

Marcus McPhillips,
Head of Price Cap Policy, Ofgem,
10 South Colonnade,
Canary Wharf,
London
E14 4PU

18 July 2023

Dear Marcus,

Price Cap - Statutory Consultation on Introducing an allowance for bad debt associated with Additional Support Credit

Over50smoney strongly opposes any increases to the price cap during this time especially as many, if not all, energy suppliers are reporting record levels of profits during unprecedented energy and cost of living crises in the UK. Whilst the poorest households struggle, we should not be feeding additional revenue into energy suppliers that are not struggling. Our thoughts are generally supported by the almost 350,000 people that have signed out petition calling for Ofgem to cancel any planned increase in EBIT, to change the EBIT formula to reduce supplier profits and to remove the Headroom Allowance in its entirety (www.change.org/OfgemPriceCap).

I have specific points to raise against this consultation, which are addressed below, but I have a couple of more general points I'd like to highlight. First and foremost, I find it distasteful for Ofgem to continue using the "cost of excessive supplier failures" as justification for increasing consumer bills, especially as this cost was entirely the fault of Ofgem. We paid for those failures because you were glacial in your reactions to the energy crisis beginning in August 2021, with no amendment being made to the announced cap in October 2021 and the change to quarterly caps not coming into play until 16 months later in January 2023. To then increase domestic energy bills multiple times and consistently say it is for the protection of consumers is heinous and callous, and frankly disrespectful to consumers. It was Ofgem's responsibility to set up a robust and stable energy market and you failed at that prior to the crisis, now hugely increasing energy bills across various consultations for new or increased allowances is a poor way of trying to correct the errors of your past. Now Ofgem's responsibility is to protect consumers from these high prices, the current focus should be on minimising bills, not creating a more investible energy market. I ask that you take this into consideration not only for this consultation but all current and future consultations Ofgem publish.

Secondly, a 54 page document that does not concisely explain what Ofgem is trying to do, nor why, is not an appropriate way for Ofgem to try to engage the public on decisions that will impact their household bills. The sheer volume of repetition in this document seems to serve no purpose, for example I'm not sure why Ofgem felt the need to say "*We are publishing a consultation on this issue later this summer, following our Call for Evidence on levelisation of payment method cost differentials in April 2023*" four separate times throughout this document, nor why you've written "*The government has asked Ofgem to report by this autumn (2023) on options for permanently ending the PPM premium*" at least five separate times in a single document.

The instructions for following a consultation could also be held as static content on top of the consultations page on Ofgem's website and the removal of unnecessary repetitions could have easily reduced this document by 10-15 pages. I ask that you look into the level of detail being given in the

consultations and make adaptations or alternative documents that simplify what Ofgem are consulting on and how a member of the public can respond to said consultation.

Please see below for further comments on the consultation on introducing an allowance for bad debt associated with Additional Support Credit.

Kind regards,

Richard Winstone
Director
Over50smoney

Overview questions

Prior to any bad debt related allowance being introduced, we think it is important to understand what actually happens with bad debt. The following questions should be answerable by Ofgem and published in the public domain prior to any such allowance being introduced:

- How long is a customer in debt before suppliers can just write it off as bad debt?
- Is that debt then written off of the customers account, i.e. they will never have to repay it, or are the customers held liable for long periods of time or is it sold to debt collection agencies?
- What protections are there to ensure the £13 isn't used as additional profit for energy companies?
- If consumers are incurring debt due to high energy bills, how does it logically make sense to increase the price cap further? Surely this is a cycle which will create even more debt, which will require an increased allowance to cover that debt, which will create even more debt and so on. Logically, making energy more affordable will reduce the level of bad debt

More specific questions

Page 8 – Ofgem's scenario sees the level of ASC increase by the proportionate increase from Winter 2022 to Winter 2023, this seems counter intuitive. The price cap increased significantly from Winter 2022 to Winter 2023, but there should be a minor reduction in the price cap from Winter 2023 to Winter 2024, certainly not large increase, therefore it is logical to assume that ASC at worst would stay at the same level as Winter 2023.

Page 16 – paragraph 2.9 – The current cap already has bad-debt allowance which has scaled with the cap, so is this further bad debt allowance really necessary?

