Written evidence submitted by Octopus Energy (EBS0003)

22 January 2025

Dear Inquiry team

Octopus Energy is the largest energy supplier in the UK now supporting over 7m households and small businesses with their energy needs. Since the crisis, we have committed almost £50m towards helping customers who are struggling with their bills. We are also supporting customers with ~£70m a year through our decisions to keep our standard variable prices below the price cap.

We agree with the previous reports from the Committee and the National Audit Office that the speed with which DESNZ, energy suppliers and Ofgem delivered much-needed support to consumers was commendable. Taken together, the Energy Price Guarantee (EPG) and the Energy Bills Support Scheme (EBSS), alongside the equivalent schemes for small businesses, were a crucial lifeline for millions of households and businesses, preventing a full-blown affordability crisis.

Nonetheless we also agree that there are important lessons to be learned from the experiences of delivering support over the crisis period and welcome the important work of the Committee in conducting this inquiry. We particularly welcome the Committee's focus on the approaches that can be taken to protect consumers from future volatility in energy prices and ensure support can be delivered to consumers in a more targeted way if needed.

In our view there is a need for greater government action and focus in two areas: (i) addressing the root causes of high and volatile prices, and (ii) improving the means to target support. In summary:

- Addressing the root causes requires moving quickly to decarbonise power generation and bringing in the market structures like locational wholesale pricing which will reduce reliance on gas and create billions in bill savings. Much more can also be done at the household level to reduce bills and improve resilience to price shocks, including insulating and electrifying the UK's housing stock and driving bill savings through flexible usage.
- Government must improve data sharing between departments like DESNZ, DWP and HMRC to identify those most in need of energy bill support. Putting the data sharing infrastructure in place between government departments and suppliers could have immediate benefits for households most in need and allow much more effective and efficient delivery of support in the event of another crisis.

Yours sincerely,

Rachel Fletcher

Director of Regulation and Economics

Octopus Energy

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Addressing the root causes of high and volatile prices

The best way to shield customers from repeats of the geopolitical price shocks of the last 18 months is to move faster to a cheap, greener energy system which relies far less on imported, expensive and polluting natural gas. This means moving quickly to decarbonise power generation and home energy use, while introducing the right market systems to ensure people benefit from greener, cheaper power. While there are encouraging signs that the government understands this imperative at a high level, we are also concerned that there is a lack of action and joined-up thinking in several areas which could substantially reduce household bills and reduce the risk of the crisis recurring.

Decarbonising power generation and bringing in locational wholesale pricing

Electricity is currently too expensive because gas sets the wholesale price too often. The only way to remove this dependence on gas is to build more renewable generation. Every single wind turbine we build will bring down the cost of energy and reduce our reliance on volatile, expensive fossil fuels.

Beyond building more renewables, market structures need to change to support the transition to a clean grid and ensure consumers are able to benefit from the renewable power that is produced. Introducing locational wholesale pricing would bring down electricity prices for everyone and drive substantial savings in areas of the country with large amounts of renewable generation. Analysis suggests that the consumer benefits could amount to £34bn over a 16 year period,[1] or £600 for the average household.[2] The Government's Review of Electricity Market Arrangements (REMA) provides an opportunity to make this vital change. Without it, we risk building without bringing down bills.

Improving homes and driving flexibility

If UK housing stock had been more energy efficient during the crisis, the shock to bills would have been lower and household resilience higher. We have not seen the progress needed on home insulation since the onset of the energy crisis in 2022, particularly for the poorest consumers where need is highest. Too many people live in cold and leaky homes which expose them to high gas prices. The government's Warm Homes Plan provides an important opportunity to make progress but will need to be highly focused on delivery to make a real difference. Any funding available for improving the housing stock could be made much more efficient if there was good data sharing in place to find eligible households (see more under *targeting of support* below).

Electrification of consumers' home heating with heat pumps can also bring down bills. Heat pumps are far more efficient than gas boilers, and can be used flexibly to take advantage of when electricity is cheapest. Octopus Energy customers reduced their gas use by 90% through adopting heat pumps and reduced overall energy use by 40%.[3] When paired with our flexible heat pump tariff, Cosy, customers save more £380 on average compared to running a gas boiler on a standard tariff.

