utilita
life with power

Ofgem
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Dear Dan

We are writing in response to Ofgem's Additional debt costs review consultation.

We endorse the points made in EUK's response to this consultation.

The following comments are non-confidential further to the EUK position.

The existing proposal to limit the bad debt allowance from April 2024 to exclude customers served by Prepay meters would be a missed opportunity to strengthen the alignment of Prepay and Direct Debit customers. Extending an allowance to prepay customers would bring the following benefits to all customers and address the points below.

Sharing the bad debt allowance to include prepay customers would naturally share the cost burden across a larger cohort of customers. We have not computed the maths to see what a larger customer number of circa 4.5M customers may look like based on the lower quartile. The financial value arrived at, is simply an output of this shift in approach and the principle is sound. All customers are charged less individually through broader socialised charging.

This approach also lends itself to the principle of equalising DD and PPM charging. The economic point above (which benefits all customers in aggregate) is further endorsed by a consistent approach where the optics of equalisation are clear, obvious, and merited.

The existing plans which exclude PPM customers, carry the risk of creating a perverse incentive on suppliers to provide an energy payment option which may be inconsistent with a customer's best interests. Currently, there is a significant pent-up demand of financially vulnerable customers which the industry has been unable to move from a credit meter to a prepay meter (due to moratorium on involuntary PPM installations). Utilita is not unique in this respect. Disengaged/unable to pay/refuse to pay customers, has seen our credit customer debt position increase by 44% in the 12 months to January 2024. This can be contrasted with a 23% move in the previous 12 months when Involuntary PPM changes were an option to move customers to the appropriate payment type for their circumstances.

The risk here is that a supplier may opt to leave a customer in credit mode to secure any bad debt provision. At scale this is a consideration, and the risk of individual customer detriment cannot be ruled out should an approach be adopted.

Ofgem should therefore ensure customers are placed onto the most appropriate payment arrangement (necessarily inc prepay) to avoid this perverse incentive being a factor.

Applying a retrospective allowance is recognition of exceptional debt movements. It would be illogical therefore to disallow future PPM customers who have been in credit mode (through no fault of the supplier) from this bad debt allowance to provide a rounded and robust position.

As a minimum in any true up considerations, we would expect suppliers and customers in the appropriate energy payment types had the appropriate bad debt adjustments reflected in the price cap and therefore energy bills.

Yours sincerely

Robert Cameron-Higgs
Director of Regulation & External Affairs