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To Project Manager
Energy market investigation
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Input into the CMA Draft Orders on Database

Background
Octopus Energy is a rapidly growing independent supplier that started supplying gas and electricity to domestic homes and businesses in Great Britain this year. Our largest investor is the Octopus Investments Group, who over the last decade have become the third largest 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.

Viewpoint on the Draft Order
We are supportive of trials to find better ways to get consumer response in the energy market. Like the CMA and other commentators, we find it concerning that such a high proportion of the market are on SVTs that they have been on for a very long time, and have been routinely over-paying for their energy over a number of years.

Our concern is at the model of 'tease and squeeze' that prevails in the domestic market.
We have done a lot of analysis on the pricing in the domestic market place and how people have used very aggressive acquisition tariffs, which can then increase by 30-50% at the end of the first year.
We compiled all of the data – this can be accessed in our blogs – and further coverage of this was on BBC Radio 4 Moneybox (the link is also in the blog)
https://octopus.energy/blog/octopus-energy-calls-greater-transparency-energy-pricing/

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https://octopus.energy/blog/more-info-octopuss-analysis-tease-and-squeeze/

https://octopus.energy/blog/exposing-real-price-energy/

Our view is that this database approach seems to accept that this is the only way for the market to operate – and then tries to 'save' consumers after 2 years on SVT by getting them to switch and fix again.
Whereas the reality for the consumer is that they will have wiped out all of their savings from the first year in just 3-6 months of the second year, so they lose out significantly over the next 18 months.
And at an industry level, it assumes that the only way to get consumers value is to drive constant switching. Whilst we believe that switching can be made a lot quicker and easier there will always be an industry cost to dealing with switches – so thinking that we can drive consumer value by an action that drives more costs cannot be right.

We believe that:

1) Consumers should be shown pricing projections over a period which reflects the combination of any fixed price and current SVT, or that both fixed price and SVT price are communicated with at least equal prominence to the SVT so that customers have an indication of where they may end up.
2) The market should encourage supplier models give consumers good value over the long-term whether they frequently switch or not
3) Priority should be put on reaching consumers that are **overpaying** – which is not necessarily the same as being on SVT (some SVTs are great value; some non-SVTs are not)
4) The point where the tariff is changing should be made more obvious to the consumer

Taking these in order:

On number 1
We think that the presentation of the tariffs in the communication to those opted-in on the database should be mandated to show a 3-year view (as indeed we think all price comparison should). This is already prevalent in the mortgage industry where the arrangement fee, the fixed rate and then the following rate are all presented for all suppliers. We do have some initial prototypes of how we think that this could work.
This is critically important because we know that these are customers with a low switch frequency. Simply switching them onto a low price 1-year fixed deal and then having them move to high SVTs could almost negate the purpose of the database. Of course, showing both a 1-year fixed deal and a 3-year projection, or showing with equal weighting both the yr 1 price and the follow-on price would enable bargain hunters to see the deal, but ensure the majority of consumers can choose suppliers who are better value over the long term.

On numbers 2 & 3
We believe that a value 'collar' should be put on the database eligibility so that consumers who are already getting long-term value are not contacted for an opt-in and suppliers who are giving customers long-term value are not penalised. For instance if consumers are paying a tariff that is

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within 15% of the top 10 tariffs available at that time, then they would not be contacted for addition into the database.

<u>On number 4</u>
We believe that all suppliers should be mandated to change the Direct Debit at the exact same time as the tariff change. This would mean:

(i) An extra communication to the customer explaining the DD change
(ii) The customer immediately feels the impact of the price increase in their monthly outgoings (rather than it currently being picked up many months later)
(iii) Significantly reducing the chance of the customer going into debt – which is an issue and can become a reason why consumers struggle to manage to switch to a different supplier later on.

We do appreciate that the ‘tease and squeeze’ pricing model and analysis is complex and we would be happy to host members of the CMA team at our offices to go through it with myself and our analyst (and technology team who accessed all of the data from across the internet).

Yours Sincerely,

Greg Jackson
Founder and CEO
Octopus Energy