

Consultation

Resetting the energy debt landscape: the case for a debt relief scheme

Publication date:	12 December 2024
Response deadline:	6 February 2025
Contact:	Dan Norton
Team:	Retail Pricing Strategy
Email:	DebtConsultations@ofgem.gov.uk

This consultation considers whether to introduce a debt relief scheme to provide financial support to energy customers who accrued debt on energy bills during the energy crisis and may struggle to repay. The aim of such a scheme would be to bring down the record level of consumer debt and arrears in the domestic retail energy market and would form part of a wider package to reform the approach to energy debt. It builds on the feedback provided by stakeholders in response to our [Call for Input on Affordability and Debt in the Domestic Retail Market](#) and is being published alongside our consultation on debt standards, [Improving Debt Standards in the Domestic Retail Market](#) and the overarching document accompanying these consultations ([Debt Strategy: a 'reset' and 'reform' for customers in debt, Ofgem](#)).

Once the response period is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

© Crown copyright 2024

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the [Open Government Licence](#).

Consultation – Resetting the energy debt landscape: the case for a debt relief scheme

Without prejudice to the generality of the terms of the Open Government Licence the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

Any enquiries related to the text of this publication should be sent to Ofgem at:

10 South Colonnade, Canary Wharf, London, E14 4PU.

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to: psi@nationalarchives.gsi.gov.uk

Contents

Resetting the energy debt landscape: the case for a debt relief scheme . 1	
Executive Summary 5	
Without intervention, the impact of unsustainable debt on all consumers will be substantial5	
Risk of intervening6	
Proposal for the introduction of a debt relief scheme.....7	
Affordability support.....8	
1. Introduction 9	
What are we consulting on?.....9	
Related publications9	
2. Case for Change 10	
Questions 10	
Levels of debt and arrears in the energy sector..... 10	
The cost of debt to consumers 10	
Monetary and non-monetary support that is provided to consumers and suppliers 13	
<i>Monetary support</i> 13	
Case for change 14	
3. Considerations and Objectives 17	
Questions 17	
Objectives 17	
Ofgem’s consumer objectives and framework 17	
Considerations 18	
4. Debt Relief Scheme Administration and Delivery Options..... 20	
Questions 20	
Delivery mechanism and implementation proposals 20	
<i>Timelines for Delivery</i> 20	
<i>Scheme Time Limits</i> 20	
<i>Type and level of support</i> 21	
Scheme delivery options 21	
<i>Scheme Administrator</i> 21	
Scheme delivery proposal (Delivery option 1)..... 23	
<i>Audit Option 1</i> 24	
<i>Administration prior to initial disbursement to customer accounts</i> 24	
<i>Ex-post audit after scheme implementation</i> 24	
<i>Audit option 2</i> 25	
<i>Funding claims process</i> 25	
Alternative administration option (Delivery Option 2)..... 26	
5. Funding Options 28	
Questions 28	
Introduction on funding for a debt relief scheme 28	
<i>Overview of scheme design elements to reduce funding requirements</i> ... 30	

Cost recovery options.....	30
<i>Recovery through network charges</i>	30
<i>Cost recovery through a price cap allowance</i>	33
Scheme design factors.....	35
<i>Netting off scheme costs against existing price cap allowances</i>	35
<i>Supplier voluntary contributions</i>	36
Debt matching (customer contributions)	36
6. Eligibility and Conditionality Options.....	39
Questions	39
Options for Eligibility	39
<i>The proposed eligibility criteria</i>	40
<i>The primary eligibility criteria</i>	41
<i>Data proxies and affordability criteria</i>	42
<i>Application Route- overarching design</i>	48
<i>Application route – design of customer journey and administrative mechanisms</i>	50
<i>Level of debt within eligible pool</i>	54
Options for Conditionality	54
7. Conclusion and Next Steps	56
How to respond	56
Appendix 1 – Summary of Questions	57
Appendix 2 – Initial Impact Assessment.....	59
Scope and approach.....	59
Summary of findings	60
Impacts of a debt relief scheme on energy customers.....	60
Costs of a debt relief scheme to energy customers.....	64
Distributional impacts.....	66
Impact on future price cap allowances.....	70
Impact on suppliers	71
Administration costs.....	74
Competition assessment	75
Risks, assumptions, and limitations	76
Wider impacts	77
<i>Impact on inflation</i>	77
<i>Environmental impact</i>	77
<i>Supplier and network resilience</i>	77
Public sector equality duty (Equalities Act 2010)	77
Appendix 3 – Privacy notice on consultations	79
Personal data	79

