

National Energy Action (NEA) response to the Additional Support Credit extension consultation

About National Energy Action (NEA)

National Energy Action¹ works across England, Wales, and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, safe and healthy home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, work on local projects, and coordinate other related services which can help change lives.



Background to our response

Additional Support Credit (ASC) provides prepayment households with necessary access to energy supply. Disconnection from energy supply can cause serious harm to households, so it is vital that there is a mechanism to support these households. NEA supported the introduction of an Additional Support Credit allowance. Against a backdrop of higher energy prices, and higher than ever standing charges, prepayment households are disconnecting often, and in some cases for long periods of time. Providing these credits comes at a cost to energy suppliers and, as a result, to all consumers. It is therefore important to consider how these costs can fairly be recouped, and how to ensure that there is adequate transparency over how these funds are used.

Summary of our response:

The need to continue ASC support

Energy prices remain significantly higher than they were in the years leading up to 2021. Recent policy changes via the standing charge levelisation workstream have provided some relief to prepayment households. However, the cost of maintaining a constant supply of energy for prepayment households is still very high. Supply Licence Conditions (SLCs) require suppliers to offer support to disconnected households. The absence of an allowance through the price cap for ASC could generate risk with regard to suppliers' financial resilience, and it is therefore important to ensure that there is an appropriate mechanism for suppliers to recover costs.

As 3 million more self-disconnections were reported for 2023 than 2022, a rise in ASC levels is unsurprising. As the consultation document outlines, ASC levels have increased significantly (162% between 2022-23 and 2023-24). This is consistent with the experience of charities and consumer groups, who have been providing more support over this period. ASC bad debt costs have risen by a similar proportion.

The 'do-nothing' approach outlined in the consultation document would result in the ending of the ASC allowance. The consequence of that approach could be that energy suppliers are slower to offer ASC to consumers who need it. The frequency and duration of self-disconnection, and the harm it can cause to consumers, would be negatively impacted as a result.

NEA therefore supports the extension of the ASC allowance in the price cap. It is important that the allowance is not too generous. Due to the concurrent workstream reviewing operating costs, in which a new singular debt allowance encapsulating ASC costs has been proposed, NEA does not believe that it is necessary to change the current level of the allowance. However, as we discuss below, it may be appropriate to reconsider the level and purpose of debt-related allowances in the price cap through that workstream.

Transparency over debt-related costs

Across several metrics, there are concerning indications that those who are least able to pay for their energy are facing unmanageable arrears. The most recently released data collected via the Social Obligations Report (SOR) shows that fewer households owe money to their energy suppliers, but that the value that they owe is increasing. The total financial value of debt and arrears has reached a new record level of £3.3bn, despite the number of households in debt and arrears falling. Furthermore, the majority of debt repayment arrangements (56%) are being established via prepayment meters. Whether that is the result of consumer preference, supplier preference or mutual preference for prepayment, this indicates that a growing number of financially vulnerable households are likely to be reliant on ASC in the years to come.

Consequently, it is increasingly important that any allowance for ASC is accompanied by transparency over how much ASC is being given, written off and whether suppliers are over-collecting for the allowance relative to the support they deliver. It's important for industry stakeholders, policymakers and consumers to understand the costs of ASC, and the impact on consumer outcomes. NEA's advisers have experienced inconsistency between and within suppliers when it comes to our clients accessing ASC. Within this workstream, and any future work around debt allowances, greater focus is needed on how Ofgem can ensure and demonstrate that suppliers are delivering the best outcome for consumers. ASC bad debt is one area where Ofgem could go further.

Currently, as NEA understands it, suppliers have full discretion as to whether an ASC should be repaid by the consumer or whether it is written off as bad debt. Ofgem could be more prescriptive, or provide guidance, on circumstances where ASC should not be repayable. For instance, by providing a clear definition of 'severe financial insecurity'.

Reducing overall debt

As mentioned previously, there are concerning indications that those who are least able to pay for their energy are facing unmanageable arrears. Even for households that have established repayment plans, the average amount owed is increasing. Arrears account for 75% of the total combined value of energy debt and arrears, which means that the majority of the money owed to suppliers is not currently being repaid. Since energy prices remain high, it is reasonable to assume that the average arrears per household will keep growing.

Because cap allowances relating to debt costs are located in different areas of the cap, it is difficult to ascertain a clear figure for how much consumers are paying to service debt. Because of that, NEA supports the proposal to move those components (including ASC) into a single debt-related allowance. Of the existing allowances, NEA estimates that the cost of servicing that debt (the total financial value of price cap allowances) is between £1bn to £1.5bn. Suppliers offer, in total, £54m of discretionary support. This amounts to around 4% of the value of allowances for debt. While discretionary support is not necessarily funded through allowances for debt-related costs, the comparison of these figures illustrates significant cause for concern about how much funding goes towards direct provision of support for those who are struggling.

The recent consultation paper for the operating cost review highlighted that the majority of debt-related costs (while not a fixed level) come from bad debt costs. Suppliers can use this funding to write debt off their books, but it's unclear how such write-offs result in reduced debt in customer accounts for whom the debt is impossible to repay. A significant portion of domestic energy bills are funding suppliers' debt-related costs, but levels of debt are worsening. While ASC costs are a relatively small part of overall debt costs, it is important to consider the need for the allowance in the wider context of recovering debt-related costs through the cap.

A business-as-usual approach will result in cap allowances continuing to increase, indefinitely, to service these higher levels of debt. NEA believes that Ofgem must consider action to tackle debt levels and prevent further increases to servicing costs. NEA's preferred approach would be for Ofgem to introduce an energy debt relief scheme.

There are several routes to what such a scheme could look like and how it would be funded. Ofgem should explore establishing such a scheme, in part, through existing allowances relating to energy debt. Below are some high-level considerations for the structure and delivery of such a scheme:

- A debt relief scheme would be most effective if it ensured direct financial support to write off the energy debt of individual energy consumers, rather than simply writing off debt from suppliers' financial accounts. Currently, debt allowances in the price cap are collected based on costs suppliers face for servicing debt. Suppliers can use this funding to write debt off their books, but it's unclear how such write-offs result in reduced debt in customer accounts for whom the debt is non-repayable.
- Direct financial support for debt could take the form of direct debt write-offs or debt repayment matching. Both could be funded either through a levy (including the existing price cap elements that are focused on debt), the Treasury, or a combination of both. It could be allocated through a central funding pool controlled by Ofgem, an independent third party, or government.
- Access to funding would need to be conditional. A central funding pot for debt relief should not replace pressure on energy suppliers to continuously improve debt management practices. Access could be granted following receipt of an application from authorised parties. Authorisation to submit applications should be dependent on a supplier's ability to demonstrate good practice with regard to debt management, with the standards for 'good practice' being determined by Ofgem. Authorisation could also be granted to charities and consumer groups who provide debt support to energy clients.
- To avoid any moral hazard, scheme eligibility should be time limited, determined based on debt built up during the energy crisis in the first instance. This would remove any risk of deliberate non-payment by consumers in the future who might view the scheme as an opportunity to receive a write-off. An element of eligibility could also be determined using the exemption criteria established as part of the recently established involuntary prepayment meter rules. Suppliers who are not allowed to involuntarily install a prepayment meter in a household because of those rules could apply for funding through the scheme to write off debt, if the customer was judged to be financially vulnerable (for example, through interrogating their ability to pay back debts).
- Regardless of the funding source for such a scheme, Ofgem could also use funds from the redress scheme to top up the funding available for write-offs or debt-matching.

References and Notes

¹ For more information visit: www.nea.org.uk.

² NEA also work alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK wider reach.