

Daniel Newport
10 South Colonnade,
Canary Wharf,
London,
E14 4PU

Email: Priceprotectionpolicy@ofgem.gov.uk

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“Energy price cap operating cost and debt allowances consultation” – So Energy Response

Dear Daniel,

So Energy is a leading energy supplier providing great value renewable electricity to homes across Great Britain. We supply over 300,000 customers and as one of the last challenger suppliers left in the market and one that is backed by ESB Group’s resources and expertise, So Energy is able to provide a unique view of on the state of competition in today’s energy market.

We welcome the opportunity to respond to this consultation. We have also inputted into Energy UK’s response and agree with the key points made in that consultation response. We also have our own additional comments. Our key points are as follows:

- The move to a weighted average approach and the indexing of costs to CPIH are welcome. However, that does not remove the need to account for additional upward cost pressures that could quickly outstrip the levels of funding proposed in this consultation. To name some examples:
 - National Insurance Contributions and National Living Wage increases are expected to outstrip CPIH.
 - 4G comms upgrades for smart meters and Market-wide Half-Hourly Settlement are also expected to have operational impacts on the business that aren’t currently funded.
 - Ofgem’s draft Consumer Debt Outcome states that customers will be able to ‘sustainably manage their debt or arrears’ in all circumstances – which implies a widespread and sustained write-off of debt and ongoing energy costs at a level that is far beyond the funding proposed in this consultation. In the absence of action from the government on affordability, Ofgem’s expectations of suppliers when managing debt at an individual account level need to align with how suppliers are funded to manage debt through the price cap.
- A mechanism is needed to more quickly account for changes in operating costs, especially when what is driving this upward pressure is foreseeable.
- We consider Ofgem’s proposed approach for allocating costs across payment methods to be appropriate. We are aware that other stakeholders have argued that the debt costs associated with Direct Debit (DD) is overstated and the debt costs associated with Standard Credit are understated. However, these arguments typically centre around debt provisioning, which doesn’t account for debt accrued by customers prior to cancelling their DD. Beyond this, the current approach provides a financial incentive to both consumers and suppliers to use the DD payment method. As the payment method with the lowest cost to serve, this lowers the overall cost of energy in Great Britain.

We would be more than happy to discuss these issues with you further. Please don't hesitate to get in touch.

Kind regards,

Paul Fuller
Head of Regulation

