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Leonardo Costa
Head of Price Cap Policy
Ofgem
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Canary Wharf
London
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17th December 2021

Sent by email to: retailpriceregulation@ofgem.gov.uk

Dear Leonardo,

Price Cap – true-up process for COVID-19 costs consultation

Centrica's response to the price cap – true up process for the COVID-19 costs consultation is non-confidential and may be published. Our views on the key policy proposals are set out in the attached appendix.

Overall, Centrica agrees with Ofgem's minded-to position for proposals set out in the consultation.

However, we believe it is important that Ofgem includes the recent failed energy suppliers' data in the baseline calculations, where the default tariff threshold was breached. We expect the threshold was not passed for many of the failed energy suppliers, however adding data from the largest supplier failures (e.g., Bulb and Avro) will better inform Ofgem's understanding for the true up process.

Happy to discuss further.

Yours sincerely,

Alun Rees,
Head of Network Regulation, Market Design and Policy
Centrica Regulatory Affairs, UK & Ireland

Appendix – responses to consultation minded to positions

Bad Debt Costs

- Cumulative Bad Debt Charge – agree, aligned to our June 21 response.
- Hybrid debt related admin charges – agree, many of the categorisations within management accounts will be similar, the hybrid approach allows for small deviations in Energy Suppliers' approach. The examples provided in the appendix look reasonable.
- Working Capital debtor days – agree, simple process and removes non-debt areas.

Data

- We believe it is important that Ofgem includes the recent failed energy suppliers' data in the baseline calculations, where the default tariff threshold was breached. We expect the threshold was not passed for many of the failed energy suppliers, however adding data from the largest supplier failures (e.g., Bulb and Avro) will better inform Ofgem's understanding for the true up process.
- We agree that the baseline from Oct 18 to Sept 19 of monthly data from Energy Suppliers' management accounts gives the most recent and appropriate periods. Any earlier would require the use of archived and possibly less relevant data.
- We agree that proportioning across the last price cap during which Covid commenced (Oct 19 – Mar 20) might not give representative results.
- We agree that payment and tariff type are the lowest factors for comparison. Any more detailed and the comparison could become complex and historical data difficult to extract.
- We would welcome sight of the RFI spreadsheet as soon as possible to enable pulling some data from archive now and checking its quality and coverage.

Benchmarking

- Weighted average – we agree, given the extreme circumstances of the global pandemic and closure of most routes to recover debt (prepayment installations delayed, warrants / courts closed. Courts are only just getting back to normal and very delayed). The situation with courts is also worse in Scotland, which could impact Energy Suppliers with a strong Scottish presence.

Sharing Factor

- We agree with Ofgem's position.

True Up Period

- We agree with Ofgem's view to true up in Price Cap period 9 for PC periods 4-6 and in later PC periods for further bad debt cost in PCs 7 and 8. We believe that higher bad debt costs related to COVID 19 will persist into 2022, given the backlog in the courts.