

Non-confidential

25 September 2025

Energy price cap benchmark consumption review

Dear Danny

- We agree that the price cap benchmark consumption needs updating to account for falling consumption and that this should be done for the Q1 2026 cap.
- We agree in principle with aligning the benchmark consumption with typical domestic consumption values (TDCV) and keeping this alignment over time.
- However, Ofgem should commit to updating TDCV more consistently and regularly to capture future trends in falling consumption. This is particularly important for gas where consumption has already fallen substantially further than the current TDCV.
- Creating separate benchmark consumptions for different payment types is not necessary, and would add complexity to the cap without any clear consumer benefit. We urge Ofgem to not take this work further.

We agree that average domestic consumption has fallen substantially and that therefore there is a case for reviewing the price cap benchmark consumption in order that the cap remains broadly reflective of efficient costs. Gas consumption in particular has fallen steeply (c.35% since the early 2000s) and will continue to fall owing to higher gas prices, improved home insulation and electrification, increasing risks of underrecovery without action. We have also seen increasing examples of unseasonably warm weather, such as in March and April 2025, suggesting that the headroom implicit in the original benchmark consumption is still needed.

In terms of Ofgem's specific proposals, we are supportive of moving to align benchmark consumption with TDCV in the immediate term. However, Ofgem needs to provide more certainty over when future reviews of TDCV will take place and when they will be incorporated into the cap. Gas consumption has already fallen sharply since the current TDCV - we estimate by as much as 15% - and therefore we must have certainty that future changes in TDCV will take this into account soon. If this cannot be provided, then a move to DESNZ median consumption may be more appropriate.

We note that these **systemic changes in gas consumption also have an impact on how suppliers recover gas capacity charges from customers**. This is because gas capacity charges are fixed ex ante, calculated as much as 15 months before delivery, before being

recovered through the unit rate under the cap. This leads to a risk to suppliers not recovering the fixed charges, such as from systemic declines in gas demand. This is a key example where the underlying charges and the structure of the retail price cap are not cost-reflective and put at risk supplier recovery. We suggest that further attention is needed on the most appropriate and direct way to ensure that suppliers can recover these costs efficiently. This may be within various price cap allowances, or in network mechanisms. We would welcome further engagement with Ofgem on this.

Ofgem should not take forward plans to create separate benchmark consumptions for payment types as it would add significant complexity to the cap for limited customer benefit. Whilst we support a cost-reflective approach (as is the focus of these current price cap consultations from Ofgem), Ofgem also needs to recognise the limits of cost reflectivity in the cap. It is as much an art as a science involving many assumptions and significant information asymmetry between suppliers and Ofgem. In our view, payment method specific consumption levels are in this category - they are based on assumptions and make the cap increasingly complex. In general, we would like to see Ofgem putting forward ideas for radical simplification of the price cap, rather than more methodological changes which increase complexity.

Part A: Change of consumption benchmark used in price cap methodology

1. Do you agree that benchmark consumption in the price cap should be updated?

Yes, we agree that the price cap benchmark consumption should be updated and that this should be incorporated into the cap from 1 January 2026.

Average domestic consumption has fallen substantially and therefore there is a case for reviewing the benchmark consumption in the cap to take this into account. Gas consumption in particular has fallen steeply (c.35% since the early 2000s) and will continue to fall owing to higher gas prices, improved home insulation and electrification, increasing risks of underrecovery without action.

We also note that the originally intended headroom originally implicit in setting the benchmark consumption is becoming more necessary, as climate change leads to more periods of unusually warm weather over colder months. 6 in 10 of the warmest winters on record have happened in the 21st century. March and April 2025 saw particularly low gas consumption owing to unseasonably warm weather. Such trends are only expected to continue, and the price cap needs mechanisms within it to take both falling consumption and more unseasonably warm weather into account.

