octopus energy

Octopus Energy
20-24 Broadwick St,
London, W1F 8HT
w: octopus.energy
e: hello@octopus.energy
p: 0330 808 1080
f: 084 3558 9972

To: Barry Couglan

Via: futureretailregulation@ofgem.gov.uk

15th September 2017

Dear Barry –

Response to Statutory Consultation on default tariffs for domestic customers at the end of fixed term contracts

Octopus Energy is a growing challenger energy supplier supplying gas and electricity to domestic homes and businesses in Great Britain. Our largest investor is the Octopus Investments Group, who over the last decade have become the third largest investor into UK renewable generation in the UK and the largest in solar generation.

We believe:

- That the consumer should be given clearer communication about pricing over a longer period: so that they can choose a tariff that is good for them over the long term, not just the fixed term.
- That low prices are entirely compatible with excellent service, which can be enabled by some of the same approaches as the eCommerce sector – in the same way that Amazon and Uber demonstrate in other sectors (and as evidenced by our pricing which is typically £200-300 per year cheaper than Big 6 whilst achieving 9.7/10 on Trustpilot, the leading consumer reviews site)
- That the barriers to switching due to the slow and complex nature of the switch process should be systematically eliminated to make switching quicker and easier (as online shopping and services have provided in other sectors)
- That customer service should be measured by how happy customers are with the service they receive, not a set of defined metrics which often fail to recognise what really matters to consumers

Overall

We are delighted to see Ofgem engaging with the issue of the ‘tease and squeeze’ model of low fixed acquisition tariffs: where a majority of customers are then moved to high deemed Standard Variable Tariffs (SVTs) at the end of the fixed term. We continue to see consumers miss the implications in the end of term letter (which we understand is a key focus for Keira’s Consumer Communications team at Ofgem). This lack of consumer awareness of this profit-building tactic and the point at which SVT charges kick-in is uniquely compounded in energy where monthly direct debit (DD) payments are typically held flat for many months after customers roll onto SVTs - so that even those who keep a close eye on bank statements are unaware of the tariff change.

We therefore welcome consideration of the deemed tariff mechanism at the end of a fixed term – and understand that the Standards of Conduct would be a key principle that would be applied as a test at this time.

Octopus Energy Ltd is a company registered in England and Wales. Registered number: 09263424.
Registered office: 33 Holborn, London, EC1N 2HT.

octopus energy

Octopus Energy
20-24 Broadwick St,
London, W1F 8HT
w: octopus.energy
e: hello@octopus.energy
p: 0330 808 1080
f: 084 3558 9972

However, our reading of the current phrasing in this statutory consultation is that if the current market dynamics continue as is, then there could be limited impact unless this change includes:

- A mandate that the supplier must roll the consumer onto the cheapest of any of their fixed (acquisition or retention) or variable tariffs available at that time.
- A mandate that the rollover fixed tariff is the same price and conditions as the supplier's cheapest acquisition tariff in the market at that time, but with no exit fees.

We also note that the timing of the impact in market would be likely to be January 2019 – as the T&Cs would start from fixed contracts starting from January 2018 and most are 1-year fixed contracts.

Even with this change in drafting, we retain two concerns about the impact:

Firstly – we see the SVT actually has some real benefits, because it is so public and visible. When it goes up, it makes news. And when it is at a much higher level than the acquisition tariffs that is also very clear. And because it affects a lot of people newspapers, PCWs and competitor suppliers report it at length and use this as a way to get consumers to engage with their energy supply and make a switch. If each cohort of people coming to the end of fixed term contracts is switched onto a different tariff, this transparency, clarity and headline-worthiness is lost in a sea of complexity that no one will be able to unravel. And this potentially decreases engagement as well as transparency.

The other issue that appendix 1 (attached) shows is that large suppliers routinely move their fixed tariffs between very close to their SVT to much, much cheaper. This reflects the timings of when they are looking to add a new cohort of X thousand additional customers, vs when they are looking to retain a cohort, vs when they are not looking to do either. They cycle between these three states switches in certain time windows, and it would be easy for them to comply with the above drafting but put people onto a tariff that is virtually the same as the SVT in level, but called something that implies much better value.

