

16 December 2021

Neil Kenward
Director, Retail Price Regulation
Ofgem
10 South Colonnade
London E14 4PU

Email: BillBullen@utilita.co.uk

Dear Neil,

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

Thank you for the opportunity to respond to the above document. In these November consultations, we are treating the document entitled “Reviewing the potential impact of increased wholesale volatility on the default tariff cap: November 2021 policy consultation” as the ‘main’ document. While we have not copied into all the responses, Ofgem should consider the content of our main submission with each of these letters.

We welcome Ofgem’s acknowledgement that prepay customers may acquire debt directly, and further that debt can be transferred to a supplier via the Debt Assignment Protocol, resulting in that supplier bearing unfunded costs.

Additional bad debt costs arising from Covid 19 are not limited only to credit customers; prepay customers also received (and continue to receive) additional support during the pandemic, a proportion of which will not be recovered. Ofgem and BEIS put significant and ongoing pressures on suppliers to offer extensive, repeated Discretionary Credits to prepay customers experiencing financial difficulty. Citizens’ Advice also continues to demand suppliers provide unstinting financial support to prepay customers.

As no allowance was made for additional bad debt, or the provision of these sums of additional discretionary credit in the prepayment price cap, the true up is irrelevant for prepayment customers.

Throughout the consultations on COVID-19 impacts, Ofgem has declined to address the costs of supporting prepay customers, citing data difficulties as the main reason for this approach. However, it uses that same data to determine that the costs are not material and hence can be managed through the ‘uncertainty allowances and prudent assumptions’ under the cap. This is clearly intended to reference Headroom, please see our main submission and appendices.

The true-up process itself, however, has not been applied consistently. Until October 2019, the prepay price cap used a methodology devised by the CMA; after October 2019, the prepay price cap was aligned with Ofgem’s far more accurate methodology used for the pay on receipt of bill and direct debit price caps. No attempt was made to reconcile the historical allowed costs under the prepay cap, which were demonstrably lower than actual costs; this is discriminatory.

Utilita would welcome Ofgem's application of a consistent approach in the application of 'true-ups', such that all exogenous costs since the introduction of the prepay price cap in April 2017 also receive a 'true-up'.

We note Ofgem's recognition that there are higher administrative prepay debt costs, especially on the contact centre. However, as Ofgem has done before, it may dismiss the costs as non-material, due to the difficulty of collecting specific, consistent data.

The important point that gets missed as a result of this approach, is that even if extra costs are small, if a supplier cannot recover efficient costs under the cap and is further penalised by an unfair cross subsidy – even small costs become significant. Such costs may be additive, with higher total impact.

Finally, in this document we noted several comments, which we support, but against which we must challenge the fundamental inconsistencies of Ofgem's approach. In para 6.53, Ofgem states

"Vulnerability

6.53. *We consider it is not appropriate to spread costs from credit customers to PPM customers. This is because PPM customers are more likely on average to be in vulnerable situations than credit customers as a whole.⁵⁶ Including PPM customers in the cost-sharing exercise would potentially have the opposite effect, reducing protection for PPM customers."*

Paragraphs 6.55 - 6.57 expand this point as a justification for separating costs, in particular "Therefore, we consider it is important that we separate the PPM costs *without adding further burden to PPM customers by sharing some costs of credit customers.*" (Emphasis added).

While we accept that this statement is not intended to apply to the pre-existing cross-subsidy, which has been repeatedly supported by Ofgem, we do not understand how the above text and the cross-subsidy can logically co-exist.

We hope that this submission is helpful and as we proposed in our recent call, we will look forward to discussing the content with you in a bilateral meeting. Please let us know when will be convenient for you and your team; we will be happy to co-ordinate diaries.

Kind regards

By email

Bill Bullen
CEO, Utilita

Cc: Neil Lawrence, Ofgem
Leonardo Costa, Ofgem