Executive Summary

Despite significant levels of government support, the high energy prices during the energy crisis increased the number of customers in debt and the amount they owe. High levels of debt and arrears have negative effects on all consumers and the market as a whole. For those customers in high levels of debt, and without the means to repay, it causes significant distress. Further, higher debt and arrears lead to higher prices for all customers. And unsustainable levels of debt and arrears risk destabilising the market and making it more difficult for suppliers to focus on what we as regulator want to see from suppliers: excellent customer service, innovation in goods and services for the benefit of consumers, and competition to provide the best deals for all.

Our view is that the scale of the historical debt and arrears accrued during the energy crisis, and the ongoing trends in the market, demand a new approach. This new approach needs to support those in debt to ultimately be better for all consumers and stabilise the market. It also needs to ensure Ofgem, debt charities and consumer groups, and suppliers are working together to target support at those most struggling with their bills, tackle historical debt and reduce the risk of customers falling behind.

In this document, we are consulting on whether we should introduce a debt relief scheme as part of this new approach. The scheme would complement existing allowances provided to suppliers to recover efficient costs and target those funds on historical debt accrued during the energy crisis by those facing the most severe affordability challenges. We have discussed this proposed scheme with debt charities, consumer groups, government and suppliers and received broad support. The purpose of this consultation is to explore in more detail how such a scheme might work in practice, how it might be funded and how we would ensure it would complement existing funds and processes in the system and lead to improved outcomes for those in debt, all consumers and the overall effectiveness of the market. Ultimately any scheme would be cost neutral, in that it would lead to lower overall bills against the counterfactual of not intervening and contribute to lowering the overall cost of debt and therefore bills over time.

Without intervention, the impact of unsustainable debt on all consumers will be substantial

The way we currently regulate prices in the domestic market takes into account the level of debt and arrears. We provide an additional allowance in the price cap to ensure that suppliers are able to recover their efficient costs of providing credit and managing debt and arrears. We are currently reviewing this debt allowance through our [operating costs review](#). This approach aims to reflect what would happen in a competitive market that

provides credit to customers while capping the amount suppliers can recover as part of an overall price cap. As debt and arrears rises, and where those rises are, in part, a consequence of factors outside suppliers' control, the allowance needs to increase to reflect the resulting costs.

In recent years, our assessment of the cost of debt has led to increases in the price cap level. We considered this increase to be in the interests of customers overall as, without that action, we would have disincentivised new entrants to the market and investment by existing suppliers, and this could potentially have led to supplier failure.

There are two limitations with this approach. First, indebted customers do not necessarily see the benefit of the debt allowance. This is because suppliers, rightly, are incentivised to minimise the socialised costs of debt that push prices up for all consumers. Suppliers must therefore continue to try and recover as much debt as possible. But without addressing the build-up of unsustainable debt, suppliers will continue to pursue indebted customers for unpaid bills and the cost of bad debt will continue to be socialised across customer bills and will be met by all customers who pay their bills.

Secondly, the price cap debt allowance is a single allowance in the price cap set across all suppliers. Therefore, the allowance cannot account for differences in the level of debt in customer portfolios. Suppliers have different processes as well as different customer bases and that combination will lead to under or over recovery against a fixed price cap allowance.

We therefore consider that there is a case for intervening in a different way through a new scheme.

Risk of intervening

Through intervention, there is a risk of creating perverse incentives both for consumers and for suppliers. Introducing a financial intervention could be seen to signal to suppliers that poor debt management is acceptable. Suppliers should continue to be incentivised to collect debt via appropriate means. This is important to keep bearing down on the socialised cost of debt for all consumers. Equally, by clearing debt it may suggest to consumers that energy bills do not need to be paid. Consumers must be incentivised to pay their bills where they are able to do so.

