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Sent by email to: Dan.Norton@ofgem.gov.uk

Dear Dan

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

Ofgem's approach for calculating and recovering bad debt costs related to COVID-19 is likely to be inaccurate because it does not properly account for bad debt costs between payment methods. It is therefore vital that Ofgem's approach in respect of COVID-19 bad debt costs does not set a precedent for calculating and recovering bad debt costs under the price cap more generally.

In the consultation, Ofgem asserts that *"Since there are sustainably more direct debit customer than paying standard credit customers, it would suggest that more COVID-19 related debt could have arisen from customers who were on direct debits at the start of COVID-19 than paying standard credit customers."*¹

This assertion is not substantiated by evidence or a rationale; absent these it cannot be said that sheer numbers of customers on a payment method influences propensity to incur bad debt costs. Indeed this assertion is contrary to Centrica's audited results which show significantly higher bad debt provisioning for receipt of bill compared to direct debit².

Ofgem has signalled that it will look at bad debt costs in the price cap in context of high energy prices. We encourage Ofgem as part of this process to engage with suppliers to see how bad debt costs incurred by payment method can be better understood, to enable accurate allowances and recovery if required.

Yours sincerely

Alun Rees
Head of Network Regulation, Market Design and Policy

¹ Consultation paragraph 2.12

² [centrica-annual-report-and-accounts-2021.pdf](#) see chart on page 156