One opportunity to address these two related issues could be to make every supplier publish every month the average tariff of all of the people on their rollover tariffs, but this is an extra reporting burden and we believe would still reduce the current level of clarity.

Specific points:

The reason that we push the point that it must mandate the removal of the exit fees on whichever is the cheapest tariff is that almost all of the fixed tariffs in the market place have exit fees, and therefore with the current drafting would appear to be ineligible. (Octopus Energy are one of the few in the market place who do not do this, as we made a business choice to give the customer the service and transparency of being able to change at any time. We also look to keep our fixed tariff offers as close as possible to the SVT at any given time).

The reason that fixed-price tariffs generally have exit fees is because suppliers fix the energy commodity cost by placing forward contracts for an estimate of the volume of gas/power that will be consumed over the duration of the fixed contract period. Although suppliers can sell the forward contracts if customers are lost before the end of their fixed period, if the wholesale energy price has fallen in the mean time, the supplier will suffer a loss on those forward

Octopus Energy
20-24 Broadwick St,
London, W1F 8HT
w: octopus.energy
e: hello@octopus.energy
p: 0330 808 1080
f: 084 3558 9972

contracts sold. Mandating no exit fees for default fixed periods will require assumptions and modelling to get a different level of hedge right for the churn that will occur. This will marginally increase the risk for suppliers (albeit a risk that can be managed). We would argue that this is a risk that can be managed, as in many other markets suppliers are able to manage these risks readily – but we do understand the pushback from suppliers that has already been fed into this consultation process.

We would also strongly recommend that the specific phrase 'rollover no exit fees' needs to be used in the name of the rollover tariff on all of the consumer bill and all communications – so that they are clear. And also be listed as a separate tariff in all databases, so that price comparisons by Price Comparison Websites (PCWs) and telesales/sales agents are done on the correct basis.

We would also suggest that the length of the fix should be mandated as 'one year or less' – so creating more prompts to engage (through end of term letters) and less of an accidental sense by the consumer that they are locked in – which is likely to prevent them from engaging with switches through other channels.

We would recommend that the rules need to be quite simple and clear in order for them to be followed consistently and for issues to be visible and reportable. This is a complex area and with the loss of the Whole of Market view and the requirement for Citizen's Advice to hold the total market overview of tariffs, we would argue that getting visibility and analysis of this area is fairly challenging for everybody, including the regulator.

We do note that this will create a significant issue for the personal projections where suppliers and PCWs are thorough enough to model the end date of the fixed – as the price for the deemed tariff will not be known until the time of the end of the fixed. We would recommend that this be included in the ongoing conversations on the Personal Projection (PP) across this autumn (and why our recommendation on this would be to move the energy market away from annual savings and into real prices – like broadband, phone, insurance, mortgage markets – so a simple explanation of the standing charge and the unit charge and how that creates a monthly charge, in just the same way as broadband does line rental and data fees).

Wider point

We maintain that one of the most important prompts to engage is the DD mandate, as people understand the size and immediacy of the price increase. We hope that under the Standards of Conduct it will become mandatory to increase the DD by the exact same percentage amount as the annualised projection, within the billing cycle following that increase. Whilst we appreciate that some people will not have their DD set optimally for the old tariff, it is responsible to reflect the price change immediately and not have customers routinely slipping more into debt because they are underpaying at the same monthly DD payments before an account review cycle comes around (which can take quite some time).

In summary

In summary, we are very supportive of intervention to address the issue of the 'tease and squeeze' model of low fixed acquisition tariffs moving to high deemed SVTs.

Octopus Energy
20-24 Broadwick St,
London, W1F 8HT
w: octopus.energy
e: hello@octopus.energy
p: 0330 808 1080
f: 084 3558 9972

However, for this intervention to work, we believe that the drafting needs to be changed in a number of areas as mentioned above. And we think that there are some real challenges in maintaining the transparency for the consumer, regulator and wider market place – so that people truly understand whether they are getting value or not (which could be a step backwards from the current situation where they know that they are not getting value if they are currently on an SVT).

