



3rd Floor North
200 Aldersgate Street
London EC1A 4HD
Tel: 03000 231 231

citizensadvice.org.uk

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Dear Marcus,

Statutory consultation on introducing an allowance for bad debt associated with Additional Support Credit

We support the actions taken to tighten up the rules on when and where prepayment meters (PPMs) can be installed, including as set out in the statutory consultation on Involuntary PPM¹. We also agree that suppliers' efficient costs should be recognised within the retail price cap. We accept that bad debt associated with Additional Support Credit (ASC) can be reasonably expected to increase and so introducing an allowance is appropriate.

We do, however, have concerns with the rationale Ofgem has provided for this proposal and the method used for setting the allowance. In particular, we would highlight:

- The requirement for suppliers to provide high levels of care for consumers and comply with rules should not be linked to funding. Compliance should be ensured through comprehensive monitoring and enforcement.
- It should be recognised that the price cap still provides funding to suppliers when there is not a specific allowance. The proposed temporary allowance should be reduced by an estimate for the baseline level of ASC bad debt costs.

Compliance should be ensured through comprehensive monitoring and enforcement

Ofgem seeks to justify this allowance by claiming it will increase the likelihood of suppliers adhering to the rules². This implies that compliance is a choice for suppliers. Ofgem should make it clear that supplier views on the adequacy of price cap allowances are not acceptable reasons for failing to meet expectations. Compliance should be ensured through comprehensive monitoring and enforcement.

¹ [Statutory Consultation - Involuntary PPM](#) Citizens Advice is replying separately to this consultation

² 'To ensure that those expectations of support are delivered in reality...'

Whilst it is right that consideration is given to ensuring suppliers can recover an efficient level of costs, with a particular regard to financeability, this should not be conflated with compliance. This would set an unwelcome precedent.

Baseline funding should be assumed regardless of specific allowances

Ofgem claims providing an allowance for the full weighted average ASC bad debt costs is justified as there is currently no specific allowance for ASC bad debt in the PPM cap³. This is not a safe assumption as it is likely that funding is implicitly included in the price cap within current debt allowances. A 'headroom' allowance also exists to cover costs that may not be captured in specific allowances.

Again, it would be an unwelcome precedent to accept that not having a specific allowance means that funding has not been provided. To resolve this, we suggest that the allowance should be the difference between Ofgem's Central and Low scenarios. All of the scenarios shown are reasonably arbitrary as it is not clear why movements in ASC debts, between 2021/22 and 2022/23, are instructive for the different set of circumstances that will be relevant from October 2023 (when the proposed temporary allowance would take effect). Taking the difference between the Central and Low scenario would be an improvement as it recognises that some funding will already have been implicitly provided. By effectively baselining to 2022/23 costs, this is also more consistent with providing an allowance to reflect the relevant changes that have occurred since 2022/23.

Please contact me if you would like to discuss this response further.

Your sincerely,

Andy Manning,

Principal Economic Regulation Specialist

³ 'Given there is currently no specific allowance for ASC bad debt in the PPM cap, we consider that we should provide a temporary allowance for the full weighted average ASC bad debt costs...'