

Non-confidential

23 January 2025

Dear Danny,

Please find below our response to your consultation on proposals to extend the additional debt adjustment allowance in the energy price cap and the wider review of additional debt adjustments.

Proposal 1: To extend the current additional debt adjustment allowance (float) until the operating cost review is implemented or September 2025, whichever is sooner.

We agree with this proposal. If Ofgem has observed that debt-related costs remain above the level of permanent debt-related allowances, it is sensible to extend the current additional debt adjustment allowance until the new forward-looking consolidated debt allowance is introduced. This will avoid a potential allowance gap in 2024/25 and reduce the chance of supplier under-recovery. However, we are also conscious of the impact this allowance has on energy bills, and Ofgem should use the wider operating cost review to ensure that future debt-related cost allowances are set at the appropriate level.

Proposal 2: To not conduct a broader true-up exercise of the additional debt adjustment allowance at this time, but at a later point alongside potential interactions with wider interventions on debt.

We agree that Ofgem should not conduct a true-up of the additional debt adjustment allowance. We do not see a reason for Ofgem to carry out a true-up exercise now or in the future, especially when Ofgem has found only a very small difference between the value of the allowance based on estimated and actual data. It is right that Ofgem has used the latest industry data to review the level of the allowance, but a full true-up exercise would be a time-consuming and resource-intensive complex process with little to gain. Instead, Ofgem should focus on debt costs in the context of the wider operating costs review and setting the new forward-looking debt allowances.

Proposal 3: To not adjust the ASC bad debt allowance at this time, but at a later point as part of a wider debt-related true up exercise.

We agree that Ofgem should not seek to implement an adjustment to the ASC allowance at this time. As above, we also believe there is no need to conduct a wider debt-related true up exercise (including ASC bad debt) in the future, as this will be a time-consuming and complex process. Ofgem should instead focus on ensuring the new debt-related cost allowances are set at the appropriate level and the outcomes of the operating costs review are implemented as soon as possible.

If it would be helpful, we would be happy to discuss this response further with you.

Yours faithfully,

Alexandra Meagher
Group Head of Regulation