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Sent by email to: [priceprotectionpolicy@ofgem.gov.uk](mailto:priceprotectionpolicy@ofgem.gov.uk)

Dear Marcus,

**Price cap – Statutory consultation on introducing an allowance for bad debt associated with Additional Support Credit (ASC)**

We support Ofgem’s proposal to introduce an additional price cap allowance for bad debt associated with ASC, of approximately £13 per typical dual fuel PPM customer. It is important that the price cap allows efficient suppliers to recover their costs, including the costs of supporting customers who are struggling to pay their energy bills. We support Ofgem’s proposals including on the basis that:

- There will be a true-up mechanism to ensure that recovered costs are accurate; and
- PPM customers would continue to pay no more than Direct Debit customers via the Energy Price Guarantee (EPG).

Alongside bad debt associated with ASC, Ofgem should also ensure suppliers are able to recover bad debt associated with other activities including adherence with the new prepayment code of practice. We have set out the importance of recovering these costs in both our responses to Ofgem’s call for input on the allowance for debt-related costs<sup>1</sup> and the call for evidence on levelisation of payment method costs differentials<sup>2</sup>. As we have set out in the former, we support the implementation of the prepayment code of practice, and we estimate it will result in a significant and sustained increase in costs of up to [redacted] per annum for Centrica.

Not allowing suppliers to recover efficiently incurred costs would undermine Ofgem’s parallel workstream to introduce an appropriate framework for supplier financial resilience<sup>3</sup>, and the

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<sup>1</sup> Ofgem call for input: <https://www.ofgem.gov.uk/publications/price-cap-call-input-allowance-debt-related-costs>

<sup>2</sup> Ofgem call for evidence: <https://www.ofgem.gov.uk/publications/levelisation-payment-method-cost-differentials-call-evidence>

<sup>3</sup> Ofgem decision on financial resilience: <https://www.ofgem.gov.uk/publications/decision-strengthening-financial-resilience>

requirement of Domestic Gas and Electricity (Tariff Cap) Act 2018<sup>4</sup> to “ensure that holders of supply licences who operate efficiently are able to finance activities authorised by the licence”

## **Our key proposals**

In addition to introducing this allowance for bad debt associated with ASC, Ofgem should ensure that this allowance:

- Is made a permanent part of the regular price cap assessment to ensure suppliers can recover any bad debt costs associated with ASC that are incurred in the future.
- Includes both the bad debt costs associated with the ASC, as well as the operational costs that suppliers incur in distributing additional ASCs to customers – including open banking and staff training costs.

## **Recovery of ASC bad debt**

We agree with Ofgem that historically the ASC bad debt incurred by suppliers has been minimal and has increased due to the ongoing cost-of-living crisis, and that ASC “helps vulnerable consumers to stay on supply, reducing the physical and emotional harm that can result from rationing their heating, cooking and hot water”.

If suppliers are unable to recover ASC bad debt under the price cap it would negatively impact their financeability, and it could create an incentive on suppliers to restrict customer access to ASCs resulting in a significant negative impact on some of the most vulnerable customers - including an increased risk of self-disconnection. This would be an outcome Centrica and Ofgem want to avoid and therefore it’s vital that Ofgem makes an allowance for ASC related debt in the price cap so that suppliers are able to provide ASCs to customers that need them and recover any bad debt costs associated with them.

We agree with Ofgem that “it is therefore in consumers’ interest, including vulnerable consumers, to ensure that suppliers fully adhere to SLC obligations in relation to ASC. This will be particularly important in the coming winter...” and that “it is in customers’ interests to ensure that suppliers have confidence that when they issue ASC, there is a provision to recover notionally efficient costs of bad debt associated with it”.

We also support Ofgem’s proposed ‘float and true up’ approach to ASC related debt with an initial ex-ante allowance of approximately £13 per typical dual fuel PPM customer, followed by a true-up to reflect the actual costs suppliers have incurred. Based on ASC related debt forecasts we consider £13 to be a reasonable ex-ante allowance, though recognise this is an initial estimate of suppliers’ costs and a later true-up is required.

Our process for distributing ASCs the customer is passed to our PPM vulnerability team who will put the customer through an Open Banking assessment to determine their current financial position. Open Banking is a credit facility provided by credit reference agencies, which confirms the customer’s disposable income directly via their bank through an automatic check. The customer’s income and expenditure are used to calculate the total spending e.g., such as priority bills and disposable income. This is always done with the customer’s permission.

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<sup>4</sup> Domestic Gas and Electricity (Tariff Cap) Act 2018: <https://www.legislation.gov.uk/ukpga/2018/21>

This process ensures that we correctly prioritise customers for ASC and it's important that the costs of such processes can be recovered under the price cap as it has proven beneficial to many of our customers.

### **The ongoing need for an ASC bad debt allowance**

Ofgem's statutory consultation recognises that the value of ASCs distributed has increased due to higher energy prices and wider cost of living pressures. As market conditions remain uncertain there is every possibility that bad debt related to ASCs will be an ongoing issue for suppliers beyond the 12-month allowance Ofgem has proposed in its current consultation.

Therefore, we urge Ofgem to commit to re-assessing the bad debt related to ASC allowance in a year's time to assess whether this allowance must continue, and that Ofgem sets an appropriate allowance in line with Ofgem's regular assessments of the price cap allowances.

As Ofgem acknowledges in its statutory consultation: "The changes to PPM practice as a result of the Code and the further action set out in the statutory consultation on Involuntary PPM could reasonably increase the demand for ASC and/or mean suppliers are expected to issue more of it". Ofgem's words suggest that the need for significant ASCs to customers will be an ongoing cost and therefore the bad debt related to these costs is something suppliers may expect to incur on an ongoing basis. It is for this reasons that the allowance for ASC related bad debt should be made a permanent part of the regular price cap allowance assessment.

### **Wider price cap policy**

We welcome clarification that Ofgem will "report by this autumn (2023) on options for permanently ending the PPM premium, so that a mechanism is ready for implementation in April 2024". In our response to the levelisation call for evidence<sup>5</sup> we proposed equalising direct debit and PPM tariffs under the price cap, and we have separately set out that we advocate for the removal of the standing charge to further simplify the structure of all tariffs under the price cap<sup>6</sup>.

If you would like to discuss our response, please get in touch on [tabish.khan@centrica.com](mailto:tabish.khan@centrica.com).

Yours sincerely,

**Tabish Khan**  
**Regulatory Affairs and Policy**

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<sup>5</sup> Ofgem call for evidence: <https://www.ofgem.gov.uk/publications/levelisation-payment-method-cost-differentials-call-evidence>

<sup>6</sup> Centrica press release: <https://www.centrica.com/media-centre/news/2023/centrica-calls-for-simpler-more-transparent-energy-sector/>