To mitigate this risk, we have identified a potential one-off intervention, targeted solely at debt accumulated due to the extraordinary circumstances which arose during the energy crisis. We are proposing a design which aims to avoid providing financial assistance to customers who are able to pay towards their debt and current consumption without experiencing significant hardship.

We are also developing proposals for better long-term management of energy debt, but this does not necessarily negate the need for a financial intervention now.

The design and implementation of the scheme must also consider the potential for unintended consequences, including the transfer of risk across the energy system. A range of funding options are being considered for a one-off debt relief scheme, one of which is through network charges (further details presented in Chapter 5). Under such an approach, the design and implementation of the scheme must avoid the potential transfer of risk from the retail market to the regulated network companies. Contagion increases the risk faced by investors and lenders to networks and leads to higher overall costs faced by consumers. Mitigating any such risk remains a key principle and will guide our consideration of available funding options.

Proposal for the introduction of a debt relief scheme

The intention of a scheme would be to provide support by forgiving debt or a portion of debt of eligible customers and/or provide debt matching to 'crowd in' customer debt repayments that otherwise wouldn't be made. We are particularly seeking stakeholder views on:

- Which customers should be eligible for support – we see this as a combination of the level of debt built up during the crisis and the ability of the customer to afford repayments. However, there are trade-offs we need to make due to limited availability of data. There will be limitations in relation to the eligibility thresholds associated with the primary eligibility criteria. For this reason, we are proposing an alternative eligibility path with the involvement of consumer groups and charities (CGCs) - the application route. We welcome feedback on the application route as an alternative eligibility mechanism.
- The extent to which customers should be required to engage with their supplier, or other trusted third party such as a debt advice charity, to receive support. Evidence shows that customers who engage are less likely to get back into problem debt, but this may place unreasonable demands on those organisations, miss some customers in need of help, and limit the scale of support deployed.
- The funding route for a scheme – the costs of bad debt are currently socialised across current billpayers, and we have announced today the bad debt allowance within the price cap and are committing to keep this under review. Our assumption in developing a scheme is that debt costs will continue to need be met by billpayers. But there are options for the time period over which the costs will be recovered and how the immediate costs are financed. In short, we are looking at options which would spread the costs over time in the most effective and cost-efficient way. This would ultimately lessen the burden on current

billpayers in meeting the impact of the energy crisis on consumer debt. Our expectation is that the scheme will be cost neutral against a counterfactual of continuing to use the debt allowance through the price cap to fund bad debt costs.

- The administration and delivery of a scheme - our proposed mechanism is supplier delivery with Ofgem administration. This is envisaged to be based on supplier funding claims for support to indebted customers against defined eligibility criteria. We are aiming to establish a process that will provide speed in writing off eligible customers' debt, but that also provides adequate protections on the spend of customers' money.

Affordability support

In response to our [Call for Input on Affordability and Debt in the Domestic Retail Market](#), we heard from multiple stakeholders that, despite the support made available by government during the recent energy crisis, energy bills remain above an affordable level for many consumers. Affordability has been a persistent challenge in the energy industry even before the cost-of-living crisis. We are working closely with government to create a fairer energy system and make energy more affordable for households.

Robustly addressing affordability in an enduring manner going forward may not necessarily reduce the current levels of accrued debt in the energy industry. Equally, action on affordability without addressing the historical debt build up would be ineffective for those with high levels of historical debt they are unlikely to be able to repay.

1. Introduction

What are we consulting on?

- 1.1 The purpose of this policy consultation is to seek views on the case for introducing a debt relief scheme, considerations for introducing a scheme, and our proposals on options for the design of a scheme.
- 1.2 In Chapter 2, we outline our case for change, which includes the historical context and ongoing issues in the sector which has led to the need for intervention.
- 1.3 Chapter 3 outlines the objectives which we hope to achieve through the introduction of a scheme, Ofgem's consumer objectives, and the key considerations for the design of a scheme.
- 1.4 Chapter 4 details a proposal for the delivery for a time limited scheme to address debt, including delivery and administration.
- 1.5 Chapter 5 sets out design options to minimise the funding required for a scheme and financing and cost recovery considerations.
- 1.6 In Chapter 6 we have provided detailed options for the eligibility criteria and conditionality.
- 1.7 Chapter 7 concludes the policy consultation and provides next steps.
- 1.8 Appendix 1 provides a summary of questions asked in this options paper.
- 1.9 Appendix 2 provides an initial Impact Assessment (IA).
- 1.10 Appendix 3 provides the privacy notice on consultations.

