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Making a positive difference
for energy consumers

Call for Input

Price cap - Call for Input on the allowance for debt-related costs

1. Introduction

1.1 Some debt on energy bills cannot be recovered and is ultimately written off by energy suppliers. This is referred to as bad debt. All energy suppliers will accumulate some bad debt, and the default tariff cap (the 'cap') provides an allowance to account for that. In practice, all customers contribute towards the cost of bad debt incurred by customers who do not pay. It is usual for businesses in many industries, not just energy, to make a provision for bad debt and to cover this through the pricing of their goods and services.

1.2 The debt-related costs allowance (which includes bad debt) in the cap broadly scales linearly with the overall level of the cap. Therefore, the allowance now is significantly greater than it was several years ago, given increases in the overall cost of energy. The allowance varies significantly by payment type – we estimate that for cap period 10a (April 2023 – June 2023), debt-related costs represent approximately 6% of typical dual fuel standard credit bills, 1% of typical dual fuel direct debit bills and 0.4% of typical dual fuel prepayment meter (PPM) bills.

1.3 While the cap is not designed to true-up the actual costs of individual suppliers, we adjusted the cap to reflect additional debt-related costs during the cap periods corresponding with the main COVID-19 period (cap periods four – seven - April 2020 – March 2022), given the sudden and unexpected impact on some customers' incomes.[1] Several exceptional changes since April 2022, including the gas price crisis and government interventions such as the Energy Price Guarantee (EPG) and the Energy Bills Support Scheme (EBSS), mean this cap allowance may have materially deviated again from the efficient costs of a notional supplier.

[1] Ofgem (2023) Price Cap – Decision on the true-up process for COVID-19 costs - https://www.ofgem.gov.uk/publications/price-cap-decision-true-process-covid-19-costs

1.4 To help us better understand debt-related costs following the main COVID-19 period, we issued a first Request for Information (RFI) to energy suppliers in January 2023. We have recently issued a second RFI to gather information about cap period 9b (January 2023 – March 2023).[2] This second RFI also includes the effect of the moratorium on involuntary PPM installations[3] as changes to PPM practice and policy could impact the level of consumer debt and suppliers' ability to collect those debts.

1.5 Given this context, it is appropriate that we consider whether a further adjustment to the debt-related costs allowance in the cap may be required, looking in the round at 2022/23 costs and allowances and anticipated costs and allowances in 2023/24. In doing so, we will be mindful that an efficient supplier is expected to use other mitigations in line with debt management best practice to try to reduce the likelihood of bad debt for customers who would otherwise have a PPM installed, rather than there being a presumption that all debt would automatically become unrecoverable.

1.6 This Call for Input (CFI) sets out our initial considerations and options, with a view to issuing a statutory consultation in June 2023. If, following consultation, it is deemed necessary, we would introduce an adjustment allowance to the cap in October 2023.

1.7 Through this CFI, we want to provide all interested stakeholders with an early opportunity to help shape our policy thinking in three key areas:

- The approach and methodology for calculating whether there was an under or over-allowance for debt-related costs in 2022/23.
- The approach and methodology for calculating any changes to debt-related costs in 2023/24.
- Our approach to considering whether, and if so how and when, to adjust the debt-related costs allowance in the price cap.

1.8 Ofgem is also committed to reviewing alternatives to the price cap for efficient recovery of debt-related costs. While this CFI is focused on the price cap, it is an opportunity to provide early views on other potential options for the recovery of debt-related costs (see question 15).

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[2] The RFI was requested from energy suppliers who had at least 100,000 default tariff customer accounts in cap period 9b

[3] Further information available at: Ofgem (2023) - Energy regulator outlines next steps on forced Prepayment Meter (PPM) installations - https://www.ofgem.gov.uk/publications/energy-regulator-outlines-next-steps-forced-prepayment-meter-ppm-installations

1.9 We set out specific questions in the relevant chapters of this document (all questions are listed in **Annex A**). We are seeking written comments on these questions by **15 May 2023**. Please send comments to priceprotectionpolicy@ofgem.gov.uk. Further detail on how to respond and the next steps are set out in Chapter 5.

