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By email to: [Retailpriceregulation@ofgem.gov.uk](mailto:Retailpriceregulation@ofgem.gov.uk)

Dear Anna

## **Reviewing the potential impact of COVID-19 on the default tariff cap: cap period seven working paper<sup>1</sup>**

Centrica welcomes the opportunity to respond to Ofgem's working paper. Our comments at this stage are confined to a few high-level points and we reserve our position on the detail:

- We agree that the precise impact of Covid-19 on additional debt related costs for price cap period seven is uncertain. It is nevertheless appropriate for Ofgem to consider the need for a further float in the light of the available evidence and to set such a float if the evidence shows that suppliers are likely to incur material additional costs due to COVID-19.
- We note that the two options Ofgem proposes are to retain its existing methodology or to modify it by applying additional filters. However, we cannot comment meaningfully on these stylised options in abstract and therefore reserve our position.
- As with the initial float for cap period six, we agree in principle that a further float should be set conservatively. Given the provisional nature of any float, the precise methodology used to derive it may not be as critical as it will be for the subsequent true up – which the float methodology cannot prejudge.
- We maintain our previous view that additional debt-related costs due to Covid are not fundamentally a matter of efficiency but are likely to be driven largely by customer mix.
- It follows that true-up should be based on representative additional debt-related costs actually incurred by suppliers (using a weighted average rather than lower quartile benchmark).
- As noted in response to Ofgem's separate call for input on true-up, the ultimate cost will take some time to determine. Current bad debt expense is reflective of actual ageing of balances, but accounting provisions necessarily rely on estimates of what default rates will be. Such estimates are inherently uncertain given the unfolding nature of the pandemic and public policy response to it.

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<sup>1</sup> [Price cap working paper – Reviewing the potential impact of COVID-19 on the default tariff cap: cap period seven | Ofgem](#)

- We see no compelling justification for an arbitrary 'sharing factor' especially in circumstances where the sector remains structurally loss-making.

We look forward to engaging further on these issues in due course.

Yours sincerely

Don Wilson  
**Head of Retail Market Policy**