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Octopus Energy is a leading challenger UK energy retailer focussing on renewable energy, technology disruption and outrageously good customer service. Recently becoming the first EnTech Unicorn in the UK, we are the only energy company recommended by Which? for the third year in a row and hold a trustpilot score of 4.8.

In 2018 we supported Ofgem in their decision to implement a price cap policy. We noticed a lot of customers were being teased and squeezed and that the long term cost for customers was not what they expected, or signed up for. The price cap protects households from the worst of such events (although doesn't eradicate the practice) and ensures that suppliers work efficiently within a competitive market.

We do not support the concept of increasing the price cap as a result of Covid-19.

- It is too soon to predict the nature and volume of debt positions going into 2021 and beyond; there is a wide range of possible debt outcomes over the coming months that will depend in part on government policy;
- We agree, 'suppliers are better placed than default tariff customers to manage cashflow risk'[1];
- The industry and government have put in place support schemes to help households and businesses navigate the next 12 months, through job income support and payment deferral schemes for example and appear to be willing to extend additional schemes as the pandemic unfolds;
- Increased domestic consumption that will result from continued and extensive work-from-home will allow for better margins

In line with the request for feedback we have detailed our reasoning further over the next few pages, in depth and focussing primarily on Chapter 4. For further information please contact Kat Renton via compliance@octonenergy.com.

[1] https://www.ofgem.gov.uk/system/files/docs/2020/09/reviewing_the_potential_impact_of_covid-19_on_the_default_tariff_cap_-_september_2020_consultation.pdf - p23

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Timing

It is too soon to fully assess the impact of bad debt that can be directly attributed to Covid-19. This consultation was written prior to the announcement of the job support scheme and suggests an expected hard end to the furlough scheme, but without any impact assessment to understand how this would affect energy consumers, at a household level.

We have not yet seen a material increase in debt and have not cemented a view on how collectable any debt, that has occured as a direct result of Covid-19 and the subsequent recession, is. We currently assume that customers who are now in financial difficulty (as a result of Covid-19) will remain willing to pay and that the debt positions accrued during 2020 and 2021 will take far longer to reach a point of not being collectable. We therefore are more aligned to the views in 4.37, whereby suppliers would only account for bad debt at the point it starts to be written off. At that time we would then have a far better understanding of how pandemic and subsequent recession has affected UK households and whether the headroom allowance has done its job. It therefore stands to reason that we see more value in using ex post analysis than the 'float and true up' approach.

To be clear, the option in 4.36 (to create an estimation for future bad debt at point of consumption) is one that we do not support. Not only do we believe that it is too soon to project what proportion of consumption will fall into debt and, within that, how much will be recoverable, but we are not aligned to the two views of either using existing data submitted through Covid-19 reporting requests or data dating back to historic recessions.

We agree that the lack of granularity and the subjectivity of data requests in 2020 does not allow for meaningful analysis on an aggregated basis. Further, to enable a better understanding of only the SVT debt position, debt should be analysed by tariff type rather than in aggregate. However in 4.101 we notice that it has been suggested further data gathering will not be possible. We would expect that the core concepts asked in the data requests for 2020 are still workable and that with some clear definition there is still time for interested parties to submit revised and relevant data. We would also highlight the importance of getting this decision right and that interested parties will also recognise and should want to submit any further evidence that is asked for.

We do not agree with the concept of using data relating back to previous recessions. Whilst the concept of sharing learnings from previous recessions is welcomed we expect that circumstances within the industry at that time are too far removed from today's industry for it to guide policy decisions such as this. In 2008 the energy retail market was dominated by 6 main suppliers, the diversity of competition had not yet fully formed.This consultation focuses only on SVT customers (a cohort that was not defined in 2008) and the industry has no model in place to see how the sectors of society that tend to be on SVT tariffs are affected by this recession nor how that compares to historic recessions.

Whilst we do not agree with increasing the cap at all, if it were deemed necessary our preferred position would be to move to an ex post concept and to delay any decision until a point in time where unrecoverable debt can be determined. We acknowledge the preferred

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method appears to be to 'float and true-up', if this were to be a confirmed method of moving forward we would be more aligned with the option in 4.24 whereby the industry spends a further 6 months analysing data to ensure that we have relevant and accurate information to base a decision on. This would mean setting the float in October 2021 and allow us the spring and early summer of 2021 to analyse winter affordability.

It is important to remember that the definition of vulnerability legitimately includes financial vulnerability. Increasing the default cap at the time that customers need its protection most can only be done if we have absolute faith in its necessity. Delaying any change until price cap 7 will allow Ofgem to be able to analyse objective data and make informed decisions.

Risk Management

We welcome the acknowledgement from Ofgem that suppliers are far better equipped to manage cashflow risk. Although Octopus Energy does not have the experience of having gone through a recession as a large supplier we do have multiple scenarios plans in place and that are constantly reviewed. We would be happy to engage with Ofgem in reviewing scenario plans and share relevant insight.

We expect that all prudent suppliers will have a 'shock' risk management protocol in place and that therefore a cap allowance adjustment would serve no purpose in the short run.

Alongside the above scenario planning we appreciate Ofgems observations in 4.48. We are proud to be a part of an industry that is able to come together in times of trouble and agree to a code of practice to ensure customers feel confident to reach out and ask for help. But beyond that it is important to continue working in a competitive market and approach the situation in our own way. We agree that inefficient practices may lead to higher and less recoverable debt in the long term and that this should not be a sufficient argument for socialising costs through an increase to the price cap.

We therefore also agree with 4.61 that if further analysis were to occur we should be using 2019 data as a pose to 2017 data. It is clear that strong competition has emerged in this market in the last 3 years and that not referring to the current portfolio of medium and large suppliers would risk missing out on examples that counter balance the data of incumbent suppliers.

We appreciate the balanced argument put forward in 4.62 and can clarify that for Octopus Energy there has been no credit-based intervention in the offer to customers at point of acquisition. Our 2020 base comprises a diverse group of customers that have come to us through a combination of direct sales, third party intermediaries, SOLRs and trade sales. We are grateful that Ofgem acknowledges this scenario as no more than a risk and that it doesn't undermine the need for recent and relevant benchmarking to take place.

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We also note the industry and government led support schemes that have been made available to suppliers during the year. Funded benefits from such schemes will enable suppliers to manage their risk better through this winter and further strengthen our belief that the suppliers are better placed to manage cash flow risk than households.

Margin analysis

In March 2020 we embarked on a piece of analysis to understand how customer usage had changed as lockdown was announced[2]. We noted a material increase in underlying domestic usage during this time and subsequent analysis suggests that we continue to experience higher than seasonally expected consumption. This additional volume (gas in particular) may drive higher than planned underlying margins for energy suppliers and should be taken into consideration when reviewing the proposal to increase the cap.

Chapters 5-7

As the majority of the consultation response is focussed on chapter 4 we would like to confirm our agreement with the final views proposed in chapters 5-7. We agree with Ofgem that the PPM metering, policy costs and other cost allowances are well accounted for within the price cap methodology, we do not see a valid reason to increase the cap as a result of any of these factors. We do not believe that 7.42 is a valid reason to increase the cap, investing in modernising business infrastructure will reap rewards to suppliers that outweigh the costs on implementation.

[2] https://octopus.energy/blog/domestic-energy-usage-patterns-during-social-distancing/