2. Context

The Price Cap

2.1. The cap was introduced on 1 January 2019 and protects existing and future domestic customers on standard variable and default tariffs (which we refer to collectively as 'default tariffs'), ensuring that customers pay a fair price for their energy that reflects the efficient underlying cost to supply that energy. The cap is set out in legislation through the Domestic Gas and Electricity (Tariff Cap) Act 2018 (the 'Act').[4.]

2.2. Under the Act, we must have regard to five matters when setting the cap:

- the need to create incentives for holders of supply licences to improve their efficiency;
- the need to set the cap at a level that enables holders of supply licences to compete effectively for domestic supply contracts;
- the need to maintain incentives for domestic customers to switch to different domestic supply contracts;
- the need to ensure that holders of supply licences who operate efficiently are able to finance activities authorised by the licence;
- the need to set the cap at a level that takes account of the impact of the cap on public spending.[5]

2.3. The requirement to have regard to the five matters identified in section 1(6) of the Act does not mean that we must achieve all of these. In setting the cap, our primary consideration is the protection of existing and future customers who pay default tariffs. In reaching decisions on particular aspects of the cap, the weight to be given to each of these considerations is a matter of judgement. Often, a balance must be struck between competing considerations.

[4] Domestic Gas and Electricity (Tariff Cap) Act 2018. https://www.legislation.gov.uk/ukpga/2018/21
[5] Domestic Gas and Electricity (Tariff Cap) Act 2018, section 1(6)(e) as inserted by Schedule 3 to the Energy Prices Act 2022. In performing the duty under section 1(6)(e) we must have regard to any information provided by the Secretary of State, or any guidance given by the Secretary of State on this matter (section 1(6A)).

2.4. The cap sets the maximum amount a supplier can charge default tariff customers for energy. It varies based on a number of different parameters, including fuel type, benchmark consumption, meter types, regional differences and payment methods. We calculate the cap using a bottom-up assessment of a notional supplier's costs (ie we calculate each cost component individually and then add them together) and set it to reflect the notionally efficient energy supply costs. In the aggregate, this approach ensures our benchmark (and cap) reflects the underlying efficient costs of supplying customers with energy.

Bad debt definition and the allowance for debt-related costs

2.5. The term 'bad debt' is commonly used as an overarching term to refer to all debt-related costs. However, for clarity in this document, we use 'debt-related costs' when referring to all three components of the costs (bad debt charge, debt-related administrative costs and associated working capital costs) and name the individual component when referring to each specifically.

2.6. The largest debt-related cost relates to the value of bills which are never paid. This cost is reflected in suppliers' accounts through the bad debt charge, which is an entry in the income statement. Suppliers make estimates (known as provisions) for the amount which will never be paid. They then adjust these estimates over time, and eventually finalise them through write-offs. The other debt-related costs are debt administration costs (the administrative costs to suppliers from dealing with customers in debt) and working capital costs (day-to-day costs relating to the operation of a business).

2.7. Rather than being a single allowance line within the cap, the allowance for these debt-related costs is split across several parts of the cap, including the operating cost allowance, the EBIT (Earnings Before Interest and Taxes) allowance and the payment method uplift. This reflects the fact that debt-related costs have different components and that the cap has different allowances for each payment method.

2.8. The overall debt-related cost allowance is split between the unit rate and the standing charge (the standing charge proportion makes up about a quarter of the overall allowance in cap period 10a - April 2023 – June 2023). We estimate that in cap period 10a, debt-related costs represent approximately 6% of typical dual fuel standard credit bills, 1% of typical dual fuel direct debit bills and 0.4% of typical dual fuel prepayment meter bills.

Government support schemes

2.9. The government has taken action to support customers through a period of high and volatile energy prices through the introduction of the EPG and the EBSS. The EPG limits the amount an energy supplier can charge per unit of energy used and the cap acts as a reference price for calculating the level of support provided by the government to suppliers.[6]

2.10. Through the EBSS, customers within the GB network received a £400 payment towards their energy bills, spread over six months from October 2022 to March 2023. Energy suppliers applied the grant payment to customers' accounts.[7]

3. Why are we reviewing debt-related costs and allowances now?

3.1 For cap periods four – seven (April 2020 – March 2022), we concluded that the sudden and unexpected impact on some customers' incomes resulting from the COVID-19 pandemic had created additional debt-related costs associated with supplying credit meter default tariff customers. We considered these costs to be material, and that suppliers were unable to recover these additional costs through the existing cap methodology. In our decision in February 2023, we included an additional allowance to 'true-up' our initial estimate of costs (the float), bringing the total value of the allowance for COVID-19 debt-related costs to around £30 per typical dual fuel customer.[8]

3.2 Since the pandemic, there has been a sharp increase in energy prices and wider cost of living pressures. In response, there has been large-scale government intervention in the energy market, including through the EPG and EBSS schemes, to mitigate some of the effects of increased prices on consumers. There may therefore have been further deviation between debt-related costs and allowances given the amount consumers pay on their bills has been determined by the EPG level since October 2022, whereas the cap allowances have scaled with the (higher) overall cap level.

