

Public Bill Committee for the Domestic Gas and Electricity (Tariff Cap) Bill – Written evidence

Octopus Energy

Octopus Energy is a challenger energy retailer. Our digital operating model delivers prices 20-30% below the Big Six and customer service ratings of 9.6/10 on the leading independent review platform. In recognition of our exemplary customer service and low prices, Octopus was the only energy supplier that Which? designated a 'Recommended Provider' in 2018, and we recently won uSwitch's 'Supplier of the Year' award.

We have had to compete for every single customer on the back of our efficiency, value and customer service, growing to almost 300,000 customer accounts in just 18 months. We have a deep understanding of the market and its competitive dynamics, including where it fails consumers.

We believe that broken markets like retail energy should more closely represent well-functioning retail markets like supermarkets, in which all customers see and pay the same price for the same product within each store, and so active shoppers bring down prices for less engaged shoppers. Prices can be brought down by retailers driving efficiencies, but not by misrepresenting the price or charging different prices to loyal customers. In this way, daily price wars aggressively drive down prices for the benefit of all consumers.

Prices consumers are charged for energy should reflect the cost of delivering that service to that person, and there is therefore no justification for an energy company charging dramatically different prices for the same product to its new and existing customers.

We welcome the price cap as an important first step in addressing the worst excesses of the detriment in the retail energy market. We further suggest that the fundamental dynamic driving the detriment could be corrected by reforming clouded energy pricing, by ending 'tease and squeeze'. We believe that this simple remedy would improve the functioning of the energy price cap.

Summary

Octopus Energy strongly supports the Tariff Cap Bill as a necessary measure to protect loyal or disengaged energy customers and foster competition to benefit all consumers.

Complementing the tariff cap by also preventing 'tease and squeeze' tactics

While an important first step, the Bill in its current form will only partly stop large suppliers from extracting high profits from loyal, longstanding customers.

The Bill should be amended to more fully prevent customers suffering this 'loyalty penalty' by stopping excessive differentials between the cheapest and most expensive tariffs a supplier charges its customers.

Maintaining the Bill's provision for appeals via Judicial Review

Octopus Energy believes that Ofgem's methodology for setting the cap should **not** be subject to challenge via appeal to the CMA.

Preventing the loyalty penalty by putting an end to ‘tease and squeeze’ tactics

The Bill in its original form does not address the ‘tease and squeeze’ pricing tactics employed by many suppliers, which see longstanding customers suffer a ‘loyalty penalty’ where they are overcharged to subsidise cheap deals for customers who switch.

This dynamic is at the heart of the detriment in the energy market, in which competition is choked out of the market by companies overcharging long-term customers to pay for deceptively cheap short-term ‘deals’, thereby skewing price comparison tables.

To complement the absolute price cap, we believe the Bill could and should be amended to protect customers from being ripped off in this way by ensuring energy companies charge a similar price for the same product to all customers.

This would unleash a price war in the energy market, driving prices down for all energy customers and would complement the absolute cap in two important ways:

1. It would be a market sensitive measure that, in a market where costs are extremely dynamic, would smooth out the impact of a 3-monthly (or 6-monthly) Ofgem-imposed cap
2. It would force companies to compete on the basis of ‘price paid’ by customers rather than ‘price advertised’, dramatically increasing transparency. Transparent pricing drives whole-market competition, pushing down prices for everyone.

Ending ‘tease and squeeze’ would not stop good value tariffs. Challenger suppliers like Octopus and others would still offer their competitive deals, based on innovation and efficiency, rather than on overcharging loyal customers. Companies who wanted to compete would have to lower their prices for all customers or lose market share.

Maintaining the Bill’s provision for appeals via Judicial Review

Octopus Energy supports the Bill’s position on the rights of appeal on the energy price cap and rejects the calls from the Big Six, represented by Energy UK, to amend the Bill to allow appeals to the Competition and Markets Authority (CMA).

Appeal to the CMA risks making implementation of an energy price cap unworkable as it could be constantly challenged, with implications for the timing of when the cap would take effect, as it leaves open the possibility of further challenge through Judicial Review of the CMA’s decision.

The reason legislation was deemed necessary in the first place was that, while Ofgem could take action to introduce a price cap, doing so without legislation would leave substantial room for appeal. During the BEIS Select Committee pre-legislative scrutiny evidence session on 17 October on the energy price cap, a representative of a Big Six firm declined on five opportunities to say whether the company would call for judicial review of the cap, indicating appetite for challenging the cap via any means available.