over50smoney

Consumer Champion for the Over-50s

Price Protection Policy Team
Ofgem,
10 South Colonnade,
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London
E14 4PU

24 October 2023

Dear Price Protection Policy Team,

Over50smoney response to Additional debt-related costs allowance policy consultation

My answers to the specific questions asked in this policy consultation are on the following page. Those in bold font are specifically targeted at addressing the 5 matters Ofgem are to take into consideration un the Domestic Gas and Electricity Act 2018.

I want to emphasise my opposition to this adjustment being implemented. The following points are of particular significance and I hope weigh heavy in your decision making process:

- It would be devoid of all human morality to impose the cost of the voluntary moratorium on involuntary PPM installations on to consumers.
- It is in a supplier's interests to over-estimate predicted costs when presenting them to you for review in light of a consultation, especially when a true-up is up for debate.
- Ofgem have made dozens of decisions in the last 2 years to support the financial viability of energy suppliers, under the guise of it being in consumer's best interests. At some point, it must be logical that "consumer's best interests", in Ofgem's eyes, becomes giving less money to suppliers, allowing consumers to keep that money for their family. I am hopeful that time is now.
- If Ofgem reach the decision to implement this adjustment, then I strongly believe it is better to charge a known cost than to charge a predicted cost and revisit it later.

A final point I'd like to add is that this document does not address what happens to the consumer that has bad debt. It says that the energy supplier writes it off of their books, but I do not believe this debt is written off from the customers records. From my understanding, debt is written off of the supplier's books as "bad debt" after 12 months, but it can stay on consumer accounts for far longer than this and be collected later, or sold to debt collection agencies. So, the consumer in debt receives no benefit from this proposed adjustment. I could not support any additional funds being given to suppliers that have no benefit to consumers struggling with their bills.

Please see below for my answers to the questions listed in the Additional debt-related costs allowance policy consultation.

If you have any questions on the answers provided below, please contact me at richard@over50smoney.com.

Kind regards,

Richard Winstone
Director
Over50smoney

Answers to questions provided in the Additional debt-related costs allowance policy consultation

1. *Do you consider that we should make a temporary adjustment to the price cap to account for additional debt-related costs?*

No, I don't believe an adjustment is warranted at this time. There is a clear difference between an actual under-allowance in the cap and a predicted under-allowance. Ofgem have refused to give consumer groups and charities access to the data behind the assessment that has been made, this makes it impossible for us to consider whether or not the assumptions being made by energy suppliers are reasonable.

If we are not able to access the data then any review for an adjustment should be paused until after actual figures are produced rather than predictive figures.

I would question the validity of having an allowance in 10a fall so dramatically because of falling usage, but then having the bad debt predicted cost rise so dramatically in the same period. Falling usage surely means falling debt, even with the end of government support. But, again, we haven't been given access to data to scrutinise.

You ask for a lot of trust from the consumer groups and charities, trust that you don't ask for from energy suppliers. This feels unequal, unfair and biased against the consumer.

It is in consumers' interests not to have their bills increased further.

Suppliers are less incentivised to improve their efficiency if they are just being given extra financial benefits from consumers to cover inefficient cost management.

If this allowance provides an over-allowance, as I predict it will, then larger energy suppliers will benefit more than others, providing an unfair market and reducing competition.

2. *Do you think that suppliers cost due to the moratorium on involuntary PPM installation should be included in the adjustment?*

I absolutely disagree that suppliers should receive any financial support to account for the costs of the moratorium on involuntary PPM installations. The reasons for this are 3-fold:

Firstly, the moratorium was voluntary. Suppliers therefore made a choice to incur that extra debt.

Secondly, the moratorium was put in place because suppliers broke the rules. Well done to them for volunteering to stick to the moratorium, but this is their repentance for breaching legislative practices in the first place, if there is no cost to them then there is effectively no punishment for breaking the rules. Adjusting for the moratorium would set a dangerous precedent for suppliers, that they can break the rules and not actually incur any negative consequences in the medium or long term.

Thirdly, consumers are the ones that suffered from the bad practices of energy suppliers, they should not be forced to endure higher costs as a result of the energy supplier's failure to adhere to legislation. This would provide further detriment to households.

Adjusting for the cost of the moratorium damages current household finances further and sets a dangerous precedent that could negatively impact future consumers by allowing suppliers to think there is no downside to breaking the rules.

3. *Do you agree that any adjustment should be made using the existing price cap mechanism, rather than a bespoke levy or other new mechanism?*

If an adjustment is made, which it shouldn't be, then the cap mechanism is the best approach.

4. *Do you have any views on whether it would be appropriate to explore a specific levy mechanism for DNI ('do not install') customers? This would be separate to any adjustment for additional debt-related costs.*

I think we need Ofgem to prioritise current consumers' interests, which is primarily the need to reduce their household expenditure. This means not adding any further costs to the cap, and to work diligently at ensuring suppliers are incentivised to reduce costs and improve consumer standards. By increasing the cap further you damage current customers and only benefit shareholders of suppliers.