3.3 In February 2023, suppliers agreed to a temporary suspension of involuntary PPM installations, following reports of poor supplier practice.[9] We need to understand the impact

[6] The EPG was legislated for as part of the Energy Prices Act 2022, https://www.legislation.gov.uk/ukpga/2022/44/enacted

[7] DESNZ (2023), Energy Bills Support Scheme GB: payments made by electricity suppliers to customers, https://www.gov.uk/government/publications/energy-bills-support-scheme-payments-made-by-electricity-suppliers-to-customers

[8] Ofgem (2023) Price Cap – Decision on the true-up process for COVID-19 costs - https://www.ofgem.gov.uk/publications/price-cap-decision-true-process-covid-19-costs

[9] Further information available at: Ofgem (2023) - Energy regulator outlines next steps on forced Prepayment Meter (PPM) installations - https://www.ofgem.gov.uk/publications/energy-regulator-outlines-next-steps-forced-prepayment-meter-ppm-installations

of this moratorium on debt levels as more customers may remain on other payments methods, such as standard credit, which are associated with higher levels of bad debt than PPM. It may also reduce the effectiveness of suppliers' activities to collect debts owed to them.

3.4 We have also now issued a Code of Practice on Involuntary PPMs.[10] The Code is a voluntary agreement to help drive up standards and protect consumers from harm from involuntary PPM. It builds on our existing licence rules and guidance, setting out how suppliers should treat consumers around involuntary PPM. We will consult on the contents of the Code and expect to make changes to the licence or guidance as a result.

3.5 Given these competing and novel factors influencing debt-related cost levels, we consider it appropriate and necessary to consider whether to make a temporary adjustment to the debt-related costs allowance in the cap.

Scope and related workstreams

3.6 Our primary focus in this work is on the bad debt charge, given that it represents the majority of the allowance in the cap. However, we will also consider any consequential impacts on the other components of the debt-related costs allowance – debt-related administration costs and working capital costs - as part of our assessment of whether a temporary adjustment is required.

3.7 This workstream (debt-related costs) is primarily considering whether a temporary adjustment to the cap is required, when looking in the round at debt-related costs in 2022/23 (cap periods eight - nine) and 2023/24 (cap periods 10a - 11b). The cap periods prior to cap period eight have already been considered by the COVID-19 debt-related costs workstream.

3.8 The review of the Operating Cost allowance in the cap (in which the majority of the debt-related costs allowances are contained) is the primary route for considering whether changes to the enduring debt-related costs cap allowances are appropriate and needed. However, if it becomes clear during the course of this debt-related costs workstream that a more permanent adjustment is required, then we will consider that accordingly. Additionally, a separate review (Levelisation of payment type method cost differentials) is due to take place to consider whether consumer payment charges should be made more

[10] Ofgem (2023) Involuntary PPM - Supplier Code of Practice - https://www.ofgem.gov.uk/publications/involuntary-ppm-supplier-code-practice

equal (or equitable) by payment type, and the potential mechanisms for undertaking this process.

3.9 There is also separate ongoing work on the EBIT allowance. As we are considering the working capital cost associated with bad debt as part of this debt-related costs workstream and the Operating Cost review, we are not also considering this element of working capital within the EBIT allowance workstream. We will consider any links between the cost of capital that is used in setting the EBIT allowance, and the one we would use in the debt-related costs allowance.

3.10 As part of the wider review on involuntary PPMs, Ofgem commissioned research in March 2023 to further understand consumer attitudes and perceptions, including towards increases to bills to protect vulnerable groups from being moved onto PPMs. The research has been published today (18 April 2023).[11]

3.11 Finally, while this CFI is primarily considering whether, and if so how, the cap might be adjusted, we are also committed to reviewing alternatives to the cap for efficient recovery of debt-related costs, with any policy decision subject to the assessment of responses to our RFIs and CFI.