Related publications

- 1.11 Alongside this document, we have published a summary of responses for the affordability and debt call for input, [Debt Strategy: a 'reset' and 'reform' for customers in debt](#), and our consultation on debt standards, [Improving Debt Standards in the Domestic Retail Market](#).
- 1.12 More broadly, this consultation is impacted by the following documents: [Affordability and debt in the domestic retail market – a Call for Input | Ofgem](#)

2. Case for Change

Section summary

The cost of energy has fallen since the height of the cost-of-living crisis but both standing charges and unit rates are likely to remain above pre-crisis levels. In our Call for Input of Affordability and Debt in the Domestic Retail Market, we set out our view of the issues in the market. We believe this issue remains and the total level of debt and arrears are still rising. This chapter sets out the case for change for intervening to clear the build-up of unsustainable domestic debt and arrears in the energy sector, improve the consumer experience, and directly support those with little realistic prospect of being able to pay off the historical debt they have accrued.

Questions

- Q1. Do you agree with our case for change?
- Q2. Should we intervene through the introduction of a debt relief scheme?

Levels of debt and arrears in the energy sector

2.1 As detailed in [Debt Strategy: a 'reset' and 'reform' for customers in debt](#), since the start of the energy crisis, we have seen a sharp increase in the level of debt and arrears in the energy sector. Arrears, meaning there is no repayment plan in place, accounted for a significant portion of this rise. Whilst the number of domestic customer accounts in debt has recently seen a return to pre-crisis levels, there has been a notable increase in customers in arrears. The combined number of domestic accounts in debt and arrears has broadly stabilised over the last year, indicating that the ongoing growth in total debt and arrears is being driven by consumers already struggling with their bills.

The cost of debt to consumers

2.2 Suppliers' bad debt costs (costs of debt that is deemed unrecoverable) are currently paid for by consumers. These costs are socialised across consumers through price cap allowances. The allowance is provided to suppliers for costs related to debt and debt recovery, the majority of which is to cover the costs of bad debt. The amount of the allowance has increased in recent years and the average consumer contribution toward the socialised cost of debt is around £70 per year (amount varies by payment method). Absent of intervention, we expect debt-related costs may continue to increase, potentially spreading further cost pressure across different customer types through the cap. The debt related allowances within the cap are currently being reviewed as part of the operating costs review.

- 2.3 There are significant drawbacks to the current approach to bad debt allowances in the cap, primarily that it does not directly help those in debt. When a supplier writes-off bad debt on their own accounts using the cap allowance, this does not necessarily mean that consumers will see the debt written off from their account with the supplier. Suppliers remain incentivised to pursue consumers rather than write-off the debt on their accounts. This is positive to the extent that it saves consumers money as, if that was not the case, the debt-related cost allowance might need to be higher. For this reason, consumers are generally chased for all the debt on their accounts. There are rules and safeguards on this process, including the requirements to set repayment plans based on ability to pay. However, overall, as write-offs using the price cap allowance are not generally reflected in consumer accounts, there is no direct link between £1 from debt allowances in the price cap and £1 of consumer debt write-off.
- 2.4 The debt allowance is also untargeted as, in accordance with statutory requirements for the price cap, all suppliers receive the same allowance regardless of the level of consumer debt in their customer portfolio and differences in the effectiveness of supplier debt processes. While this incentivises debt recovery by suppliers, the existing design of the price cap-based approach cannot account for the varying levels of debt in customer bases of different suppliers.
- 2.5 The price cap debt allowance will continue to be necessary even with the introduction of a time-limited debt relief scheme. However, by removing a significant portion of the build-up of debt, we expect this to have an impact on suppliers' debt-related costs holding all constant, which could ultimately be reflected in any future assessment of the debt allowance in the cap. We expect that the proposed intervention may reduce or help to avoid future increases in the debt allowance as compared to the baseline of not intervening. The primary alternative to an intervention would be to continue with the use of price cap allowances, to proceed with potentially greater increases (as compared to those required with a debt relief scheme), noting that these write-offs will rarely be reflected in customer accounts.
- 2.6 The debt allowance is calculated with reference to the "bad debt" costs (debt which is deemed unlikely to be recoverable) which are incurred by suppliers in a given year. While suppliers may use the debt allowance to write-off bad debt on their accounts, they do not necessarily reflect that write-off on consumer accounts. For this reason, it may be the case that a debt relief scheme will clear debt which has already been reflected in the debt allowance of the price cap. We

