

By email: FWP@Ofgem.gov.uk
(cc: neil.kenward@ofgem.gov.uk, Retailpriceregulation@ofgem.gov.uk,
Dan.Norton@ofgem.gov.uk)

3 February 2023

Dear Neil

Comments on Ofgem's Forward Work Plan

I am writing in response to Ofgem's Forward Work Plan. Thank you for providing the opportunity to comment. We are aligned with the response EnergyUK has submitted, and want to raise some additional points. In particular:

1. **Ofgem's time and energy in 2023/24 would be much better spent working with BEIS on its strategic review of retail energy rather than detailed reviews of the price cap** which is no longer fit for purpose. The current "cost stack" price cap is increasingly unstable and the "notional" supplier approach is no longer credible. The BEIS review - which aims to introduce new arrangements in 2024 - provides the opportunity to find a significantly better approach to protecting customers (for example exploring options such as a relative price cap) while restoring stability to the retail market and re-establishing vibrant and fair competition. We urge Ofgem to streamline its price cap work and better align it with BEIS' strategic review.
2. We welcome Ofgem's plans to work with BEIS on bill support arrangements from April 2024 onwards but emphasise that **affordability support is not a substitute for price protection for loyal customers**. We are concerned that Ofgem is merging these two areas. We agree that the affordability crisis has not yet peaked and urgent action needs to be taken. In addition, the price cap in its current form has not addressed the underlying problem of the loyalty penalty. The ability of legacy companies to exploit loyal customers is not just bad for consumers - it will kill competition. This issue needs to be addressed through reformed price protection, which should allow competition to resume in a healthy and fair manner. This is not the same as solving the affordability issue.
3. As long as the price cap remains, Ofgem urgently needs to address one particular component - **the significant and growing uplift for standard credit over direct debit charges**. Your current programme delays review of non-debit charges until Winter 2024/25. In the context of an affordability crisis, this is far too late. This extremely profitable premium for "standard credit" has crept up in the price cap, with companies charging these most sticky customers over £254 more when a

cost-reflective figure may look more like ~£80. Our research (see below) has shown that three quarters of customers who pay in this way do not realise they are being charged much more than customers who pay by direct debit. We ask that Ofgem address this important issue which is hitting some of the most vulnerable and lowest income households in the country.

Yours sincerely

Alexandra Meagher
 Group Head of Regulation
 Octopus Energy

The extra charges for paying by cheque, cash or card:

	Premium for non-direct debit	Excess charge compared to original Ofgem calculations from 2019
Octopus	£80	-£1
Typical energy supplier	£254	£173
Ofgem price cap allows 2019	£81	£0
Ofgem price cap allows 2023	£254	£173

Octopus Survey Results:

*75% of customers think that paying by cash, cheque or credit saves money or is the same as paying by direct debit – but in reality it's £254 more expensive for the average typical household on the new cap.

Older people are particularly affected, with 28% of people who pay on receipt of bill being aged 65 and over:

Age group	% of customers who pay on receipt of bill
25-34	19%
35-44	19%
45-54	16%
55-64	19%
65+	28%

Research carried out by Google commissioned by Octopus Energy on 7th April 2022 based on a sample size of 19,909 UK adults. Total number of 'Pay on Receipt of Bill' customers taking part in the survey: 1,537.