4. Considering debt-related costs and allowances

4.1 In this section we discuss key considerations and factors relating to a potential adjustment to the cap for debt-related costs. This includes how we calculate allowances and costs in 2022/23, as well as the anticipated costs for 2023/24. We also consider how and when any adjustment to the cap could be calculated if it is deemed necessary.

Overarching methodological approach for calculating 2022/23 allowances and costs

4.2 To determine whether there has been an under or over-allowance for debt-related costs in 2022/23, we intend to compare an estimate of allowances for debt-related costs against suppliers' reported costs, which would be used to inform our assessment of a notional suppliers' efficient costs.

4.3 To determine the allowance, we intend to take data used to set the original price cap in 2018, providing an indicative allowance for debt-related costs. This will give an amount of

[11] Ofgem (2023) - Consumer attitudes to involuntary prepayment meter installation rule changes - https://www.ofgem.gov.uk/publications/consumer-attitudes-involuntary-prepayment-meter-installation-rule-changes

revenue earned under the cap that has been there to compensate for debt-related costs. This notional allowance will vary by the meter or payment type of the customer and will reflect the costs of an efficient supplier (in the same way as the original price cap calculations). The allowance can only be notional because the cap does not contain specific granular line items for debt-related costs. We will therefore need to make assumptions to estimate what amounts are included for debt-related costs across a number of allowances.

4.4 For supplier costs in 2022/23, our two RFIs will collect actual costs reported by suppliers. We know already from our January 2023 RFI that suppliers account for and report debt-related costs differently. For example, the point at which suppliers 'provision' for bad debt differs, and there is variance in whether suppliers are able to split debt-related costs for default and fixed tariff customers. There are also differences in when debt is written off and how write-offs are taken into account when comparing bad debt provisions against outcomes.

4.5 We intend to use this data to inform our assessments of the efficient costs a notional supplier should have incurred during the period given the prevailing conditions. We will then compare this notional cost to the existing notional allowance. In considering the costs, we will be mindful that the bad debt charge in a particular period is not necessarily equal to the bad debt costs incurred in that period. This is because the bad debt charge will include both provision movements/write-offs related to previous cap periods and initial provisions relating to consumption in the cap periods in question (the latter subject to future revisions).

4.6 Additionally, we may need to consider adjusting or excluding outlying data where, for example, there are significant reporting discrepancies on debt-related costs.

Questions:

1. **Do you agree with the proposed overarching methodological approach, set out in paragraphs 4.2 – 4.6, for calculating whether there has been an over or under-allowance for debt-related costs in 2022/23?**
2. **Are there alternative methodologies or other factors we should consider when calculating if there has been an over or under-allowance for debt-related costs in 2022/23?**
3. **Do you have any other suggestions about how the calculation on 2022/23 debt-related costs and/or allowances should be carried out?**

Considerations for determining costs and allowances in 2023/24

4.7 In the same way as calculating allowances and costs for the cap periods in 2022/23, we intend to calculate the anticipated costs for 2023/24 as those a notionally efficient supplier would incur.

4.8 In doing so, we need to take account of recent market developments, including the continuation of greater EPG support and PPM practice changes (the current moratorium on involuntary PPMs and Code of Practice on Involuntary PPM). These changes could impact debt-related costs levels because if a PPM is installed later than otherwise would have been the case previously, a customer may have accrued more debt by that point. Even if a repayment agreement is put in place, a larger debt will likely be outstanding for longer, and therefore may be less likely to be repaid. This, in turn, may mean debt-related cost levels increase.

4.9 While it is too early to fully determine the ongoing impact on suppliers' finances from the moratorium on involuntary PPM installations, there are different ways in which this could be calculated when the data is available. For instance:

- We could compare the rate of PPM installations in Q1 2022 (when the moratorium on involuntary PPMs was not in place and when there were few relevant COVID-19 restrictions) with Q1 2023 when the moratorium came into effect. We could estimate whether the affected customers (those who have not had a PPM fitted who would have done if the moratorium was not in place) have reduced the rate at which they accrue debt or are still accruing debt in line with the rate of other credit customers.