Page 22 – paragraph 3.5 – Should Ofgem be looking at outside pressures? It feels one-sided that in the EBIT consultation (<https://www.ofgem.gov.uk/publications/price-cap-statutory-consultation-amending-methodology-setting-earnings-interest-and-tax-ebit-allowance>) Ofgem specifically say that they do not consider other revenue streams for energy suppliers when deciding how much profit they should be making in the retail energy sector, but when it comes to considering customer affordability you look at everything affecting that customer? I think we could accept this if you then took the logical approach of "customers are struggling financially, so lets reduce their energy bills", but instead you're saying that because customers are struggling, they are likely to incur more debt

with energy suppliers and you need to protect energy suppliers so you're increasing customer bills further? Your role as a regulator is to protect energy consumers, not energy suppliers. Therefore your application of logic in this respect is faulty at best.

Page 23 – paragraph 3.10 – Ensuring suppliers fully adhere to the SLC obligations should have nothing to do with ASC bad debt allowances or not, this is a concerning statement. The same can be said for paragraph 3.12 – why is there an increased risk? Suppliers have an obligation, it should not be considered a risk to vulnerable customers, Ofgem should be clamping down on energy suppliers that aren't meeting their obligations, not pandering to them by increasing customer bills. Paying energy suppliers larger sums of money to make sure they adhere to their regulatory obligations is a weak position for a regulator to take.

Page 24/25 – paragraph 3.17 – Following the point above, is there evidence that ASC hasn't been paid in a timely manner by energy suppliers in 22/23? If so, what were the consequences? If there is no evidence, then what rationale is there for saying that this allowance will ensure supplier adherence?

Page 25 – paragraph 3.18 – I disagree with this approach. Any increases in the cap should be given strict review times and not a "when we can get round to it" approach.

Page 25 – paragraph 3.19 – I am confused as to why a true-up would not commence before spring 2024 but you'd be able to turn around an ex-post adjustment before April 2024? It seems like a poor justification for using an ex-ante approach. Ex-post would be a better way to apply any allowance for this bad-debt, it means suppliers will have to prove they've actually paid all of the ASC they're supposed to before they get paid. That being said, we stand by the position that this allowance is not necessary at all and should be forgotten.

Page 30 – paragraph 4.7 – Just so I understand this currently, is this paragraph saying that suppliers can force a PPM into a customer's house, they then have to give ASC but you're giving the suppliers this allowance so they don't have to worry about that ASC not being paid back? So there is literally an incentive for suppliers to force-fit PPMs? This feels dangerous, if suppliers decide to force a PPM on a customer that doesn't want it then the supplier should suffer the cost of any ASC that isn't repaid. If that cost becomes too much then suppliers should find alternatives to force fitting PPMs, they shouldn't be compensated via another allowance in the price cap.

Page 31 – paragraph 4.10 – "the percentage of people facing financial difficulty has been increasing" whilst we are pleased to know that Ofgem are understanding the financial crisis consumers are in, we would hope that your logic would lead you to reducing price cap allowances, not adding more.

Page 36 – paragraph 5.11 – This paragraph states that you did not request the fuel split information? But appendix 1 says you did request fuel split? I'm confused by the confliction, some clarification would be helpful.

Page 41 – paragraphs 7.2 & 7.11 – As previously mentioned, the excessive use of "reduce the costs of supplier failures" to justify increasing consumer bills is becoming extremely tiresome. I'd like to request that Ofgem review how many changes they've made in the last 18 months that have used the "cost of supplier failures" excuse, then add up the total amount those changes have added to household bills and work out whether there is actually any benefit to the consumer at all. I'm taking a shot in the dark but I'd guess the answer is no, especially as the majority of these changes will be incurred every year and aren't 1-off costs like the supplier failure costs were.



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Page 41 – paragraph 7.5 – June is one of the lowest usage months of the year, it's extremely misleading to quote the percentage of bills for debt-related costs for this month, what was it in January?

I, and the signatories of the aforementioned petition, would appreciate answers to the many questions in this response prior to any decision being made to implement a new allowance that will cost £millions in additional household bills.

I look forward to your response.

Kind regards,

Richard Winstone
Director
Over50smoney