

**Response to Price cap working paper – Reviewing the potential impact of COVID-19
on the default tariff cap: cap period seven**

Octopus Energy continues to support Ofgem in its objective to protect default tariff customers through the Tariff Cap. We see no justification for adding a Covid bad debt float to the price cap for period 7. A float would unnecessarily increase prices for customers at this time and reduce the incentive on retailers to effectively manage bad debt.

In summary:

- As yet we see no uptick in bad debt as a result of Covid 19 and there remains significant uncertainty over the scale and timing of bad debt associated with the pandemic
- Any price cap adjustment for Covid bad debt should therefore be done ex post - not ex ante - following an assessment by Ofgem of the actual impact of Covid on bad debt once furlough has ended
- In the meantime retailers, not customers, should carry the risk of cash flow impact associated with Covid bad debt.

We have yet to see Covid related bad debt materialise in our business, as demonstrated in the data we provide to Ofgem. Recent engagement with customers suggests that two thirds of the customers who had considered themselves financially impacted by Covid in summer 2020 no longer consider themselves financially impacted. Over the next 6-12 months we expect to see if those customers are able to adapt their payment cycles and utilise our debt support packages to bring their accounts back into balance. This illustrates the uncertainty over the scale and timing of Covid related bad debt. We consider that the real impact will only become apparent in early 2022 and this would be an appropriate point for Ofgem to assess the need for and scale of any further price cap adjustment.

An ex post process would allow Ofgem to base any price cap adjustments on a more robust and clear understanding of what is truly an efficient Covid related bad debt, what debt (if any) is exceptional and beyond the assumptions already modelled within the Tariff Cap.

We agree with Ofgem that suppliers are better positioned to manage short term cash flow risk than consumers. The industry should protect customers from the cost of uncertainty and the Tariff Cap should not be used as a mechanism for passing such costs on. Retailers should be able to manage the impact of any increases in bad debt associated with Covid ahead of an ex-post adjustment to the price cap. Bad debt will materialise slowly and will not emerge as a one off hit on cash flow. Retailers have benefitted from the uplift in the price cap in periods 4 to 6. And, if necessary, cash flow impact could be managed in the short term through varying acquisition tariffs.

Suppliers have already benefited from an unnecessary uplift in the cap in periods 4-6 the work to ensure a suitable true up to recompense customers should be prioritised above setting further floats.

Please refer to RFI submissions for more analysis or contact compliance@octoenergy.com for further confidential information.