So, my views are that no additional levy should be applied for DNI customers. I do not understand how giving energy suppliers more money here would benefit competition or service for DNI customers.

5. *Do you agree that we should make an initial float adjustment in April 2024, followed by a later true-up? Do you agree it should be included within the cap for a 12 month period? Do you agree that this allowance should be temporary only?*

Just to reiterate, I do not think this allowance is necessary at all. However, if you are to put an adjustment in, then I do not think an initial float and true-up is the best process. By its very nature, applying an adjustment on predicted costs will result in an over-/under-allowance. The true-up will fix that issue but I see no justification for adding the cost in before we even know how much the cost is.

My preferred options, in order, are:

a. Do not apply any adjustment, scrap this whole consultation.

b. Apply any adjustment from October 2024 at the earliest, once the full cost-allowance difference is known.

c. Apply any adjustment from April 2024 and then have the true-up from October 2024.

I do agree that if an adjustment is made it should be for 12 months and should be temporary only. However, I'd like to request that you don't just move this temporary allowance into the operational cost allowance after the 12 months, as you did with the ringfencing temporary allowance when you moved it to the EBIT allowance earlier this year. This defeats the point of a "temporary" allowance. Ofgem have stated that this is a backward facing adjustment aimed at allowing suppliers to recoup specific costs, therefore it shouldn't be needed to be added to the operational cost allowance.

6. *Should the debt-related costs allowance, if introduced for the April 2024 price cap, be subject to a later true-up, and if so, when should this adjustment occur?*

Yes, of course it should be, if you're going to give an allowance it should be accurate. Giving an allowance on predicted costs is reckless and dangerous for the consumer, and it incentivises energy suppliers to reduce that cost as much as possible and then benefit from the additional allowance if no true-up is going to be applied. You did a true-up on other adjustments and therefore should do one on this adjustment if it is implemented.

Ofgem have presented an option to have the adjustment run from October 2024 when the true costs are expected to be known. If Ofgem decide to run the adjustment from April 2024 then the true-up should be done by October 2024, as you will know the actual extent of any differences by then. This is the earliest opportunity to ensure consumers aren't overcharged during the winter months of 2024.

7. *Do you agree that we should carry out only one wider debt-related costs true-up?*

Sure, this reduces workload and ensures all debt-related costs and allowances are reviewed together, giving a full view of the amount of money consumers are throwing at energy suppliers to cover the costs of consumers not being able to afford bills…

8. *Should the float allowance be uprated to account for inflation, or should we make no additional adjustments?*

I answer your question with one of my own: have you ever uprated for inflation when applying a reduction to a cap allowance? For example, are contracts for difference reductions to the cap uprated for inflation?

Genuinely, I do not know if Ofgem have uprated for inflation previously, but I do believe if no reduction to the cap has ever been uprated for inflation, then neither should any increase to the cap.

9. *Do you agree with the proposed overarching methodological approach for estimating the existing debt-related costs allowance, and using it to determine whether there has been an over or under-allowance for debt-related costs in 2022/23?*

None of the information provided in the consultation document discusses how overall usage for a cap period is determined and impacts the allowance accrued. This has caused confusion with figure 4.1, as it appears that the allowance given in 10a is an underrepresentation of the actual figures. It also provides confusion as to why the bad debt cost prediction, given by energy suppliers, is so much higher during a falling usage period, 10a.

The overarching methodology that has been shown seems reasonable, it isn't clear to me though how this methodology or the table given translates to the information provided in figure 4.1.

10. *Do you have any other suggestions of alterative methodologies or other factors we should consider for how to calculate the debt-related costs over or under-allowance in 2022/23?*

No.

11. *Do you agree that we should consider each debt-related cost (bad debt, debt- administrative costs, and working capital costs) in scope of this review?*

No, I think we should only look at the debt-related administrative costs, in which there is an over-allowance so we should apply a negative adjustment to energy suppliers.

12. *Which, if any, of the benchmarking options do you favour?*

My preference of benchmarking options, in order, would be:

a. Option 3
b. Option 1
c. Option 2

13. *Do you have any views on which payment method allocation option would be preferable?*

Preferred payment method allocation options, in order of preference:

a. Option 4
b. Option 1
c. Option 3
d. Option 2
e. Option 5

14. *Do you agree with us allocating other debt-related costs (debt-related administrative and working capital costs) uniformly across payment method?*

Yes.

15. *How should we apportion any debt-related costs allowance over the unit rate and standing charge elements of the cap only?*

Any adjustment should be added entirely to the unit rates part of the cap. This is essential as standing charges have seen a huge increase over the last 2 years, which is making it difficult for low-usage households to find savings in the energy market. This typically means that poorer households are struggling more with their energy bills.

16. *How should we apportion any debt-related costs allowance between fuel and meter types?*

Split the cost equally across fuels and meter types.