- are consulting on ways that suppliers could identify debt which have previously been written off on their accounts and the process by which suppliers would make a reduced claim for funding from the scheme.
- 2.7 However, we expect that an intervention would also clear a significant portion of debt which has not yet been provided for in the debt allowance, and this debt may in future have been declared “bad debt” and contributed to a future calculation to set the debt allowance. There will inevitably be some allowance for debts that would ultimately have been paid, and we are consulting on eligibility criteria to minimise this. In relation to the risk of such a scheme providing funds to clear debt which has already been provisioned by suppliers and provided for in the price cap, we would require suppliers to identify accounts which have previously been provisioned for and would require suppliers to make a reduced claim for funding from a scheme. It would be our intention to conduct a review after the closure of a scheme to assess the impact on overall indebtedness and address any duplication of provision.
- 2.8 Our proposal to introduce a one-off debt relief scheme, depending on design, could provide direct debt support to up to 2.3m customers (should all customers in debt within our defined crisis period be eligible), and could write off £0.5 to £1 billion (£1.29 billion is the total debt and arrears accumulated during the proposed definition of the energy crisis period and dependent on eligibility criteria yet to be determined). We expect to see benefits materialise from this scheme that will impact all customers in the market. Specifically, we would expect any level of debt matching to ‘crowd in’ customer money to repay debt where it otherwise may not have been. In addition, we expect a scheme to lead to positive behaviour impacts for customers that have their debt forgiven, particularly where we also employ debt matching.
- 2.9 Debt related costs are not paid for by all consumers equally, rather these differ, particularly according to payment type. Levelling the debt related costs of prepayment meters (PPM) customers by socialising prices across payment types (levelisation) was an Ofgem initiative (paused earlier this year) aimed to address this issue. In the absence of additional mechanisms, setting the level of the bad debt allowance is going to become increasingly complex as the costs of bad debt continue to diverge between different consumer cohorts, particularly in terms of payment type. The total differential in the [Oct - Dec 2024 price cap](#) was £112 for standard credit to direct debit (figures at TDCV dual fuel GB average post levelisation) and was £160 for standard credit to pre-payment meter (PPM). There is an expectation that this differential between standard credit,

direct debit, and PPM customers may continue to increase without intervention. A debt relief scheme has the potential to provide an alternative to levelisation, by helping to reduce the cost of energy related to debt for customers most vulnerable to debt.

Monetary and non-monetary support that is provided to consumers and suppliers

Monetary support

- 2.10 Existing financial support is available through voluntary supplier hardship funds, Warm Home Discount Industry Initiatives and debt advice potentially funded through the Vulnerability and Carbon Monoxide Allowance (VCMA) and Voluntary Redress Fund (VRF), but the scale of this support is much smaller than the scale of the problem.
- 2.11 Small amounts of debt write-off (debt write-off is capped in the legislation for the scheme at £6m and in Scotland at £600,000) are provided through [Warm Home Discount Industry Initiatives](#). However, the level of support and eligibility criteria vary across suppliers, which makes it difficult for consumers and debt advice charities to navigate and access financial support on a consistent basis. There are also many consumers who do not engage even when support is available.
- 2.12 Suppliers also have hardship funds in place to support consumers in payment difficulties which includes debt relief. Data from suppliers shows c. £277 million has been provided in discretionary debt support for domestic customers (for example, debt write-off) since 2019 (data sourced from the Affordability and Debt RFI 2024). An additional c. £72 million has been provided by suppliers in this same period to debt advice and consumer organisations. [In November, more than £500 million of support was announced for Energy UK's Winter Commitment for 2024/25](#).
- 2.13 Non-monetary support is provided to consumers in payment difficulties through suppliers and CGCs. Supply licence conditions provide minimum standards around ensuring consumers in payment difficulty receive appropriate support. This includes flexible debt arrangements based on ability to pay, different payment methods (for example, Fuel Direct), and signposting to energy efficiency and debt advice.
- 2.14 Frontline debt and energy advisers act as a vital link between disengaged, vulnerable consumers and suppliers. Advisers support consumers with energy bills and debts but also provide help with a range of debts and money problems