Saving on home heating is just one example of how household demand flexibility can lower bills for customers. Our customers on smart tariffs save hundreds of pounds per year

[1] Ofgem (2023), Assessment of Locational Wholesale Pricing for GB
[2] Octopus Energy (2024), Zonal pricing is needed for an efficient and reliable net zero power system
[3] Centre for Net Zero, The impact of heat pumps and a time-of-use heat pump tariff on energy demand

compared to standard tariffs. Customers charging their electric vehicles on our Intelligent Octopus Go tariff save more than £800 per year. In total we estimate we are saving our customers more than £300m per year through our flexible tariffs and other opportunities to use electricity flexibly like savings sessions - including many customers without electric heating or cars.

We are concerned however that government is giving insufficient attention to the opportunities for electrification - and flexibility in particular - to drive savings and reduce household exposure to volatility. The individual savings for households are substantial, and are only likely to increase as more renewables come online, but make up only part of the benefit for consumers. Analysis from Cornwall Insight suggests that greater flexibility could save £14bn in system costs by 2040 - which would drive bill savings for everyone. Greater consumer flexibility must be a cornerstone of any plan to tack high costs for customers and exposure to gas price volatility.

Currently incentives for consumers to electrify their homes are stifled by the levying of policy and environmental costs onto electricity bills. Levying these costs on bills increases prices for consumers and means they are recovered in a regressive way as poorer households spend a greater proportion of their incomes on energy. Policy costs are also levied disproportionately onto electricity bills instead of gas, which weakens incentives for households to insulate their homes to reduce gas use and switch to low carbon technologies like heat pumps and electric vehicles. Were policy costs to be removed from bills or split more evenly between gas and electricity, this would support electrification and consumer flexibility in a way which can hugely reduce exposure to gas volatility in the long run.

Targeting of support

While necessary for moving at pace, the decision to provide universal support rather than targeting those most in need made the support programmes much more expensive than they should have been. Furthermore, as support was broad and untargeted it meant that some customers received bill support they did not need while others received less support than needed.

We are unfortunately still in a very similar situation with regard to targeting. If another crisis hit tomorrow, the government would be faced with the same dilemma of whether to offer poorly targeted support or expensive universal support. Government must improve data sharing between departments like DESNZ, DWP and HMRC to identify those most in need of support, and be ready to share this with energy suppliers to deliver it if needed.

Better data sharing could help vulnerable customers immediately, not just in the case of a crisis. Octopus Energy was one of 15 supplier signatories to Energy UK's Winter 2024 Commitment which committed to hundreds of £millions in support to customers in need. Our support for customers includes our £30m Octo Assist financial hardship fund, standing charge holidays for vulnerable customers, offering payments to pensioners missing out on Winter Fuel Payments this winter, and more.[4] We do everything we can to reach customers in need of support, however there are limits on the data we can collect and on how we can use the data that is shared with us, for example for delivering Warm Home Discount. Joining-up of data sharing between government departments and creating an industry-wide

[4] https://www.energy-uk.org.uk/customers/additional-support-for-customers/#Octopus

system to share it with energy suppliers on an appropriate and legal basis would make an immediate difference to the targeting of support already available.

Issues with legacy prepayment meter customers

While the EBSS generally worked well, there were notable challenges in reaching certain customer segments, particularly those on legacy prepay meters.

Customers on smart prepay meters had EBSS credit automatically applied to their meters, while those on legacy prepayment meters could only access support through vouchers. This unfortunately meant some prepayment customers had difficulty receiving their rebates due to physical vouchers needing to be sent and redeemed within a certain time. The legacy prepayment infrastructure also caused some issues with the EPG, particularly where customer pricing required rapid adjustments, which the legacy infrastructure was unable to accommodate.

Replacing legacy prepayment meters with smart prepayment meters would significantly improve the ability to deliver support to vulnerable customers in the future, as well as improving the overall prepay customer experience.