- Another method would be to use the COVID-19 period as a proxy given there was also a significant reduction in PPM installations. This would mean determining what level of increased debt there was during a defined period of COVID-19, relative to a more recent period when COVID-19 restrictions were not place, and adjusting to account for the different macroeconomic context (cost of living and gas price crisis as well as the absence of the COVID-19 impact on consumer incomes) and the specific factors affecting PPM installation rates now. This carries complexity, given the very different context and circumstances, but may provide some insight on the effect of restarting PPM installations after the moratorium.

- A further method would be to evaluate the latest stress test forecasts from suppliers for 2023/24. This could include comparing these latest forecasts, provided after the moratorium announcement, with previous 2023/24 forecasts which were provided before

the moratorium commenced, to estimate the change in expected bad debt between the two forecasts for affected customers. However, this comparison would come with some analytical complexity, as between the two forecasts, the level of EPG discount was also increased.[12]

4.10 Looking ahead, the adoption and implementation of the new Code of Practice on Involuntary PPM will support the moratorium exit conditions and timescales for each supplier.[13] This is likely to vary between suppliers. The Code of Practice largely codifies and clarifies existing good practice in relation to PPM installations, but it is reasonable to expect it, and any resulting licence or guidance changes, may lead to fewer PPM installations than would otherwise have been the case. This is therefore likely to have a consequential impact on debt-related costs. That said, we would expect an efficient supplier would use other mitigations in line with debt management best practice to try to reduce the likelihood of bad debt for customers who would otherwise have a PPM installed, rather than there being a presumption that all of the debt would automatically become unrecoverable.

4.11 As with 2022/23 costs, we may also need to consider adjusting or excluding outlying data where, for example, there are significant reporting discrepancies on debt-related costs. As part of this process, we intend to use other existing sources of data on supplier debt-related costs, such as the COVID-19 RFIs and ongoing quarterly stress testing.

4.12 There may also be other scenarios in relation to 2023/24 costs where we need to consider accounting for outlying data, for example if there has been particularly bad practice in relation to existing PPM rules leading to individual suppliers remaining under the PPM moratorium for longer than others. We consider this may help ensure any calculation does not inadvertently reward or compensate for previous poor practice from individual suppliers.

4.13 It is also possible that suppliers have issued more emergency and discretionary (additional support) credit on PPMs than normal in recent months, and/or undertaken other discretionary activity to support customers. We need to understand the nature and extent

[12] On 15 March 2023, the government announced that the EPG would be kept at the same level (£2500) for an additional 3 months from April 2023 until the end of June 2023. Previously it had been intended for the EPG level to rise to £3000 from April 2023, which suppliers would have factored into their stress test forecasts provided before the PPM moratorium. Department for Energy Security and Net Zero (2023), Energy Price Guarantee.
https://www.gov.uk/government/publications/energy-bills-support/energy-bills-support-factsheet-8-september-2022.

[13] Ofgem (2023) Involuntary PPM - Supplier Code of Practice - https://www.ofgem.gov.uk/publications/involuntary-ppm-supplier-code-practice

of this support, including how non-repayable discretionary credit and third party (such as charities) support has been used to help avoid consumer debt, as this is likely to impact on debt-related cost levels in some way. We also need to understand the nature and extent of any other voluntary supplier actions which may be effective debt mitigation tools.

4.14 Data is limited in this area, but we have sought additional information in our recent RFI on emergency and discretionary credit and will be considering the approval rates of applications and the value of additional support credit that has been issued.

Questions:

4. **What are the merits and/or demerits of the potential methodological approaches in paragraph 4.9 for calculating the effect of the PPM moratorium on debt-related costs, and are there other methodological approaches we should consider?**
5. **What impact, if any, do you expect the newly published Code of Practice on Involuntary PPM to have on debt-related costs? If you foresee an increase or decrease in costs, please provided associated analysis, and explain why and whether you consider this would be a temporary or sustained change.**
6. **What reasonable mitigations should be taken by efficient suppliers to reduce the likelihood of bad debt in light of the PPM Code of Practice and PPM moratorium, and how should we account for this in our calculation of anticipated debt-related costs in 2023/24?**
7. **If there are examples of previous poor practice on PPM which have supressed debt-related cost levels, how should this be accounted for in our debt-related costs calculations?**
8. **What factors should we take account of when calculating the effect of other changes to PPM practice, such as the issuing of additional support on credit meters in recent months?**
9. **What has been the role of non-repayable discretionary credit or support from third parties (eg. charities) in helping consumers avoid debt, and how does this impact debt-related costs on a net basis?**
10. **Are there any other material and systematic factors you consider could impact on debt-related cost levels in 2023/24?**

