

Price Cap consultation – Reviewing the potential impact of COVID-19 on the default tariff cap: cap period seven

26 May 2021

Nothing within our response is confidential and Ofgem may publish it in its entirety.

Octopus Energy welcomes this final consultation into reviewing the potential impact of Covid-19 on the default tariff cap. Covid has caused significant financial detriment for many customers and we support Ofgem in doing all it can to prevent Covid related increases to the price cap.

We support the proposal to make no further adjustments for Covid related debt costs in the period seven price cap. We also support Ofgem's proposal to amend the methodology to: filter supplier cost forecasts to ensure they are reasonable and consistent; make reference to wider economic indicators in its decisions about adjustments to the cap; and, importantly, to introduce a sharing factor which means that customers will carry only 50% of any additional costs. In principle, energy retailers, like businesses in other sectors, should be expected to carry some of the burden associated with the pandemic and costs should not be fully passed on to customers.

With customers on default tariffs being disproportionately low income/vulnerable and the knowledge that most suppliers target the cap by increasing default prices to maximum permitted,¹ it is important that Ofgem's approach in setting the cap reflects the efficient level of costs and encourages suppliers to properly manage bad debt and debt related costs. We note that an inflated cap will continue and further encourage unsustainable acquisition tariffs tactics to the detriment of disengaged and vulnerable customers and hinder the development of a sustainable and competitive market.

As we had projected in 2020, the customers who have identified themselves as financially impacted by Covid have, for the most part, continued making payments. 96% have made payments (66% in response to the latest bill). We have also found that among the customers that are behind on payments many were not making payments prior to March 2020 so Covid may be discounted as a factor. The combination of this, as well as the economic overview and

¹ [SMNCC cap consultation](#) 3.35 p25

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industry evidence that Ofgem has referenced in this consultation, clearly supports the proposal that no further Covid related adjustments are required for the period seven cap. Vulnerable customers paying for energy priced at the cap should not be made financially worse off by additional and unsubstantiated costs.

Our own cost data and Ofgem's industry wide data continues to suggest that the float for periods 4-6 was overly generous. We are therefore disappointed that the float for periods four and five (£8.86) will be reflected in the period seven price cap. We urge Ofgem to act as quickly as possible to rectify this by designing a true up process that uses robust data to establish the efficient level of Covid related debt costs and to recompense customers for any over payment of suppliers for the float.