

12 July 2024

Chris McDermott
Deputy Director, Retail Pricing and Systems
Ofgem
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London
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Email: regulatoryaffairs@utilita.co.uk

Dear Mr McDermott

RE: Additional Support Credit Extension Consultation

Thank you for the opportunity to comment at this early stage of policy development for allocating the bad debt related costs associated with Additional Support Credit (ASC) under the price cap.

We agree with Ofgem's minded-to position to extend the existing ASC bad debt allowance beyond September 2024 until an enduring operating cost review is implemented.

It is Ofgem's view that the bad debt provisions remain consistent with the estimation when setting the original allowance, but this can only be a valid allowance where all suppliers are equal in their provision of ASC. Utilita is the leading provider of ASC in recent years, most notably, we issued:

- 1,375 electricity ASC payments per 10,000 prepayment meter accounts, which is 921 more than the market average.
- 1,076 gas ASC payments per 10,000 prepayment meter accounts, which is 677 more than the market average.

Despite serving 19% of all prepayment customers in the GB market, we paid out over 40% of all ASC's (£) made to prepayment customers in the same period.

We are clearly an outlier, and this is not sustainable in a price capped environment where we expect Ofgem to adjust allowances to an efficient supplier. Coupled with the new Capital Adequacy rules, deviation from the average introduces significant risk to Utilita.

Ofgem have clearly stipulated in their letter dated 29 May 2024 *"there to be a high threshold before suppliers can properly determine that issuing ASC is not in the 'best interest' of a customer in a vulnerable situation... We consider the risk and extent of serious detriment from self-disconnection should, in almost all circumstances, override the risk of increasing consumer debt when considering ASC provision for customers in vulnerable circumstances."*

This is clearly inconsistent with the price cap and financial resilience obligations and guarantees an almost an open tap for ASC to be perpetually provided. Customers are savvy and this message reinforces a won't pay culture with many customers simply expecting energy to be provided for free.

As a prepay specialist, we are not seeing a reduction in the need for ASC at this time however, it must be noted that any future variance in the allowance (through a true-up mechanism at a later stage or through

the operating cost review implementation) should not be reduced without a thorough and extended adjustment period for customers. The reduction, or altogether removal of an ASC bad debt allowance, will require a significant, clear and coordinated communication plan to customers to ensure that operationally, additional support can be reduced without increasing the operational costs (and thus the regulatory risk).

Whilst we are committed to supporting our customers, particularly the most vulnerable and pride ourselves on our ability to do this well, we need to ensure that this is sustainable and that the rest of the market steps up. We'd be more than happy to discuss this with Ofgem in more detail.

Yours sincerely

By email only

Faye Widdowson
Head of Regulation