price comparison sites. If I were a big six supplier and I have a big base of customers who I can charge a standard tariff, and then invest a lot of money in online advertising, the CMA is great for me. Like the British Gas tariff (see above) they can offer an exclusive tariff and they are at no risk of their existing customers switching."

They also complain about changes around the 'whole of market requirement' for what switching sites display. "You might get to the situation where they can prioritise a supplier who pays them a flat fee for a whole year for a fixed number of switches and they have a much higher budget."

> There has already been a significant increase in prices over the past month or so. If you are in the position of doing one-year fixed deals and then not hedging out for a year you could get yourself into trouble

The company has written to energy secretary Amber Rudd to raise their concerns about the CMA.

And Wood returns to his concern over complex tariffs. He says relaxing the four tariff rule "we are concerned this will create a huge amount of confusion in the marketplace. It will overwhelm people with choice and they won't know which is the best deal for them and will just throw their arms up and disengage again".

Bulb's electricity is sourced from three small hydropower plants, totalling 900kW, which have come out of Non Fossil Fuel Obligation contracts, and will add other plants as customer numbers grow. I ask how the new company is managing its trading.

Gudka has called on his trading experience for this. "We have built our own demand forecasting and we forecast output from those plants in-house. That is a nice synergy with me having worked on that – rather than having to go to a third party."

Bulb does both forecasting and hedging in-house and it has access to the market through a trading counterparty. "We have two lines at the moment. We will be expanding the number of counterparties and are already discussing with some." He says they do not want to have an exclusive trading arrangement with a single large company.

Balancing is also in-house, and it is key when the company has signed up for all the output of the three hydro plants. Gudka says: "The hydro plants are intermittent. The output is variable and at times when there is a deficit we will purchase. Likewise if we have excess we will sell back. We buy wholesale but with renewables certification. Every MWh will be renewably certified."

The generation contracts are currently six to 12 months but in future the company wants to sign longer contracts. Gudka adds: "There is increasing risk in managing the growing intermittency of the grid so we have to be very measured in how we build that out. We are very much basing it around conservative forecasts of what our customer numbers will be and reviewing every six months. We are now having some more bilateral discussions with other independent renewable generators.

"We want to be diversified. There is a lot of value in having a diversified portfolio. And currently the plants we have are in northern Scotland and Wales and we want to get closer to our customer base – there is genuine efficiency and again we can pass those savings on."

I ask if the company is ready for the coming winter, which could see some price volatility. Gudka says: "If you have had a long trend in wholesale prices going lower, with low volatility, at some point that ends. There has already been a significant increase in prices over the past month or so. If you are in the position of doing one-year fixed deals and then not hedging out for a year you could get yourself into trouble.

"There is a lot of gas around in the world, but in power a lot of electricity plants have shut down over the past few years, and increased intermittency on the grid could make things more volatile. But the key to that is making sure that you hedge your positions well. Then you should be okay. If you buy what you need to buy and forward hedge – that's what suppliers should be doing."

With prices going in one direction "you could be a bit more lax about it" he says, but that's a warning – "going back to the point I made before about not taking speculative positions".

CUSTOMERS ARE KEY

They won't tell me how many customers they currently have, but say: "Because we have grown so >

rapidly by word of mouth and because we have a younger, more urban base we find our customers are clustered in and around the major cities – London, Manchester, Edinburgh."

Wood says: "We have been taken aback by the uptake, without much advertising spend, and without being top of the list on the switching sites. [Switching sites] don't really segment on renewables, so they don't really support people making a choice on anything other than price. So we have been really pleased with the number of people who are finding the website. We have seen more than 25% of customers come from referrals."

What about switching websites? They have produced "much lower than the 50% average that you see in the industry". And when I ask what commission levels are, suggesting £30 per fuel is a typical industry number, Wood says: "There are some newer ones that are lower and some established ones that are higher."

The target is 'rapid growth', but Wood says "some suppliers enter the market and take on 100,000 customers in their first year. When I say rapidly I don't mean that [to ensure that service levels are maintained].

"Our customers trust us and have given us good reviews. The last thing we want to do is let that trust go, go through those growing pains and not deliver that service."

I ask why the company is not providing smart meters to customers and Wood points out: "Standards aren't agreed yet. As soon as they are it is our intention to roll them out to customers as fast as possible."

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Gudka says the company will be trialling them on a beta basis over the next few months.

Wood adds: "For us the really exciting thing about that technology is people understanding their usage and there are quite a few studies that show usage can be reduced by 10%, 12%, I have even seen 20% in one study when people have information about what happens when turning on the washing machine.

"We don't just want to be a 100% renewable energy energy supplier at low rates… our long-term vision is to help customers reduce their usage and reduce their carbon footprint with lower usage. That's better for their bills as well.

COLLECTIVE SWITCH FORCES FIXED TARIFF

Although Bulb wants to maintain a single variable tariff, it had to offer a fixed green tariff to join MoneySaving-Expert's collective switch at the start of this year. Wood says: "We didn't want to offer a fixed tariff, but Ofgem rules are that it has to be a fixed tariff. We set the exact same rate as our variable tariff.

"Our costs have come down and we have reduced our variable tariff twice since then. We have communicated to those members and as soon as that fixed deal comes to an end or they choose to end it we will move them to a variable tariff." At the moment, at the year end in February 2017, "when people come to the end of the fixed deal they will have a reduction".

The deal covers fewer than 1,000 customers.

Wood says that to do the collective switch "we went through a huge amount of scenario testing and planning – MSE were very good about this as well. They were quite conservative. They came in and saw us, and our operation, as part of that. It wasn't purely – 'what is the bid?'".

"They benefit from fascinating technology emerging on demand response, storage, electric vehicles. All those things need a technology-led, forward-thinking supplier to make it possible. Smart meters are very important in that and that's why we are pushing that technology."

I suggest that will drive Bulb to become more of an energy services company, if those technologies slim energy sales. Wood doesn't think so: "The simple tariff and fast responsive relationship are required to get consumers to take on these new technologies and get them to do that. The problem of consumers using less… doesn't work in favour of larger shrinking companies."

Gudka adds: "We are not going to be selling broadband or water – that's not our intention any time soon and I don't see why we would sell those additional services. But partnering with solar providers, battery providers, electric vehicles and charge providers – we do want to do it but we will work with partners and we have spoken to many people already.

"We have been taken aback by the number of excellent really impressive technology providers in the energy space. They say 'we have a great product and we need a supplier to enable us to make it happen, we are finding it very hard to work with any other supplier because they don't have the flexibility to incorporate it'," he says.

"The supplier plays a very important integrating role for all this technology and if we are going to make this stuff work, it's up to suppliers to do it. Ultimately, the role of Bulb is to resell it." NP