SO ENERGY

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Email: priceprotectionpolicy@ofgem.gov.uk

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"Additional debt costs review consultation" – So Energy Response

Dear Dan,

So Energy is a leading energy supplier providing great value renewable electricity to homes across England, Wales and Scotland. We have consistently been recognised by our customers and the wider industry for our outstanding customer service since we were founded in 2015, including being a Which? Recommended Provider and have topped the Citizens Advice's Supplier League Table. So Energy is one of the early adopters of the EUK Vulnerability Commitment launched in 2020, helping create a better customer experience for vulnerable customers year on year. In August 2021, So Energy merged with ESB Energy, and our combined business now supplies around 330,000 domestic customers. As one of the last challenger suppliers left in the market and one that is backed by ESB's resources and expertise, So Energy is able to provide a unique view of the quality of service in today's energy market.

We have worked closely with Energy UK on their response to this consultation and share with the concerns raised in that response. Please refer to the Energy UK response when assessing our views, except with regards to reconciliation, which we have commented upon separately, in this response.

Simply put, the allowance is too low. By taking a lower quartile approach, Ofgem is concluding that suppliers are systematically over provisioning for bad debt. If true, this would have far wider implications beyond the allowance – for example, it would imply that suppliers are pricing their non-price capped tariffs higher than they need to, as they're over-provisioning for debt. In reviewing the consultation, we haven't seen any evidence from Ofgem that suppliers are systematically over-provisioning, therefore, a weighted average approach is adopted. This minimises the likelihood of putting a particularly large true up on the bill in 2025.

Energy UK's response notes that there are differing views among energy suppliers on whether some sort of reconciliation mechanism should be applied to the true up. We oppose the adoption of a reconciliation mechanism. The stated rationale for pursuing a reconciliation mechanism is that certain customer types have a greater propensity towards bad debt and that certain suppliers have a higher proportion of these customer types. However:

1. Finding accurate proxies for the ability to pay of different customer portfolios is going to be essentially impossible. Suppliers don't know the income and financial circumstances of the vast majority of their customers. If reliable data of this nature did exist, then the single greatest obstacle to providing a social tariff and helping less well-off customers avoid getting into debt in the first place would be resolved. But this obstacle does exist, and it is a fundamental one.
2. Reconciliation may directly incentivise suppliers to pursue more aggressive debt collection practises, which may lead to suffering and distress for indebted customers. We are aware of one proposal whereby suppliers would have to pursue the force-fit of prepayment meters in order to 'qualify' for reconciliation payments. This is a perverse incentive and should be avoided.

3. Pursuing reconciliation provides further uncertainty around the pricing of uncapped tariffs. At present, we do not know how Ofgem would collect the funds needed to facilitate reconciliation, therefore it is impossible for suppliers to accurately price in this risk, and risks attract risk premiums. Ofgem should rule out reconciliation as a priority in order to provide greater certainty of pricing to suppliers and lower the cost of energy.

I hope you find this feedback helpful. If you wish to discuss further, please don't hesitate to get in touch.

Yours Sincerely,

Paul Fuller
Head of Regulation
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