Approach to calculating any adjustment to the price cap

4.15 When considering whether an adjustment to the cap is required for debt-related costs, we intend to combine our estimate of whether there was an over or under-allowance for debt-related costs in cap periods eight - nine (April 2022 – March 2023) alongside our

assessment of recent changes, including the effect of ongoing PPM practice changes in cap periods 10a -11b (April 2023 – March 2024). We consider this approach provides the most clarity and simplicity for customers and suppliers, and ensures the overall amount of adjustment required (if any) is based on a rounded assessment of debt-related costs and allowances since the COVID-19 period.

4.16 Additionally, while the cap only covers default tariff customers, the PPM moratorium (and other PPM practice changes) affects all customer types. We consider it would therefore be appropriate to ensure any allowance in the cap accounts for that by scaling to default tariff customers only, as we expect suppliers to make their own provisions for bad debt when pricing non-default tariffs, rather than relying on default tariff customers' bills to cross-subsidise.

4.17 We must set a single cap level across suppliers, so any adjustment would need to seek to reflect the average position of a typical, notionally efficient supplier. The cap is not designed to match individual suppliers' exact costs and from our January RFI, we know there is variance between suppliers on debt-related costs recording and reporting, and quite different profiles of customers. It is therefore likely any adjustment to the cap on debt-related costs would not necessarily match individual suppliers' costs.

4.18 We currently expect any adjustment will be a 'float' (an estimate), with a view to that being 'trued-up' at a later stage if necessary, once we have a fuller understanding of the effect of the ongoing moratorium and other PPM practice changes. It would also allow us to take into account any revisions to debt-related costs from cap periods eight and nine (April 2022 – March 2023). This is consistent with our approach to COVID-19 debt costs.[14]

4.19 Once we have determined what the value of any adjustment allowance should be, there would be a number of detailed design considerations around how to allocate costs between customers. For example, we know from the work on COVID-19 related debt that additional debt-related costs are likely to vary by payment method, with debt-related costs generally higher for standard credit customers than direct debit customers, and much lower for PPM customers. Any change in allowance now could be included in the cap tariff in a similar way to the current split in debt-related costs between the different payment methods. However, it could also be split evenly across credit customers on the default tariff as per the COVID-19 float and true-up, or evenly across all default tariff customers. It is also likely we would

[14] Ofgem (2023) Price Cap – Decision on the true-up process for COVID-19 costs - https://www.ofgem.gov.uk/publications/price-cap-decision-true-process-covid-19-costs

need to account for any changes in default tariff customer numbers between when costs were incurred and when the adjustment was recovered.

4.20 The separate review we are commencing on levelisation of payment method cost differentials may provide a complementary mechanism to enable effective debt cost recovery across different suppliers, while limiting the impact on particular groups of customers. This will be considered as part of the levelisation of payment method cost differentials workstream and be informed by the evidence and data we receive in response to this CFI and our RFIs.

4.21 On the timing of any adjustment, we currently intend to make any adjustment (the float) in the October 2023 cap (cap period 11a). By the end of August 2023 (when we would need to publish a decision relating to the adjustment) we anticipate being able to assess the impact of the moratorium on involuntary PPM installations in cap period 9b from responses to our current RFI. We may also issue a further RFI to help us determine the early effects of the PPM practice and policy changes in cap period 10a, which may help inform any true-up considerations. Our current expectation is that any necessary temporary adjustment would be implemented across cap periods 11a – 12b (October 2023 – September 2024) - this would balance the need for timely recovery alongside spreading the impact across multiple cap periods.

Questions:

11. **Do you agree with the proposed approach to combine our estimate of the costs for cap periods eight – nine (April 2022 – March 2023), and the anticipated costs for cap periods 10a - 11b (April 2023 – March 2024), to determine whether an adjustment to the cap for debt-related costs is necessary?**
12. **Are there any additional considerations to those identified in paragraphs 4.16 - 4.21 that we should take account of when considering any adjustment?**
13. **If an adjustment allowance in the cap for debt-related costs is deemed necessary, do you agree with our intention to work towards an October 2023 cap adjustment?**
14. **Do you have other comments at this stage about the potential for an adjustment to the price cap for debt-related costs?**
15. **Are there any non-price cap mechanisms you think should be considered as an alternative or addition to an adjustment in the price cap for debt-related costs? Please set these out, including why they may be needed and how they could work.**

5. Next Steps

5.1 We welcome any written comments on the questions set out in this document (listed in full in **Annex A**) by **15 May 2023**. Please send these comments to: priceprotectionpolicy@ofgem.gov.uk.

