Monday 12 October 2020

To: Retail Price Regulation, Ofgem
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Consultation response: COVID-19 Impact on the Default Tariff Cap

Retail Price Regulation Team -

We consider this consultation paper to be an accomplished piece of research into a solution for addressing the mounting cost impacts attributable to the economic effects of the COVID-19 crisis.

In summary, we follow and support the report's logical path towards isolating the requirements that will allow the residential supply sector to manage debt-related costs with due resilience over the coming period. The actions identified are narrow and targeted. We agree with the report's key conclusions, including that:

- The Adjustment Allowance is the right device, and could be removed at a later date without affecting the underlying price cap methodology
- Debt-related costs specifically represent a 'clear and material systematic departure from efficient costs' (2.12)
- An ex-ante adjustment isn't feasible (3.12)
- It is reasonable at this early stage of responsive action to target cost recovery for default tariff customer debt, although this may require broadening later (3.25)
- It is logical to recover costs from all credit customers equally (3.29)
- The float-and-true-up approach emerges as the most appropriate mechanism, given that an ex-post solution would have to overcome an unduly long lag before greater resilience could be delivered (4.22)

We also consider the timeliness of this proposed policy development to be well-judged, particularly if implemented, with float-and-true-up, in time for next April. Implementation should not be delayed, given that participants in the sector may already be behind the curve on protecting customers from the risk of insufficiently managed bad debt accumulation.

We can see, for example, that only a minority of suppliers have comprehensive debt management processes in place. This is evidenced by the small tally of suppliers who are compliant with Standard Licence Condition 27.6. The annex to the last published Vulnerability Report (2019) indicates that the majority of suppliers were yet to reach the stage where they could offer even the mandated customer repayment options. Some of these suppliers have furthermore tended to be both heavily focussed on customer acquisition and (often deliberately) heavily loss-making; whereas the impact of bad debt is an issue relevant to the actual economics of efficient energy pricing.

The proposals will mitigate what would otherwise be a growing and delayed impact on the market and all customers from bad debt. The issues at stake concern market resilience and fair outcomes, and it is appropriate that regulatory policy should take the lead.

Kind regards, on behalf of Utility Warehouse,

Ben Sheehy
Head of Energy Compliance and Regulation