2. Do you agree with our minded-to proposal to update the benchmark consumption level using the latest TDCV?

We support the proposed alignment with TDCV at this time and doing so from 1 January 2026 cap. The benefit to aligning with TDCV is both in reducing the benchmark consumption and in creating an enduring mechanism by which the trends in falling consumption can be recognised in the cap. We do however raise two linked issues with aligning benchmark with TDCV. If these cannot be addressed then we suggest moving to the DESNZ median consumption data

TDCV has fallen more steeply for electricity than gas

The current TDCVs for gas and electricity have both fallen compared to the cap benchmark consumptions. However, electricity has fallen by 12.9% and gas by just 4.2%. Our data suggests that gas consumption has fallen substantially further since this most recent reference period for TDCVs by as much as c.15%. We suspect this discrepancy could be at least partially addressed once TDCV is next updated in 2026 to use more recent data, which links to our second point below.

We suggest that Ofgem takes further analysis to compare whether the likely updated TDCVs in 2026 will indeed account for more of this fall in gas consumption. If not, there may be a case for using the 2023 median consumption data for gas or some other method which more accurately aligns with real consumption trends.

More clarity and certainty on when TDCV will be reviewed and implemented in the cap

The wording in the consultation that the next TDCV review will be 'likely to happen' in 2026 is unhelpful if TDCV is going to be used as an ongoing cap input, particularly when gas consumption has already dropped further than the latest TDCV values. The next TDCV must take place in 2026, and suppliers given reasonable notice of when it will happen and when it will feed through into the cap.

We suggest Ofgem either sets out a timetable for changes in TDCV, or commits to updating the benchmark consumption at regular intervals using the TDCV methodology. We also suggest that Ofgem could make more frequent updates to the benchmark consumption (e.g. annually) but still on the basis of a two-year rolling average consumption in order that the cap does not lag downward trends in consumption as much.

3. What are your views on the alternative approach of using 2023 DESNZ median consumption data?

We would support the use of 2023 median consumption for gas if Ofgem cannot quickly establish that TDCV will be updated in early 2026.

4. What are your views on the option of using 2023 DESNZ mean consumption data, including any implications for the headroom allowance or other elements of the cap?

We do not support this approach as it would not address the issue Ofgem has identified. Yes, it would use more up-to-date data but then removes the originally intended headroom built into the allowance through choosing median over mean consumption. This headroom element is increasingly important as explained in our answer to question 1.

Part B: Payment method specific approach

1. Do you consider that there is a case for introducing payment method specific benchmark consumption levels within the price cap?

No, we do not consider there is a case as we think this adds complexity for limited customer benefit. The calculation of the price cap has become increasingly detailed and complex. Where it has a choice, we urge Ofgem to make the cap more simple and less complex, rather than the other way around. Whilst we support a cost-reflective approach (as is the focus of these current price cap consultations from Ofgem), Ofgem also needs to recognise the limits of trying to take a cost-reflective approach. It is as much an art as a science involving many assumptions and significant information asymmetry between suppliers and Ofgem. In our view, payment method specific consumption levels are in this category - they are based on assumptions and make the cap increasingly complex.

2. We have considered a proposed method of calculating payment-specific benchmarks using the 2023 TDCVs weighted by average consumption data from the Debt-related Costs RFI. Are there alternative data sources or methodologies you believe we should consider?

We do not agree that this work should be taken forward for the reasons set out above. We urge Ofgem to be very cautious about using some of the data collected from suppliers in the recent price cap RFIs as this will not necessarily be consistent across suppliers as it will be based on different assumptions used by different suppliers.

3. What are your views on the potential distributional and operational impacts of introducing payment-specific benchmarks?

In our view, either this policy would run counter to the policy aims of PPM levelisation (and therefore carry the exact same distributional consequences this was designed to remove), or it would mean that further levelisation between payments is needed which would distort competition further. Neither seem desirable for Ofgem or government.

We also do not agree with Ofgem that there is a good case for this just because some suppliers are prepayment specialists. Suppliers with a greater proportion of standard credit and PPM customers already see benefits from PPM levelisation and from a much higher price cap allowance for standard credit. We already think the price cap payment uplift for standard credit charge is too high. At Octopus, we have been able to drive down the cost to serve standard credit customers vs direct debt customers so that the differential is much less than currently allowed for in the cap (and this is reflected in our own standard credit pricing which is below the cap). We think this kind of efficiency should be achievable for other



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suppliers too, and would encourage Ofgem to use levers like its billing project to drive those changes, rather than the price cap or any levelisation.