

12 July 2024

Dear Chris

Thank you for providing the opportunity to discuss the extension of ASC cap uplift. We do not support Ofgem's minded position to extend ASC and recommend that Ofgem "do nothing" in respect to this consultation.

This irregular intervention has not been fully assessed and extending it just adds more costs to bills with no view of the impact on customers and competition. We continue to caution Ofgem against introducing one-off upwards adjustments to the cap, especially when - as Ofgem recognises - bills are high for many customers. Ofgem should instead focus on driving up supplier performance and speeding up its opex review - addressing debt-related costs through this established mechanism.

In particular, we are concerned that:

- Uplifting the cap to address costs like ASC accepts the view that debt is outside supplier's control - even though we continue to prove this is not the case.
- This proposal misunderstands the nature of the cap and could end up changing it from a "ceiling" to a "target" that no-one ever prices below.
- With ASC and levelisation - the cap is being used as an affordability mechanism, which it was never designed for. The best way to keep the cap credible with the public and Parliament is to keep it low and the methodology transparent.
- Other options are available - Ofgem could speed-up its review of the operating cost allowances, and avoid the need for one-off, non-transparent uplifts.

Good debt management starts with supplier-led preventative support

As highlighted in our Debt and Affordability Call for Input response, supplier performance is a significant influencer of likelihood to fall into debt and customer engagement when in debt. Actions such as innovating in payment and billing solutions and developing trust through agile support frameworks reduce the number of people entering into a debt pathway, increase the likelihood of a customer engaging with their supplier when they need support and enable suppliers to manage debt effectively. Our data demonstrates that the debt roll of books acquired by Octopus is positively impacted by switching customers onto our modern, agile and consumer focussed operating model - as shared in confidence with Ofgem.

Importantly the creation of an ASC uplift has failed to recognise that the simplest way for suppliers to prevent disconnection is to keep the cost of topping up a meter down - including via low and agile repayment rates - and, where a customer is at risk of disconnection, to consider whether prepayment is the right payment method for that consumer. These upstream interventions lead to better outcomes for customers - and do not manifest in high ASC debt costs or a need to increase the price cap.

Conversely, the provision of this allowance has driven focus towards reactive inputs, rather than preventative upstream support. For example, Ofgem's approach to compliance assumes that a) this is a budget that should be being used and b) that if a supplier increases the amount of ASC payments they are seen to "improve". This is highly irregular and not within the design framework of the price cap.

The commercial incentives for developing long term meaningful solutions do not stack up, as such we'd like to see Ofgem allow the uplift to end this year.

The cap is not an affordability measure nor a target price

We note that Ofgem suggests that the ASC uplift is part of Ofgem's debt and affordability work. We fully support Ofgem using the price cap to drive cost optimisation. However, we are concerned that the ASC uplift paired with levelisation undermines Ofgem's recognition that the cap is not a tool to solve energy affordability.

Addressing bill affordability is vitally important and must be done in collaboration with government, who are responsible for social welfare. Indeed government plans to cut energy bills for millions of families and fight fuel poverty² can only be achieved where the transactional (uninfluenced) cost of energy is fully understood - Ofgem intervention will make this task more difficult and risks absolving government from delivering meaningful support to those who cannot afford to heat their home.

The cap is designed to create an ex-ante price ceiling - not to provide suppliers with a precise revenue allowance (as is required in networks). Adding uplifts and then regulating against their use could change the way suppliers see the cap - from a ceiling to a target. Insofar as Ofgem wants to use the cap to bring bills down, it should focus on reviewing the accuracy of specific allowances, for example considering the fairest way to allocate system and policy costs.

The Opex review should be sped-up to finally address these questions of operating and debt-related costs in the cap

We support Ofgem in ensuring an opex review is wide-ranging and includes greater transparency on debt-related costs. Using existing mechanisms to keep the cap fair is vital and Ofgem should speed up this work. To do otherwise, risks turning the price cap into a "lobbyist's charter" - as Citizens Advice has called it. At the time of original decision Ofgem assumed the opex review would be complete in 2024, all the while uplifts remain possible focus will not be on delivering this review.

We ask for Ofgem to remove the uplift and focus wholly on completing the opex review.

Regards
Kat Renton

¹ Referencing language in "Octopus Energy ASC Bilateral Slides" 2024

² https://x.com/Ed_Miliband/status/1763130306318442788