and outwardly refer people with additional vulnerabilities to relevant organisations. Through advice organisations consumers can access Debt Respite Scheme (Breathing Space) which prevents debt recovery actions, such as installing a PPM or collecting debts. However, debt advice charities are inundated with calls for support.

Case for change

- 2.15 In this policy consultation, we are seeking views on whether we should intervene. Our initial view is that a one-off scheme, time limited towards clearing debt accrued during the energy crisis, could be required to meet the scale of debt and arrears in the domestic market. The gap between the financing provided to suppliers to service consumer debt compared to the support consumers receive to help with their debts suggests that supplier-led approaches to alleviating the growing debt problem are not delivering the outcomes consumers need. Ofgem's customer research also indicates that the cohort of customers in debt or arrears tends to have a lower level of income compared to the wider population of energy customers. Our research indicates 33% of customers in debt or arrears earn less than £16 thousand per year compared to around 16% of customers that are not in debt. This indicates that much of this debt is unlikely to be repaid and putting more stress on these individuals through debt chasing will likely only have negative consequences. Without intervention, we are concerned the levels of debt and arrears will remain unsustainable. We think some consumers face the prospect of never being able to pay their debt back or may experience prolonged indebtedness.
- 2.16 Our initial view is also that should we intervene, there is a pressing need to intervene quickly. Even if it is the case that the high level of debt and arrears do come down naturally with time, we are nevertheless concerned about the potential detrimental impact on consumers of non-intervention over this time. Leaving consumers with high levels of problem debt and arrears can increase the likelihood of debt enforcement action alongside the ongoing harms associated with high levels of energy debt, such as self-rationing, self-disconnection which impacts the physical and emotional wellbeing of consumers, and the wider impacts on household expenditure.
- 2.17 Without addressing the accumulation of debt and continuing to fund debt costs through the price cap without taking action to directly support indebted customers is likely to result in poor outcomes:
- 2.18 The price cap debt allowance will not generally be used to write off consumer debt. Suppliers will be expected to continue to pursue payment for debt, which

is an important part of the long-term incentive to pay bills. However, this can be extremely stressful for customers, especially where they do not have the means to make repayment. Customers with unaffordable debt may also reach a point where they feel trying to pay at all is a hopeless endeavour, and so ultimately pay less towards ongoing bills due to high debts, and potentially prioritise other debts;

- 2.19 Many customers do not engage with suppliers so differentiating between those who can afford to repay and those who cannot afford to repay and require support can be very challenging. Suppliers then continue to chase debts from customers who are unlikely to pay, damaging broader trust in the market at a time when the market needs to focus on significant reform and transition towards net zero objectives and improved consumer standards;
- 2.20 CGCs face continued and increasing demands from consumers for support, whilst working with supplier processes that are in some cases inconsistent and inefficient. And so, we want to change that – we want to see alignment between money spent on bad debt, and actual customer debt forgiveness for the historical debt accrued during the crisis. This is to help reset and get these consumers back onto a steady footing. In doing so, this should reduce future pressure on cap allowances, it should bring more people who are totally disengaged into a system of debt management, ideally even contributing through matching, and deliver long lasting behavioural change.
- 2.21 The price cap debt allowance does not vary across suppliers to account for the level of debt in suppliers' portfolios and cannot account for differences in the level of debt in consumer portfolios. Suppliers have different processes as well as different customer bases and that combination will lead to under or over recovery against a fixed price cap allowance;
- 2.22 The differential in debt costs between standard credit, direct debit, and PPM customers may continue to increase without intervention and absent of intervention no mechanism remains by which consumer debt can be cleared according to the level of debt on supplier portfolios.
- 2.23 Intervention would help consumers who have built up otherwise unmanageable debt and, also impact longer term consumer practices towards energy debt management, by allowing consumers to put more of their resources towards ongoing consumption and by encouraging them into a wider system of debt support. Subject to design, a scheme could establish a formalised role for CGCs who can provide a holistic view of an individual's debt status and help ensure

energy debt is appropriately prioritised where a customer is in multiple debts. Energy debt is considered a priority debt alongside mortgage/rent payments, council tax and court fines.

