The voice of the energy industry

Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

26 July 2023

Dear Marcus,

Thank you for the opportunity to respond to the statutory consultation on introducing an allowance for bad debt associated with Additional Support Credit (ASC). This is alongside our submission to the statutory consultation on involuntary prepayment (PPM).

It is vital for good customer engagement and positive service outcomes that consumers can trust their energy suppliers. This involves ensuring that customers receive appropriate support from their suppliers, including the issuing of ASC. We welcome Ofgem's aim to ensure that current expectations of support are delivered.

When considering how Ofgem can ensure suppliers spend ASC allowance to help PPM customers stay on supply, it is important to recognise that any unspent money by suppliers is recovered and therefore emphasis should be on ensuring it is spent effectively – there is no disincentive on a supplier credit where suitable. There is no need to "ensure suppliers spend", especially when they are effectively spending other customers money. There is not yet certainty of the impact of the new PPM regulatory requirements or the level of customer need that will require ASC support this winter. Therefore, Ofgem should not draw any conclusion on the level of support that is provided versus that which is estimated at this point in time.

We encourage Ofgem to focus on ensuring that suppliers can effectively target those that need it through better access to data.

Our members broadly welcome the Additional Support Credit allowance proposal[1]. However, it should be noted that for efficient costs for customers under the price cap there needs to remain an incentive on suppliers to help customers manage their debt and avoid involuntary prepay in the first place. This incentive is vital to drive suppliers to reduce the cost of serving prepay customers - through for example, installing smart pay as you go meters. It is weakened if there is an approach to "ensure suppliers spend" and recover all costs.

[1] Octopus Energy wishes to make clear that it does not support this proposal as it considers the proposed implementation to be flawed and that it would reduce the incentive on suppliers to manage debt effectively. Instead, Octopus Energy encourages Ofgem to consider the cost of bad debt and payment differentials in the round as part of its price cap operating expenditure review.

It should also be noted that our concerns regarding the "float and true-up" approach that was used for Covid debt in the Debt Recovery consultation also apply that it was a highly complex and time-consuming process. If such an approached was used, Ofgem should work with suppliers to ensure any such process is efficient and timely. This must be balanced with ensuring that efficient suppliers who deliver on their regulatory requirements for PPM customers have confidence that they will be able to recover the costs of providing ASC.

We support the decision for costs to be allocated to the PPM cap on the assumption that it is currently being levelised in cost with direct debit through Energy Price Guarantee support. Most of our members expect Ofgem to come forward with a plan to socialise this levelisation across bills as requested by the Government[2].

We also welcome the update on the debt-related costs review which sets out that as the evidence of benefits and costs of both the moratorium and licence changes become clearer, that this evidence will allow Ofgem to collate a stronger evidence base on the real-world debt impact. However, suppliers' commitment to the code was in combination with the understanding that they could recover the additional costs that will result from the new restrictions on involuntary prepayment, and it is disappointing that a process for suppliers to recover bad debt and other wider operational costs is yet to be put in place. It is critical that Ofgem deliver on this commitment and introduce an allowance into the Default Tariff Cap to enable suppliers to recover costs at the same pace at which this code will become binding.

Wider operational costs resulting from the code that suppliers will incur as a result of the new regulatory changes, including operational costs such as staff increases, changes to IT systems and processes, and ongoing higher working capital requirements. We welcome Ofgem's recent Request for Information on 'Debt related costs in the Default Tariff cap' and suppliers will submit information on the extent of these additional operational costs. The operational costs to suppliers should also be factored into the impact assessment alongside bad debt.

We would welcome the opportunity to discuss further any of the issues discussed.

Kind regards

Ed
Senior Policy Manager
Energy UK

[2] Octopus Energy does not support any supplier levy or reconciliation mechanism to deliver payment levelisation, as it is concerned it would introduce moral hazard.