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21 January 2025

By email: [retailpolicyinterventions@ofgem.gov.uk](mailto:retailpolicyinterventions@ofgem.gov.uk)

## **RE: Energy Price cap operating cost and debt allowances consultation: Overview**

Daniel,

I have been calling for Ofgem to reduce the excessive size of consultation documents for a couple of years now, to make them more accessible to the public. I hate to be someone that appears to just never be pleased, but I do think Ofgem have over corrected with this particular consultation.

In 43 pages you have:

- Two separate consultation deadlines
- A summary consultation on operating costs
- A consultation on debt adjustment allowance extensions
- A decision announcement from the ‘Standing charges: domestic retail options’ consultation from 2024.
- 11 Appendices – meaning this still isn’t really a smaller document.

Typically, each of these would have their own document/announcement on Ofgem’s website. It is particularly bad form to have a consultation that is advertised as having a deadline of 06 February on the Ofgem website but then to have part of that consultation actually due on 23 January 2025, with this date only visible once you’ve opened the downloadable attachment to the consultation or hidden at the bottom of the text on the Ofgem URL. It’d be nice for this information to have been placed at the top with the main publication closing date. This is the first time I’ve seen Ofgem have two separate consultation deadlines within a single document, **I’d like to request that Ofgem do not make a habit of this style of consulting as it adds an unnecessary layer of confusion and can easily lead to someone missing a deadline response.**

With that being said, this response covers both sections of the consultation, please see my comments below.

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## **Debt-related cost allowances**

Look, you have to stop putting on allowances for a set period of time then just extending them indefinitely. It's not right.

Ofgem decided to add debt-related allowances to the price cap and put in place no stipulations for suppliers to use that money to clear debt for customers. Most suppliers do not use it for that purpose, instead they employ more debt collectors, send more harassing communications to customers, hire call-centre staff to relentlessly call customers, things of that nature.

Most consumer groups and charities warned Ofgem prior to these allowances being accepted that they would not benefit consumers, they would not benefit the vulnerable, nor would they benefit those with significant debt levels. Lo and behold, debt levels haven't dropped, because people cannot afford to pay off their debt. This money is being used to put more pressure on those that are financially struggling, whilst simultaneously increasing energy bills for everyone, pushing more people into debt.

In economic theory there is a concept called "Government failure". This is where Governments put in place a policy to tackle a problem, but inadvertently that policy actually worsens the problem. This is exactly what Ofgem are doing with the debt-related cost allowances.

I look forward to reading the two debt-related consultations you have live on the website at the moment, I have a feeling I'm going to be in agreement with the idea of bulk clearing debt. I actually don't mind paying a little extra on my energy bill if that money is going to go directly to someone that is struggling to pay their bills, I just find it difficult to swallow that you've increased everyone's bills with no stipulations that the increase in revenue for suppliers is to be used to actually help people. I do not want my energy bill money being used to hire debt collectors to chase the financially vulnerable.

There have been THREE debt-related cost allowances added to the price cap in the last two years. Shockingly, they've not helped consumers in the slightest. You've extended one indefinitely, you're now consulting on extending another one that has proved useless and adding a fourth allowance which might actually finally address the problem.

To be clear, my thoughts on this is that you agreed the debt-related costs would be removed from 31 March 2025, you should stick to your word. I do not agree with any proposal to extend the current debt-related allowances beyond this deadline. Instead you should focus on the proposal to add an allowance that is specifically used to CLEAR DEBT. Actually forgive the debt of consumers that cannot afford their bills, help them out a little.

One question you should ask yourself: How much have suppliers spent on debt collection services over the last three years? How much debt could they have wiped off



## **Regulating our Regulators**

for consumers, giving them a helping hand during the worst financial and energy crises we've seen in two decades? The concept of giving energy suppliers more money to “manage debt levels” has now been proven to be flawed, by your own metrics and graphics\*. So please, do the right thing, get rid of this debt related allowance and start bringing down people's bills a little.

