

## Response to Consumers' Association On Customer Engagement

31<sup>st</sup> Jan, 2017

This document provides Octopus Energy's response to the Customer Engagement campaign by The Consumers' Association.

Octopus is one of the few businesses in the energy sector with the founding principle of fair pricing for the long term, and as such we are passionate advocates for bringing better value to customers who are stuck on long-term expensive tariffs, mainly with Big 6 providers. Moreover, we are determined that there is a role to be played by all industry participants: regulators, switching sites, and organisations like Which?! to help people understand the detrimental business model of "tease and squeeze" and we welcome the opportunity to shed as much light as possible on the practices of the typical large suppliers.

### **BACKGROUND**

Octopus Energy pricing policy: Fair For both Fixed and Variable:

1. Octopus pricing policy is "fair prices forever" – we do not manufacture "tease and squeeze" pricing. **That is, our SVT and our fixed products are priced on the same basis of passing expected costs to consumers at the same target margin.**
  - a. our fixed prices are based on the cost of the hedged energy in the wholesale market
  - b. our SVT is based on a risk-adjusted model of the forward curve for a year, to capture the full seasonal cycle
  - c. We launch new fixed prices and amend our SVT in response to movements in the wholesale market
2. Clearly this means that at any point in time the SVT and the fixed price will be different but over time they broadly move together and there is no systematic gap. Indeed, from time to time the SVT is cheaper than the fixed and vice versa.
3. Octopus do not have exit fees. We believe that the majority of tariffs from other suppliers use these to specifically disempower consumers and trap them into a tariff until "SVT rollover"

Octopus Energy engagement: Seek to maximise engagement in every way

1. Every customer receives a welcome email from our CEO, outlining the commitments we make. It's from his email address, so every customer can email the CEO any time with anything from service requests to ideas, problems to praise.

2. Energy customers receive a lot of communications, making it hard for them to know which **need** to be read, and which are simply advisory. To maximise engagement, we tell every new customer:
  - 'we've devised a simple system: when we need something from you, we'll add "Action:" to the subject line, while emails with information only will have "FYI:" and you can read them at your leisure"
3. The biggest prompt to engage is when people receive communications from a supplier. We make it unbelievably easy to engage by having **every single email** from a real email address that consumers can reply to. If they don't understand their bill, or disagree with their statement, or want to change their DD mandate – they just hit "reply" to the email and let us know.
4. We know that rapid response is key to engagement. People get frustrated waiting on the phone for tens of minutes. That's why our average phone answer time is under 90 seconds, and our average email response time is under 90 minutes.
5. Our website and all emails are designed for maximum accessibility:
  - a. All web pages are designed for mobile-first (so work wonderfully on a phone or a computer)
  - b. All web pages are maximally compliant with Home Office Accessibility guidelines so that they can be used by blind people, people with low vision, deaf users, users with dyslexia, users with autism and a range of others.
  - c. All our emails are designed using special markup which puts the most important message in the preview pane, specially designed so that customers see the most important information even on a mobile preview
  - d. All emails are similarly designed to format perfectly on mobile devices for users with the same range of conditions.

**Octopus Customer Prices: Octopus Does not Tease and Squeeze: Only 0.5% of our customers are on a Variable Tariff and would be better off on a fixed one, and then by an average of just £10:**

As of January 30, 2017:

- a. 20% of Octopus customers are on Variable Tariffs
- b. Of these, only 1 in 40 would be better off on a fixed tariff – and every single one of these customers chose the (slightly) more expensive variable tariff. On average, these customers would be £10 better off if they chose a fixed tariff.
- c. Summary: only 0.5% of Octopus customers are on a Variable Tariff and would be better off on a fixed one, and then:
  - i. In every case, they chose the variable rather than the fixed when they were presented alongside each other
  - ii. The average difference is just £10

**Octopus Energy Engagement Testing Plans: We believe that our engagement testing is industry leading – including links to select better tariffs straight from HTML**

**emails, and even links to comparison sites. We call on other suppliers to match our level of transparency and customer empowerment**

1. We recently ran a trial amongst 6,000 Variable Tariff customers:
  - a. Prompting them to consider fixed prices. Notably, for some of these customers, fixed prices would be more expensive, but with the reassurance of fixing in a moving market.
  - b. In the test, KPIs were:
    - i. Open rate > 25%
    - ii. Click rate > 10%
    - iii. Percentage who view comparison of fixed vs variable > 5%
    - iv. Percentage who choose to change > 2%
  - c. We exceeded every KPI by a significant margin, including finding subject lines which delivered a 70% open rate
  - d. The results of this trial are being built into an ongoing price communication programme, as we now know that we can achieve tremendous levels of engagement with our carefully honed approach to email
  
2. We are shortly trialling 100% of financial related communications by email having all the key information in a summary view on HTML, rather than tucked away in a PDF
  - a. KPIs will be:
    - i. Increase in click rate from current emails
    - ii. Increase in visits to account page
    - iii. Survey among customers of price awareness
  - b. This trial will form the basis of our own ongoing communications and we will share results with Ofgem to help develop best practice for transparency and engagement in the industry.
  
3. Price Change Emails: When we send price change emails (either increase in variable tariff or move from variable to fixed) we will run the following trial:
  - a. **in the body of the email** we will clearly state, in text HTML:
    - i. the customer's old price
    - ii. the customer's new price
    - iii. the best price product we have for that customer
    - iv. the customer's old annual projection
    - v. the customer's new annual projection
    - vi. the customer's annual projection on the best price product we have
    - vii. a simple link in the email to choose our best price product**
    - viii. a list of suppliers who will be cheaper according to leading comparison sites
    - ix. links to leading comparison sites (rather than just the regulatory wording that people should check them)**
    - x. All of this information will be in the body of the email to allow maximum engagement**

- b. KPIs will be:
  - i. Opens
  - ii. Clicks to choose our best product
  - iii. Clicks to visit comparison sites
- c. This trial will form the basis of our own ongoing communications and we will share results with Ofgem to help develop best practice for transparency and engagement in the industry.

**Summary:**

Octopus is determined to bring transparency to energy, even at the risk of losing customers. We are passionate to live the promise we make and are delighted to engage with The Consumers' Association and others to help transform this industry which does so much harm for consumers.

A handwritten signature in black ink, appearing to read 'Greg Jackson', with a long horizontal line extending to the right.

Greg Jackson  
CEO and founder