5.2 For energy suppliers who are responding to the current RFI, there is no requirement to submit the same data separately in response to this CFI, but you are of course welcome to reference or point to it in your written comments.

5.3 If you would like to discuss your written comments with us, either before or after they are submitted, please contact us via the email above to arrange. We may publish non-confidential written responses to this CFI on our website at: https://www.ofgem.gov.uk/energy-policy-and-regulation/engagement/calls-input.

5.4 Following this CFI and any further stakeholder engagement calls, we currently intend to publish our statutory consultation in June 2023. We currently have an RFI open to gather information primarily about cap period 9a and may issue a third RFI to gather information about cap period 10a. We also already collect supplier forecasts for debt-related costs as part of the regular quarterly stress testing process and will refer to this data as part of the consideration of responses to this CFI and the current RFI.

Your response, data and confidentiality

5.5 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

5.6 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

5.7 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the

UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice, see Annex B.

5.8 If you wish to respond confidentially, we'll keep the response itself confidential, but we may publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

ANNEX A – Call for Input questions

1. Do you agree with the proposed overarching methodological approach, set out in paragraphs 4.2 – 4.6, for calculating whether there has been an over or under-allowance for debt-related costs in 2022/23?

2. Are there alternative methodologies or other factors we should consider when calculating if there has been an over or under-allowance for debt-related costs in 2022/23?

3. Do you have any other suggestions about how the calculation on 2022/23 debt-related costs and/or allowances should be carried out?

4. What are the merits and/or demerits of the potential methodological approaches in paragraph 4.9 for calculating the effect of the PPM moratorium on debt-related costs, and are there other methodological approaches we should consider?

5. What impact, if any, do you expect the newly published Code of Practice on Involuntary PPM to have on debt-related costs? If you foresee an increase or decrease in costs, please provided associated analysis, and explain why and whether you consider this would be a temporary or sustained change.

6. What reasonable mitigations should be taken by efficient suppliers to reduce the likelihood of bad debt in light of the PPM Code of Practice and PPM moratorium, and how should we account for this in our calculation of anticipated debt-related costs in 2023/24?

7. If there are examples of previous poor practice on PPM which have supressed debt-related cost levels, how should this be accounted for in our debt-related costs calculations?

8. What factors should we take account of when calculating the effect of other changes to PPM practice, such as the issuing of additional support on credit meters in recent months?

9. What has been the role of non-repayable discretionary credit or support from third parties (eg. charities) in helping consumers avoid debt, and how does this impact debt-related costs on a net basis?

10. Are there any other material and systematic factors you consider could impact on debt-related cost levels in 2023/24?

11. Do you agree with the proposed approach to combine our estimate of the costs for cap periods eight – nine (April 2022 – March 2023), and the anticipated costs for cap periods 10a - 11b (April 2023 – March 2024), to determine whether an adjustment to the cap for debt-related costs is necessary?

12. Are there any additional considerations to those identified in paragraphs 4.16 - 4.21 that we should take account of when considering any adjustment?

13. If an adjustment allowance in the cap for debt-related costs is deemed necessary, do you agree with our intention to work towards an October 2023 cap adjustment?

14. Do you have other comments at this stage about the potential for an adjustment to the price cap for debt-related costs?

15. Are there any non-price cap mechanisms you think should be considered as an alternative or addition to an adjustment in the price cap for debt-related costs? Please set these out, including why they may be needed and how they could work.

ANNEX B - Privacy notice

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the CFI.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. ie a consultation.

4. With whom we will be sharing your personal data

We may share your consultation responses with the Department for Energy Security and Net Zero.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for 6 months after the project, including subsequent projects or legal proceedings regarding a decision based on this CFI and/or resulting statutory consultation, is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data

- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information

For more information on how Ofgem processes your data, click on the link to our "ofgem privacy promise".