



**Institute of
Money Advisers®**

Assuring quality in the money advice profession

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Dear Dan Norton,

Re: Additional debt-related costs allowance policy consultation

We are writing in response to Ofgem's consultation on adjustments to the energy price cap in relation to debt-related costs incurred by energy suppliers. The IMA is grateful for the opportunity to respond to this consultation, which raises important issues about Ofgem's current approach to energy pricing.

The IMA is the professional membership body for money advisers in the free-to-client sector. Established as a charitable company in 2006, our objective is the relief and prevention of financial hardship, which we achieve by:

- promoting high standards in free-to-client money advice
- providing education and training for money advisers
- advancing the education of the public in money matters, debt and personal finance management.

Proposals to increase the debt-related costs allowance

The IMA **strongly opposes** any further increases to the energy price cap, including any additional allowance for debt-related costs incurred by energy firms.

IMA members consistently report rising levels of energy debt among their clients; this pattern is echoed by other parts of the debt advice sector as well as the energy firms themselves. We are therefore unsurprised by Ofgem's finding that energy debt has reached £2.6 billion, the highest level ever.

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While costs are rising across the economy, putting increasing pressure on household finances, IMA members generally attribute this increase to the rising cost of energy itself. As one IMA member put it:

'We're seeing clients turn up with deficit budgets¹ due to the amount they have to pay towards gas and electricity. They just can't afford to pay the amounts the energy companies are asking of them.'

This member's experience is reflected in figures published by Citizens Advice, who in August 2023 reported seeing 26% more people in energy debt than a year previously, with an average energy debt of £1,711.²

Put simply, gas and electricity bills are now unaffordable for many people, causing more and more of them to fall into arrears.

Against this backdrop, allowing energy firms to further increase their prices under the auspices of recouping the costs of bad debt will make this situation worse, not better, and is likely to lead to further increases in debt levels.

We acknowledge Ofgem's argument that a failure to allow energy firms to recover these costs could lead to instability in the energy market, with consumers paying even higher costs, as happened when several firms collapsed in 2021-22. However, the decision to recoup the costs of energy firm failure from consumers, via the price cap, was also a choice made by Ofgem, and other options would be available should similar circumstances arise in the future. We do not, therefore, accept this rationale for allowing energy costs to increase further.

Recovery of costs attributable to the involuntary PPM moratorium

The IMA is particularly concerned by Ofgem's proposal to allow suppliers to increase their prices to recoup costs incurred as a result of the moratorium on the involuntary installation of prepayment meters (PPMs).

As Ofgem itself acknowledges³, the moratorium was imposed as a result of widespread poor practice and potential rule breaches among energy firms, including the installation of PPMs where customers were particularly vulnerable. Any increase in costs arising as a result of the moratorium is therefore of the energy firms' own making, and should not be passed on to consumers.

The IMA notes that Ofgem has recently permitted an increase in the Earnings Before Interest and Tax (EBIT) element of the price cap, enabling energy firms to make greater

¹ In debt advice, a 'deficit budget' refers to a situation where a debt advice client's notional living costs are greater than their income; this means they are unable to afford all of their essential costs and likely to fall into further debt.

² <https://www.citizensadvice.org.uk/about-us/about-us1/media/press-releases/record-numbers-see-help-for-energy-debt-before-winter-even-hits-citizens-advice-warns/>

³ Paras 4.5-4.6 of the consultation document

profits from standard variable tariff customers than was previously the case.⁴ We recommend that any costs incurred by suppliers as a result of the involuntary PPM moratorium should be funded from this increased allowance.

Alternative considerations

The IMA urges Ofgem to consider the underlying causes of increased levels of bad debt, rather than simply reacting to these issues with further increases in the price cap.

Ofgem should undertake a holistic review of all factors that are contributing to rising energy debt levels in order to determine the most appropriate solutions. For example, where affordability problems are widespread, it may be that the overall level of the cap is set too high.

While we recognise that some of the factors influencing high levels of energy debt may be outside of Ofgem's direct control, a more proactive approach may help reduce the problems of bad debt in the future, improving outcomes for consumers and providing greater stability for suppliers.

The IMA supports other potential solutions for the problem of widespread energy debt, including the introduction of a Help to Repay scheme and a social tariff for gas and electricity. We acknowledge that these would require government intervention, and therefore urge Ofgem to consider how its current powers can be used to help relieve the problem of energy debt.

The IMA would be happy to assist with any review Ofgem chooses to undertake.

We look forward to seeing the outcome of this consultation.

Yours sincerely

Andy Shaw

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⁴ <https://www.ofgem.gov.uk/publications/amending-price-cap-methodology-earnings-interest-and-tax-ebit-allowance-decision>