



Bulb
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Mick Watson
BY EMAIL

27 August 2020

Dear Mick

Bulb response to Ofgem consultation on managing bad debt arising from the network charge deferral scheme

Allowing networks to recover all of the bad debt from the network charge deferral scheme during 2021/22 will not deliver on the original objective of the scheme. As Ofgem says in the letter of 7 August 2020, the scheme was designed to “minimise disruption to customers and other market participants” in particular because of cash-flow issues caused by Covid-19. We do not think the economy will be fully recovered by April 2021, as Ofgem has acknowledged through its other work on stress testing and bad debt costs within the price cap. We encourage Ofgem to consider the negative consequences of their proposals and to consider our alternative recommendations.

These are three likely effects of Ofgem’s proposal:

- 1) **Customer costs.** Any cost increases for suppliers will likely be passed through to consumers during 2021/22. This will be at a time when the British economy has not recovered fully, unemployment could still be high and consumers may be struggling to make payments to their energy supplier.
- 2) **Supplier liquidity.** Requiring solvent suppliers like Bulb to pay off the bad debts of suppliers who used the scheme but who have not met its payment terms during just 2021/22 could worsen the liquidity situation of those solvent suppliers. At this point, there is no certainty that either Ofgem or Government support will be available during spring 2021 to alleviate these liquidity issues.
- 3) **Simplicity.** Ofgem’s proposed approach of estimating and then reconciling bad debt faced by the networks creates uncertainty for well-run suppliers like Bulb. The more that Ofgem recalculates and reconciles these numbers, the more rework required by suppliers for no discernible benefit.



Bulb recommendations

It would give more certainty to suppliers if the changes to charges caused by bad debt were based on actual data rather than estimates that later need to be restated. This allows suppliers to better manage their finances and avoid some of the issues set out above.

Our preference is for the debt to be recovered over the whole price control period. For gas distribution, this would mean 2021 to 2026. For electricity distribution, this would mean 2023 to 2028. Ofgem has already proposed incorporating bad debt from this price control into the next price control period for gas. For consistency, the same approach should apply for electricity.

Looking at the proposals considered by Ofgem, we do not see an option which involves the networks absorbing some of the bad debt, as suppliers and other market participants have. We would welcome Ofgem reviewing the relative allocation of scheme bad debt between suppliers and the networks. It is unclear to us whether all of the bad debt should be paid for by solvent suppliers in 2021-22.

Bulb recognises the efforts made by Ofgem and the networks to provide short-term liquidity to distressed suppliers because of Covid-19. It is important for consumers that we maintain a healthy competitive energy market. We would like Ofgem to work with energy suppliers as well as the networks on an appropriate timeframe and approach for covering bad debt.

Yours sincerely

Tom Lowe

Interim Head of Risk and Regulation