

# Ofgem Consultation – Additional Debt-related Costs Allowance

## Citizens Advice Scotland response

### Key points

- Consumers are struggling with high energy costs and fuel-related debt. Now is not the time to adjust the price cap and increase energy costs. Doing so will impose further hardship on vulnerable and fuel poor households.
- Adjusting the price cap will not resolve the debt situation for consumers. While it will alleviate pressure on suppliers' balance sheets, by increasing bills, Ofgem's proposal risks pushing vulnerable consumers further into debt.
- Costs associated with the PPM installation moratorium should not be included in any price cap adjustment. The moratorium was a response to suppliers breaching licence code conditions. They should not be allowed to retrieve costs flowing from their failings to comply with the licence conditions.
- Current levels of energy debt underline the case for a social tariff and debt forgiveness schemes.
- Citizens Advice Scotland wrote to Ofgem in August 2023 on debt forgiveness schemes and the need to promote our [Mental Health and Money Good Practice Creditor Guidance](#) across the sector. Our comprehensive guidance provides practical tools and actions that suppliers can utilise to ensure fair and ethical debt collection practices, especially for those who are vulnerable and struggling with their mental health.
- If Ofgem proceeds with this proposal, it must design the price cap adjustment in a way that mitigates impact on vulnerable and fuel poor consumers.

### Consumers are struggling with high energy costs and fuel debt already

- Between September 2022 and September 2023, there has been a 12% increase in page views on Citizens Advice Scotland webpages providing advice for people struggling with energy bills.
- Advice provided by the Citizens Advice Network in Scotland on fuel-related debts has also increased, rising by 34% from 2021/22 to 2022/23. Advice provided on fuel-related debts is projected to rise by a further 8% in 2023/24.
- Taking a longer view, fuel debt advice increased by 55% between Quarter 2 of 2020/21 and Quarter 2 of 2022/23.
- The average fuel debt that clients have has increased, rising by 32% from September 2022 to September 2023. The average fuel debt rose by 4% from 2021/22 to 2022/23 and is projected to rise by a further 23% in 2023/24.

- In Quarter 2 of 2023/24, the average fuel debt clients presented was £2,307.20. Citizens Advice Scotland projects that debt figure will rise to £2,513.93 in Quarter 3 of 2023/24 and £2,664.77 in Quarter 4 of 2023/24.
- These statistics show that rising energy bills impose significant financial strain. Increased energy costs have not occurred in isolation, though. People are also managing rent arrears, food price inflation, rising transportation costs, and a Council Tax increase. Another increase in energy bills will exacerbate the cost-of-living crisis.

**Citizens Alert:** An East of Scotland CAB reports of a man who has an income of £600 per month via Universal Credit. He has a debt of £1300 pounds to his energy supplier and is paying £150 per month. After paying bills, he has £17 per month to pay for other expenses. This man has multiple health conditions, including one that requires him to use a nebuliser multiple times a day, which means he does not feel that prepayment meters are an appropriate solution to managing his high energy costs.

### **Ofgem should not make a temporary adjustment to the price cap for additional debt-related costs**

- Ofgem should not impose an extra financial burden on consumers struggling with high energy costs and existing fuel debt.
- We are concerned about the potentially negative impact of a price cap adjustment on vulnerable and fuel poor households.
- Furthermore, adjusting the price cap risks instigating a debt spiral, whereby consumers in debt struggle further to pay for increased energy bills.
- The rationale presented by Ofgem for adjusting the price cap is that consumer will be worse off if suppliers exit the market because of bad debt on their balance sheets. However, it is unclear that adjusting the price cap will benefit consumers with energy debt absent a supplier exiting the market.

**Citizens Alert:** An East of Scotland CAB reports of a woman who became unable to work due to a health condition. Previously, she had been able to keep up with her energy costs. As she is now unable to work, she is struggling to pay her energy bills, which are £540 per month. A combination of being unable to work and high energy cost has resulted in her accruing a debt of over £2000 to her energy supplier. The client's mental health has deteriorated because of her debt.

### **Supplier costs due to the moratorium on involuntary PPM installation should not be included in any price cap adjustment**

- Ofgem introduced the moratorium on PPM installations because of suppliers' behaviours, including possible breaches of licence conditions.

- Suppliers who engaged in higher levels of PPM installations – and in some instances breached licence conditions – may experience higher levels of debt-related costs resulting from the moratorium.
- It is unfair to adjust the price cap to allow suppliers to recoup additional costs associated with a moratorium that Ofgem imposed because of suppliers' behaviour.

**If Ofgem adjusts the price cap, it must design the adjustment in a way that mitigates the impact of an energy price increase on vulnerable and fuel poor consumers**

- Our position remains that Ofgem should not adjust the price cap.
- As Ofgem recognises in the consultation document, the bad debt originating from PPMs is a result of Additional Support Credit suppliers give to PPM customers. Moreover, Ofgem has already decided to add an allowance in the price cap for ASC bad debt costs.
- PPM households in Scotland are more common within lower income groups. Additionally, a larger proportion of PPM households in Scotland were in fuel poverty compared to non-PPM households (36% and 22% respectively).<sup>1</sup>
- Each of the cost allocation methods in the consultation carry risks to consumers in vulnerable circumstances. Any price cap adjustment must limit the impact people experiencing fuel poverty.
- Allocating costs to both the unit rate and standing charge threatens to penalise low-usage households who cannot avoid paying an increased standing charge.

## About Citizens Advice Scotland

Citizens Advice Scotland (CAS), our 59-member Citizen Advice Bureaux (CAB) and the Extra Help Unit, form Scotland's largest independent advice network. Scotland's Citizens Advice Network is an essential community service that empowers people through our local bureaux and national services by providing free, confidential and independent advice. We use people's real-life experiences to influence policy and drive positive change. We are on the side of people in Scotland who need help and we change lives for the better.

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<sup>1</sup> [Scottish house condition survey: 2019 key findings - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/scottish-house-condition-survey-2019-key-findings/pages/10.aspx).