Utility Warehouse

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Energy Price Cap: Additional debt-related costs allowance - UW response

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Utility Warehouse was one of the first 'challenger' brands when it entered the retail energy market over 20 years ago, and we have a unique perspective in that we operate across numerous regulated markets: energy, telecoms and insurance. Today we serve over 950,000 households.

UW overarching view

Addressing debt-related costs in the industry is both an urgent and high impact issue that requires Ofgem's immediate attention. We welcome the chance to comment on the updated proposals, as they see a shift from the preferred options set out in the policy consultation. We are supportive of the response from Energy UK and in the absence of questions, set out our main points below.

1. General approach

We agree with the proposal for a float and true-up process. The adjustment allowance should initially be introduced for 12 months with a true-up mechanism based on updated cost information. This additional allowance may be needed for some time, certainly longer than the initial 12 months period, given that we are in what is expected to be a prolonged period of high energy prices and an ongoing cost of living crisis, both contributing to high instances of bad debt and an additional allowance will therefore need to last until the broader operating cost review has been implemented.

We also agree that the adjustment should only be made to the unit rate, that it should include the costs of the prepayment moratorium and that costs should be recovered equally over Standard Credit (SC) and Direct Debit (DD) as it better reflects where the debt has accrued.

We look forward to the next stage of the operating costs review where an enduring solution can be developed.

2. Lower quartile approach

We do not agree that a lower quartile benchmarking approach should be used to calculate the cap adjustment and would like to reiterate our reasons why. Adopting a lower quartile approach in any of the benchmarks (Bad Debt, Working Capital and Debt Administration) carries a significant risk of misrepresenting costs. For example, a supplier may only be achieving lower quartile in one component because it is achieving a higher quartile in another. It could also be the case that a supplier appears to be in the lower quartile in debt-administration because it is cutting corners. At a time when investment in debt administration is so vital, Ofgem should avoid building in risk of an unreflective cap that could drive underinvestment or irresponsible behaviour.

Increased energy prices and the associated cost of living crisis have had unavoidable effects on a wide demographic of energy consumers. The vast majority of the resultant increased bad debt costs are completely outside of the supplier's control and so efficiency savings will never bring average debt costs down to lower quartile levels. It is therefore wrong to use a lower quartile approach rather than weighted average.

In the statutory consultation we supported a weighted average approach to avoid this problem. This would promote sustainable competition because it avoids the unintended consequences set out above, reduces the risk of material under recovery, improves the resilience of the sector, and is the most effective in incentivising efficiency.

3. No planned adjustment for inflation

Adjustments should be made periodically to account for inflation. Inflation is a real cost that all businesses incur so the allowance should be uprated to account for this.