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Anna Rossington
Deputy Director, Ofgem

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By email RetailPriceRegulation@ofgem.gov.uk

Dear Anna

Bulb response to September 2020 policy review of the potential impact of COVID-19 on the default tariff cap

Bulb supports the Ofgem price cap where it reduces costs for energy consumers. We don't support the price cap increasing in April 2021. Increasing the cap would allow the incumbent suppliers to charge their customers more when most forecasters expect unemployment to have increased.

Ofgem introduced the price cap to ensure customers didn't pay an unfair price for their energy. Price increases shouldn't be targeted at those who can least afford to pay. Ofgem has demonstrated that vulnerable groups are more likely to benefit from the cap.¹ Increasing the price cap risks undermining the benefits of introducing the cap in the first place.

Efficient energy suppliers should keep costs low, including bad debt costs. Efficient suppliers should use technology to collect debt sympathetically and in a sustainable way for customers. For instance, Bulb works with an open banking partner, Tully, to assess our members' ability to pay and to offer appropriate support.

We want to encourage members to work with us to manage their energy debt. To do this, we have established a sympathetic approach to debt collection, using a range of contact methods such as email, SMS and outbound calling, as well as regularly revising our comms to make sure they're accessible. We also partner with Citizens Advice Plymouth to help members manage their finances and check their eligibility for other financial support.

It would be wrong for customers on default tariffs to be charged higher prices by incumbent suppliers for bad debt relating to all of their customers, including those on cheap fixed

¹ Ofgem, State of the Energy Market (2019), para 4.56

tariffs. This also creates a vicious cycle, with customers unable to pay facing higher prices because their bad debt leads to a higher price cap. The Ofgem allowance should only reflect bad debt that the supplier has incurred efficiently and only in relation to those members on default tariffs.

Any changes to the price cap methodology must be based on actual data as far as possible. It should not be possible for suppliers to increase their prices in April 2021 for bad debt costs that they might not incur. We support Ofgem continuing to request data from suppliers during the winter to understand any changes in underlying bad debt costs. If bad debt rises less than forecast, then Ofgem should ensure that the price cap is lowered in the future. We also encourage Ofgem to establish best practice to ensure suppliers are collecting debt efficiently and to ensure there is no incentive for incumbents to perform poorly on bad debt collection.

More generally, we know that some consumers will be unable to absorb the financial cost of coronavirus. The true extent of this financial hardship may not become apparent until cap periods five (October 2020 to March 2021) and six (April 2021 to September 2021). It may be necessary for the Government to provide targeted support through hardship grants or loans to help consumers manage their debt across essential service markets.

Best wishes

Tom

Tom Lowe

Head of UK Regulatory Affairs
Bulb