

Leonardo Costa
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17 December 2021

Dear Leonardo

Price Cap – Consultation on the true-up process for COVID-19 costs

Thank you for the opportunity to respond to your consultation on the true-up process for COVID-19 costs.

We believe Ofgem has come up with a sensible and pragmatic way forward for trueing-up COVID-related debt costs. In particular, we agree with Ofgem's proposals to:

- adopt a cumulative approach in assessing additional bad debt costs from COVID-19;
- investigate how additional bad debt costs vary with payment type and tariff type and set the adjustment allowance accordingly;
- use a weighted average (rather than lower quartile) approach to benchmarking different suppliers;
- calculate additional debt-related working capital costs using a debtor days approach;
- account for inflation when determining the amount to recover through the adjustment allowance;
- true up debt incurred in Periods 4 to 6 (April 2020 to September 2021) in Period 9.

We welcome Ofgem's minded-to position not to include a 'sharing factor' for the COVID-19 true-up but we are concerned that it intends to 'reserve [its] judgment on this subject to RFI data and the situation that customers are facing at the time of the true-up'. Based on our experience we expect the RFI data to reveal that actual costs were significantly greater than the amount allowed for in the float and that the true-up will therefore be a material amount. As Ofgem notes in the consultation, many suppliers are in a precarious financial position and investors have lost confidence in the sector. Ofgem needs to balance the interests of consumers in short term bill savings against their longer term interests in a healthy competitive market that can attract the level of investment and innovation necessary to achieve net zero goals.

Yours sincerely,

A handwritten signature in blue ink that reads "Richard Sweet". The signature is written in a cursive, flowing style.

Richard Sweet
Head of Regulatory Policy