- 2.24 While connected, affordability is a separate issue from unsustainable debt. Robustly addressing affordability in an enduring manner going forward may not effectively reduce the current levels of debt in the energy industry, which was triggered by historically high energy prices driven by extraordinary market conditions. Equally, action on affordability without addressing the historical debt build up would be ineffective for those facing debts they are unlikely to be able to repay. We are working closely with government to create a fairer energy system and make energy more affordable for households.

3. Considerations and Objectives

Section summary

This chapter outlines the key considerations for the design of a debt relief scheme, should we proceed, and the key objectives which we are seeking to achieve through such intervention.

Questions

- Q3. Do you agree with the proposed design principles for a debt relief scheme?
- Q4. Do you agree with our key objectives for a scheme?

Objectives

- 3.1 By introducing a debt relief scheme, we aim to achieve the following key objectives:
- To reduce the levels of domestic debt and arrears in the energy sector and have this shown directly on customer accounts
 - To facilitate improvements in the culture of debt management and provide an opportunity to build relationships between consumers and their suppliers
 - To provide a mechanism by which consumer debt accumulated during the energy crisis can be cleared in proportion to the debt levels in suppliers' consumer portfolios
 - To reduce, or avoid an increase in, the future debt allowance as compared to the baseline of not intervening, and by doing so reduce the differential between standard credit and direct debit rates in the price cap

Ofgem's consumer objectives and framework

- 3.2 Ofgem's principal objective is to protect the interests of energy consumers, including having regard to the interests of vulnerable consumers. Our principal objective, and vulnerability duty, are contained in the Gas Act 1986 and the Electricity Act 1989. How we interpret and apply our vulnerability duty is also informed by other sources, such as the Equality Act 2010 and human rights law. In making decisions on cost allocation within the cap, Ofgem must balance its principal objective with the five duties to 'have regard to' under the [Domestic Gas and Electricity \(Tariff Cap\) Act 2018 \('the Act'\)](#) and our wider vulnerability duties. Additionally, Ofgem has powers to amend gas and electricity licence conditions under the Act, the Gas Act 1986, and the Electricity Act 1989.
- 3.3 We consider that the implementation of a debt relief scheme may further Ofgem's principal objective to protect the interests of energy consumers. We

expect to see benefits materialise from a scheme that would impact all customers in the market. Specifically, we would expect any level of debt matching to 'crowd in' customer money to repay debt where it otherwise may not have been. In addition, we would expect such a scheme to lead to positive behaviour impacts for customers that have their debt forgiven, particularly where we also employ debt matching. We will continue to assess and evaluate against our principal objective as we consider evidence and feedback, and proposals are further developed.

Considerations

3.4 We have relied on the following set of design principles in approaching the options outlined in this paper, which reflect what we seek to achieve with the final design:

- **Avoid perverse incentives** – this is both to ensure that consumers should continue to be incentivised to pay their bills and suppliers should continue to be incentivised to collect debt via appropriate means. As far as possible, we want to avoid rewarding inefficient debt management by suppliers. There is a risk of creating perverse incentives by introducing a debt relief scheme. Through the intervention to clear debt, we are concerned it may suggest to consumers that energy bills do not need to be paid and, to suppliers, that energy debt does not need to be recovered, rather than the intervention being seen as a one-off response to extraordinary circumstances. We would seek to mitigate this risk, in part, by targeting a scheme at historical debt accrued during the energy crisis during a set period, and at those facing the most severe affordability challenges.
- **Fairness and consistency** – as far as possible, we want to ensure there is a consistency in the application of support. Consumers in the same circumstances should have equal access to support. A particular challenge is ensuring consistent application across suppliers. Consumers in the same circumstances should have access to the same level of support regardless of their supplier. Additionally, we believe that the scheme may be 'cost neutral' as we could reasonably expect that a portion of yet to be provisioned debt would become bad debt which would increase bad debt charges and feed into higher bills.
- **Targeted** – as far as possible, avoid writing off debts of 'able to pay' customers, focussing on consumers with demonstrable affordability issues.
- **Timely** – to be delivered as soon as possible given the continuing growth and scale of debt, and by summer/autumn 2025.