We are very happy to discuss the content of this further and go deeper into our forensic analysis of the types of tariff available to given cohorts at different times across the year.

Yours Sincerely,

Greg Jackson
Founder and CEO – Octopus Energy

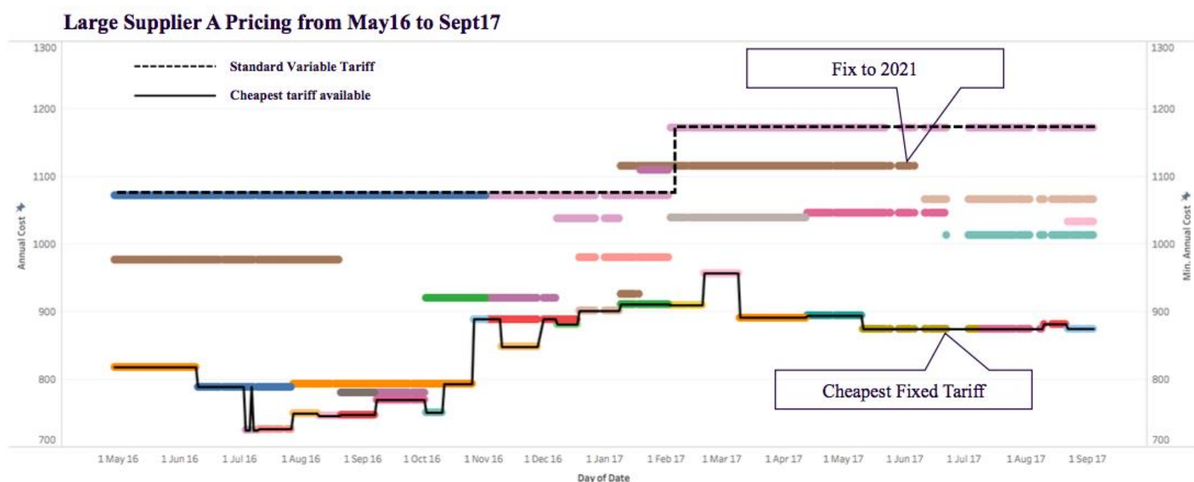
Octopus Energy
20-24 Broadwick St,
London, W1F 8HT
w: octopus.energy
e: hello@octopus.energy
p: 0330 808 1080
f: 084 3558 9972

Appendix 1 – Illustration of High Cost Fixed Tariffs Being Offered to SVT Customers as an Alternative Option by Some Large Suppliers.

The following charts trace acquisition tariffs offered by a single supplier over time (so the vertical level of the line is the cost of the tariff to the consumer, and the way that it changes over the timeframe running from left to right covering an 18 month period). Each colour depicts a different tariff for a medium usage customer.

From these charts is possible to see:

1) How several suppliers are offering fixed tariffs at similar prices to their SVT tariff – and dramatically more expensive than other fixed products offered. These products represent poor value to customers and are a great example of what could become the norm under a fixed default tariff construct.
2) The significant level to which this changes over time, based on whether the supplier wants to acquire a cohort of new customers, retain a cohort of customers reaching the end of their tariff, or not play in the market at that time. This is the way that suppliers could 'game' the impact for large cohorts in a way that would be hard to see and track.
3) The level to which exclusive acquisition tariffs is already leading to a better deal for new customers and a worse deal on retention tariffs for existing customers – requiring customers to engage and search at some length across different sites and sources for a better deal. This is why we believe that all tariffs need to be included in the review.



Octopus Energy Ltd is a company registered in England and Wales. Registered number: 09263424.
Registered office: 33 Holborn, London, EC1N 2HT.

Octopus Energy
20-24 Broadwick St,
London, W1F 8HT
w: octopus.energy
e: hello@octopus.energy
p: 0330 808 1080
f: 084 3558 9972