Scottish Pensioners' Forum

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This response may be published with the name of our organisation

This response may be shared with other departments dealing with this consultation

We may be contacted again, if necessary, to discuss the details of our response

Scottish Pensioners' Forum Response:
OFGEM - Additional Debt-Related Costs Allowance Policy Consultation
Contact: Dan Norton, Price Protection Policy Team

The Scottish Pensioners' Forum (SPF) cannot support the principle that suppliers should be able to recoup accrued bad debt, associated administrative costs and an element of their working capital simply by increasing consumer bills, either on an on-going or temporary basis, or by surcharging any particular group of consumers collectively.

The following comments should be taken in this context.

1) It is disingenuous to argue that since other businesses routinely pass on the cost of bad debt and losses from theft and the like to their customers, it is reasonable for energy suppliers to do the same. This ignores the fundamental difference that energy is a basic utility, access to which does not represent, except at its margins, a discretionary spend.

2) The SPF cannot identify any logic in reimbursing energy suppliers for accumulated bad debt through increasing consumer bills, potentially increasing the numbers unable to afford to heat their homes and ultimately adding to bad debt levels.

3) The SPF is not convinced that it is "in the customer interest that suppliers are adequately funded for the services they provide". How is this in the best interest of consumers? What services do suppliers, as opposed to generators or distributers, actually provide customers? Their customer interface is focused on billing and collecting payment. Why should energy suppliers be a special case in having their funding guaranteed by their customers, when any other business in the marketplace without adequate funding would be allowed to fail?

4) The SPF finds it difficult to recognise supplier financial fragility in view of reported industry profit levels coming from windfalls generated by rising wholesale prices, represented by pay and bonus payments (British Gas) or profits routinely transferred to overseas entities (Scottish Power and EDF). Consolidation amongst suppliers suggests that at least some players in the market continue to recognise opportunities for future profit.

5) Historically, suppliers exited the market under uncontrolled conditions because Ofgem, as a Regulator, took its eye off the ball, licensing a plethora of operators lacking financial resilience. That was an acknowledged failure of regulation rather than the responsibility of consumers. It is now up to Ofgem to demonstrate that it is effectively regulating suppliers, rather than continuing to adhere to the tired mantra that competition, in itself, is necessarily in the customer interest.

6) The SPF can see no benefit, either to consumers or debtors, in funding suppliers' bad debt write offs, since, although these sums may be removed from company balance sheets, indebted consumers may well remain indebted and liable to recovery action from collection agencies to whom the debt has been sold.

7) The SPF has no means of verifying suppliers' bad debt figures but considers it highly likely that they contain a fair degree of optimistic prediction (in terms of expected write down benefit) of totals. The SPF is further appalled at any suggestion that any 'temporary adjustment' might compensate suppliers for debt accrued during the 'voluntary' pause in enforced PPM installation, when it was clear that this had not

followed due process, thus causing much public condemnation and media attention. Such a measure would effectively legitimise malpractice.

8) Throughout the document, costings seem to apply to a 'typical dual fuel consumer'. Such a 'one-size-fits-all' approach does not recognise the reality for single fuel or small household consumers, for whom any increase in electricity unit, or particularly daily standing charges, will have a disproportionate impact. Consumers in the Scottish Power distribution area already pay the highest standing charges in the UK after those levied in Scottish Power's North Wales & Merseyside area, at 62.1p / day for DD customers, compared with those in London paying 38.5p / day. Typical annual electricity bills in Scotland are amongst the highest in the UK and well above the national average.

9) Gas prices in Scotland may be slightly lower than the national average, but one in five of Scottish households – the majority outside the urban areas where the cost of living is already higher than average - do not have access to mains gas. A disproportionately high percentage of households without gas central heating, and those relying solely on electricity, are most likely to experience fuel poverty. Imposing increased energy charges on such customers to enable suppliers to recoup debt and associated costs exacerbates existing vulnerabilities.

10) Just as Ofgem itself is unable to quantify with any certainty the proportions of PPM & SC customers 'responsible' for incurring bad debt, it does not seem to have any clear picture of the profile of consumers in each billing group. The relatively low level of indebtedness of DD customers does not necessarily mean they are universally better off and therefore better able to carry a disproportionate burden of any debt recovery. Presumably if DD customers were to be expected to bear the bulk of the burden of debt recovery costs, their unit and standing charge rates would be equalised with, for instance PPM customers, who, if larger users, benefit from lower unit charges.

11) Ofgem recognise that increased levels of debt are a product of rising fuel prices, but, rather than focusing on the fundamental issues, it seems to be directing its efforts at shoring up supplier balance sheets, and profits, by increasing retail prices for consumers – a soft target – with the very real potential of further increasing debt levels.

12) Ofgem has indicated that it engages with government, however the results of that engagement seem limited. As long as government recognises the possibility that consumers will shoulder the burden of what amounts to a 'stealth tax', it will not tackle underlying issues such as inadequate welfare arrangements and a low wage economy. The SPF appreciates that Ofgem's powers are limited by its terms of reference, however that should not prevent it being more proactive and robust in its dealings with government, rather than perhaps being too ready to protect supplier interests.