

To: Neil Barnes

Via: futuresupply@ofgem.gov.uk

22nd December 2017

Dear Neil,

Response to Call for Evidence on Future Supply Market Arrangements

Background

Octopus Energy is a growing challenger energy supplier that supplies gas and electricity to domestic homes and businesses in Great Britain. Our largest investor is the Octopus Investments Group, who over the last decade has become the third biggest 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 long-term good pricing and service can be enabled by some of the same approaches as the eCommerce sector – in the same way that Amazon and budget airlines have done in other sectors.
- 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

Overall, we would argue that the supplier hub approach has been a success. It has allowed a significant number of companies to enter and has shown itself to be workable, even in stressed situations such as a supplier of last resort. The reason that we believe that it works is that it is always clear who is accountable and all companies have the same obligations.

The number of new entrants and partnerships across increasingly broad market segments and services is testament to the fact that the supply licence is not a significant barrier to entry, so is not counter-productive to creating a competitive supply market.

We remain concerned that the consumer finds this industry very hard to understand. Ending the supplier hub could make this considerably worse – a parallel perhaps with the current challenge of using multiple different railway companies for one journey and having to contract with them each separately to get the best price for one overall journey. This is why we suggest a core principle in topic 1 about the owner of the communications with the customer vs a service provider (using a comparison with Amazon Marketplace).

We would instead echo the view that the CMA raised – ie that the area that needs addressing is the complexity and lack of change in the codes area of the industry, not the licence. The long process to raise a modification and try to get support for change from entrenched interests makes changes to areas such as (for example) data quality, Erroneous Transfer processes, faster switching very hard to make happen. This could be addressed with governance changes in the codes area (which are not a part of the core Supply Licence).

Finally, there is a potential scenario where the current supplier structure could end up 'hollowed out' by others, which would make the economics of acquisition and servicing a customer uneconomic and would lead to exit of the supplier space.

Specifically

Topic 1: Guiding criteria to evaluate a successful supply market

Q1 What are your views on the above criteria? Are there other criteria that should guide our assessment of current and possible future market arrangements?

We would add a criterion that it should be clear to consumers at all times who is dealing with their energy, and that there should be a clear point of contact. This is who they contact in the case of issues, and can be reassured that party will take ownership for resolving the issue. The challenge of increasing complexity and inter-relationships is that the consumer already struggles to understand it – and the danger is that this could get worse.

This may need to include specific criteria about how billing is managed – as disaggregation of services could lead to a proliferation of bills and communications, which would be to the customer's detriment. The comparison may be ordering something from an Amazon marketplace retailer – there may be a number of different retail and delivery partners, but you see it all on one bill and pay it through one payment. In the event of an issue, Amazon take ownership for problem resolution on your behalf regardless of which party is at fault.

Topic 2: Barriers to Innovation

Q2 What are the most significant barriers to disruptive new business models operating in the retail market? Please draw a distinction between regulatory barriers and commercial barriers (eg there may not be enough potential consumer demand to justify market entry).

We do not believe that there are significant barriers to entry arising from the current supplier hub approach. This model has allowed a large number of new market entrants in the last 3 years, and more are involved via partnerships with those with licences. We argue that any innovator could get a supply licence, or work with someone who has one. There are also many companies in the market offering off the shelf products, such as Utilisoft's 'Utility in a Box'.

Additionally, we argue that there is currently a lot of exciting innovation in progress and gaining customer interest and commercialising these in the areas of EVs, storage, home management etc represents a major opportunity for the industry.

The greatest barrier to disruptive new business models and to innovation more generally throughout the sector is the broken link between pricing and value, and the inefficient and predatory business models this incentivises. For the market to operate competitively, and thereby stimulate innovation, it is crucial that the prices consumers see and the real cost base of energy suppliers are intrinsically linked.

Topic 3: Alternative Default Arrangements

Q3 What other supply market arrangements would provide a better default for disengaged consumers, whereby they are protected adequately and are able to access the benefits of competition?

We suggest introducing an alternative default arrangement measure whereby a supplier's default or SVT prices are pegged to a maximum percentage above its best/cheapest deal - we suggest no more 6%. This would ensure that on any given day, within any given region, the default price paid by a customer can be no greater than 6% more expensive than the prices that company is quoting to new customers in the same region for the same product.

This alternative default arrangement would provide protection for disengaged consumers while still allowing suppliers to compete on price and to set their own tariffs to reflect the market conditions of the time.

Topic 4: Consumer Protection

Q4 How big an issue is it that we do not currently regulate intermediaries in the energy market? Is there a case for doing so? If so, how would we best do it? We are especially interested in frameworks that enable a wider variety and increased number of market participants to provide supply.

We believe that there should be two types of criteria.

The first set of criteria would cover those who act directly with the consumer and would cover the aspects of communications with them – from the initial selling, through to the ongoing service and billing interactions, as well as problem resolution and protection in the case of issues.

We believe it is crucial that any party with access to a customer's meter or who has a billing relationship with a customer must be required to comply with supplier license conditions. Furthermore, we strongly believe that only one party at any time should have access to a customer's meter point. To move away from this structure would remove important protections for consumers in terms of being able to hold their suppliers accountable; and would undermine the value for suppliers in caring for their customers if other parties are extracting value from relationships with their customers without providing customer service functions.

The second set of criteria would cover those who provided services to the consumer, but did not have access to their meter points (like the courier in the Amazon Marketplace example). This would be a much lighter set of criteria that covered safety, service and problem resolution aspects.

We are happy for this response to be published in full, and also to respond to any follow-up questions that may arise from the content of our responses.

Yours sincerely,

Clementine Cowton
Director of External Affairs, Octopus Energy