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Dear Philippa

Response to Last Resort Supplier Payment Claim from Octopus Energy Limited

Thank you for the opportunity to respond to your consultation on the supplier of last resort (SoLR) payment claim from Octopus Energy. We support Ofgem's minded-to decision to allow Octopus to claim the SoLR payment of £13.8 million, with the caveat that there is future adjustment to the claim once the estimated bills are finalised, and that any amounts claimed by Octopus from the administrator are taken into account.

It appears that the significant additional costs were a result of the proprietary billing and account management systems that Iresa were using and poor data quality. We appreciate that Octopus has dealt with these issues effectively and, despite the number of consumers affected, our consumer service has so far seen relatively few cases related to this SoLR event. With some other recent SoLR events, the gaining supplier has been able to negotiate with the old supplier's system providers or administrators to gain transitional access to the supplier's system. Ofgem should seek to facilitate this access wherever possible and technically feasible, as it should reduce costs, assist with the transfer of accounts, and ensure consumers get an accurate and timely final credit position with the old supplier.

It is notable that the amount claimed for credit balances is significantly more per customer than the previous SoLR claim from Co-Operative Energy[1] (by our estimate, this averages £128 per customer versus £69 per customer for Co-Operative Energy). We believe this may have been due to Iresa's policy of holding onto significant amounts of customer credit, and their demands for one-off payments shortly before their failure. While Ofgem's Supplier Licensing Review[2] consultation asks for early

[1] Ofgem Decision on Last Resort supplier payment claim by Co-Operative Energy
[2] Ofgem Supplier Licence Review

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views on limiting consumer credit balances, we think action on this may be required more urgently. We support the protection of credit balances when suppliers fail, but given that the cost of the Safety Net is recovered from all other consumers, it is important these costs are limited as much as possible.

We are aware of a number of suppliers that have taken action to increase the credit balances of their customers, by either increasing direct debits, delaying refunds or taking one-off payments. We have also seen tariffs emerging that require significant credit upfront[3]. We are concerned that growing credit balances could ultimately lead to increased bills for all consumers in the event that these suppliers fail.

In our response[4] to your consultation on a previous SoLR event, that of the transfer of GB Energy Supply's customers to Co-operative Energy, we expressed concern about the trade-offs that were being struck between protecting the consumers of the failed supplier, and protecting the consumers of other suppliers from smeared bad debt. Your decision letter had suggested that a minority of alternative SoLR bidders would have been willing to make less use of the Safety Net than Co-operative Energy was, and that it may have been chosen despite this because it was willing to honour the tariffs that GB Energy had offered to the customers who were being transferred, and other bidders may not have been. We suggested that 'given the redistributive effects of SoLR, with the consumers of other suppliers picking up the tab for a financially unsustainable business, it appears preferable to us that consumers of other suppliers are protected from smeared debt in preference to honouring the unsustainable tariffs of a failed supplier, if that trade off has to be made in any future SoLR.'

To be able to reasonably assess SoLR claims we think there should be more transparency in the SoLR process. We fully appreciate the need for commercial confidentiality, however without a greater understanding of the nature of the rival bids it is difficult to objectively assess the overall value for money of the claim.

In your letter explaining the appointment of Octopus to act as the SoLR for Iresa, you gave insufficient explanation to allow us to understand whether it was the

[3] For instance, Eversmart's "Family Saver Club tariff" whereby the consumer pays for a year's energy upfront.
[4] Citizens Advice response, December 2017

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bidder that sought to make least use of the Safety Net. We would like Ofgem to be clearer on this in any future SoLR decisions, as we consider it to be a highly material consideration.

We remain firmly of the view that minimising socialised costs should be given more weight in any SoLR decision than securing the best replacement tariff for affected customers. In practice, these consumers can mitigate the negative consequences of being put on a sub-optimal tariff by simply switching away from their new supplier, while the wider population of all consumers cannot mitigate the negative consequences of having to pay for the Safety Net. We do appreciate that in this case Octopus moved Iresa customers onto their existing cheapest available tariff, rather than creating a cheaper, bespoke tariff (as occurred in previous SoLRs).

We intend to set out our wider views on the SoLR process and the impact of supplier failures in more detail in our response to the Supplier Licensing Review. In the meantime, we'd be happy to discuss any matter outlined in our response above in more detail if it would be helpful.

Yours sincerely

Alice Brett

Senior Policy Researcher