Furthermore, let me say that Paragraph 3.2, quoted below, is a little infuriating:

*"Since April 2024 the cap has included a temporary ex-post allowance for the additional historic debt costs incurred by industry between April 2022 and March 2024. We decided to set this allowance using a 'float and true-up' approach. This meant setting an initial 'float' allowance, due to the use of estimate data for winter 2023/2024. When the actual data became available, we intended to carry review to determine whether a true-up was appropriate. Incorporating the actual data into our analysis, we now consider that the float allowance was broadly appropriate (resulting in suppliers over-recovering relative to our intended benchmark and allocation of costs by around £2.50 per customer) and do not propose to implement a true-up adjustment of the float at this time.*

I know £2.50 across a year isn't going to save anyone's life, but I find it disgusting that every-single-time Ofgem need to INCREASE the cap by £2.50, it happens, because we can't have suppliers going without, but if there is a decrease to happen to the benefit of customers Ofgem's stance is “we do not propose to implement a true-up adjustment of the float at this time”. I guarantee that if this had been the other way around, if it had been that customers were underpaying by £2.50 you'd have increased the allowance by £5 to bring the cost up to where it should be and to allow suppliers to recover their costs.

I'm calling on you to do the right thing here and give consumers their money back. Across 30 million homes, that £2.50 equates to £75m which could help reduce the debt burden in the energy industry if customers are having lower bills. At the very least, it's £75m of debt that won't be getting added to the current burden!

\* <https://www.ofgem.gov.uk/publications/debt-and-arrears-indicators>

### **Operational cost allowances**

Paragraph 2.14 discusses how Ofgem's price cap only controls the revenue a supplier receives and does not control the service they provide or the amount they invest, specifically talking about customer service standards and increased innovation. You go on to say that you “consider it plausible, at the margin, that improvements to these outcomes may be achieved through some combination of competitive pressure and voluntary action by suppliers.”

I find it naïve of Ofgem to consider that voluntary action will be taken by any supplier other than Octopus Energy, who have proven themselves over time to be an exception to many rules that apply to suppliers.

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Additionally, your introduction indicates that £11 minus £5 is somehow £7 (I've assumed rounding errors here), and your paragraph 4.26 then tells us that this therefore means we'll see a "roughly £10" decrease in our bills... which is what I call "creative mathematics".

I'm on board with any decrease in consumer bills, but it does not feel like Ofgem have done us a favour here. It feels like there are greater reductions that should be given to consumers and that you've found ways to minimize the benefit to consumers significantly. The additional debt-related cost allowances that have been perpetually renewed and extended are costing hundreds of millions of pounds per year to UK consumers.

And your answer to that is a "£10" reduction per year to each household, which isn't actually even a £10 reduction, it's just a statement that bills would be £10 lower today if these new rules existed. By the time you get to giving this reduction out, we're expecting at least two more increases in the price cap (according to Cornwall Insights) in both April and July 2025, so consumers will see no effective benefit of this correction.

I am also frustrated that we are not discussing a true up of operational costs. When suppliers lost out on profits in 2022 because of Ofgem's delayed price cap updates and slow reaction to the energy crisis, you implemented new allowances to give suppliers huge profits in 2023 under the guise of allowing them to recoup lost profits (which has to be malarkey, because no one company should have gotten a 10x multiplier on profits over a single year!). However, the conclusion of your operation costs review is that customers have been overpaying operational costs to the tune of c.£350million per year, but there is no conversation about recouping that money for the benefit of customers?

Why is that the case? Why are we not doing a true-up to ensure consumers aren't needlessly overcharged, to ensure we get our money back and can be made whole? Your job isn't just to ensure the stability of suppliers, it's also to ensure the stability of the customers. At which, I must say, Ofgem are failing.

## **Summary**

Thank you for taking the time to consider my response. I would appreciate a written response to my questions above, you can reach me at [Richard@TheRegulatorGuy.co.uk](mailto:Richard@TheRegulatorGuy.co.uk).

This is a non-confidential response.



To summarise my key views on this consultation document:

- Debt-related allowances should be removed, bringing down customer bills
- Debt-related “over-recovery” from the past 12 months should be paid back to customers
- Operational costs should be further reduced by giving us a true-up of the overpayments consumers have made over the last 5 years
- The decision not to move any allowances from standing charges to unit rates is a poor one, that needs revising immediately and should have been acknowledged in its own separate announcement.

Kind regards,

**Richard Winstone**

**The Regulator Guy**

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