

Retail Price Regulation

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Sent by email only

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Supplementary consultation on the true-up process for COVID-19 costs

Thank you for the opportunity to provide comments on the proposed changes to the Covid-19 true up cost methodology. Our strong preference would be for the float to be fully refunded to customers as we have not seen an increase to debt related costs. However, at minimum we agree with Ofgem that the true up must not increase costs for customers any further - the true up value should be set at £0.

Firstly, our internal data¹ clearly shows there have been no material increases to supplier debt related costs that were driven by Covid-19. Consequently, it remains our strong view that the float should never have been introduced and adding an additional true up that may bear further costs is not in the interests of consumers.

Secondly, whilst suppliers incurred costs it is important to remember that they were also able to realise savings during the Covid-19 period i.e. staff salary savings from furlough. This makes the calculation and apportioning net costs extremely complex if not altogether impossible. In addition, customers fell into debt during the Covid-19 pandemic for numerous reasons, including those that were not directly linked to the pandemic - it's near enough impossible for a supplier to ascertain the reasons for customers falling into debt and apportion debt related costs accordingly. Because of the difficulty pertaining to data and the overall time spent assessing the matter we agree with Ofgem's initial assessment that there are no further changes required to the float allowance.

Finally, the extended debate and significant lobbying on Covid related costs provides a further illustration of what is wrong with the current "cost stack" price cap design. As set out in responses to other consultations, we would like to see Ofgem committing to a broader review of the price cap design as soon as possible, rather than amending discrete elements of the cap (BSUOS, headroom, EBIT, Covid -19 allowance etc.). We think that given recent Government announcements, including the Energy Prices Bill, it is important for Ofgem to work collaboratively with the Government to consider an enduring design of the cap and how the price cap can be restructured to continue protecting customers, whilst also reducing supplier exposure to systemic risk and the overall

¹ Submitted to Ofgem over several information requests



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requirement for and cost of capital. In the longer term, our strong preference remains the introduction of a relative price cap - it would allow a competitive market to flourish, while protecting consumers from tease and squeeze behaviours. A relative cap would also remove the costly and time consuming exercise of amending the price cap methodology in response to external changes such as Covid 19 methodology.

Should you have any questions please contact compliance@octoenergy.com

Kind regards,
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