- **Management of risk** – avoiding unintended transfer of risk across the energy sectors, protecting the underlying stability and predictability of our regulatory arrangements.
- 3.5 We recognise that there will be households on low incomes who paid their energy bills during the crisis and made very difficult decisions in order to do so. On balance, however, due to the existing risks from not intervening, as outlined in our case for change, and the expected benefits of a debt relief scheme, we consider that the benefits outweigh this drawback.
- 3.6 Some suppliers have argued that further financial intervention on debt is not needed, and suppliers instead need to be better at managing debt. We agree with the need for improved debt management, and we have published proposals, including for our consultation on debt standards, alongside this consultation. We also recognise that suppliers have different customer portfolios which may make the accumulation of debt more likely within certain customer bases held by particular suppliers. Overall, we believe that financial support remains critical to help consumers out of the extraordinary debt situation faced by the sector as a result of the energy crisis. We consider that a debt relief scheme could drive better practices on debt management in the long term, with a key goal being to see improvements in the number of customers engaged with their supplier and on sustainable debt repayment plans. Separately, we are reviewing price cap debt allowances and exploring the interaction between these allowances, a debt relief scheme and levelisation of debt related costs, which we paused earlier this year. For further detail on the impacts of levelisation (both PPM and of debt related costs) please see the initial Impact Assessment (IA) included in our published decision: [Decision on adjusting standing charges for Prepayment customers](#).

4. Debt Relief Scheme Administration and Delivery Options

Section summary

This chapter outlines options for scheme administration, delivery, and implementation; including a proposal for suppliers to deliver a scheme, with Ofgem having administrative oversight.

Questions

- Q5. What are your views on how we could best reduce the lead time between our proposed policy decision on a scheme and introduction of a scheme, balancing this with robust audit and readiness assurance processes?
- Q6. Do you agree our proposals in relation to a scheme time limits for a debt relief scheme?
- Q7. What are your views on the type and level of support that could be provided by a debt relief scheme?
- Q8. Do you agree that a scheme should be implemented through supplier delivery with Ofgem oversight (Delivery option 1) or through an independent administrator appointed by Ofgem (Delivery option 2)?
- Q9. Do you have any views on the audit options presented?
- Q10. Do you have any views on how the supplier funding claims process should work under audit option 2?
- Q11. Are there any other considerations for the delivery mechanism for a debt relief scheme we have not explored?
- Q12. Are there any other financing or administrative considerations for your organisation that we have not considered as part of Chapter 4 or the initial Impact Assessment?

Delivery mechanism and implementation proposals

Timelines for Delivery

- 4.1 If we proceed, we would want to implement a debt relief scheme in summer/autumn 2025, with decisions on a scheme expected in late spring 2025. We are therefore keen to ensure we design a scheme in such a way that facilitates these timelines while ensuring adequate controls are in place.

Scheme Time Limits

- 4.2 A debt relief scheme should remain open (meaning the period during which consumers can be assessed and determinations can be made to issue support)

for a limited time period – we propose summer/autumn 2025 to spring 2026. The appropriate time period will depend on the design of a scheme to some extent.

- 4.3 Assessing complex cases may lead to unexpected delays in processing applications. For this reason, we propose a scheme cut-off date against final applications and assessment milestones, to be followed by a discretionary period to allow for the distribution of funds following official closure of a scheme. We wish to ensure suppliers commence eligibility assessments soon after a scheme opens to ensure there is sufficient time to issue support to all eligible consumers. We could build in milestones within an overarching scheme timeframe to ensure good progress is being made throughout a scheme’s lifetime. We welcome views on this and what milestones could be set.

Type and level of support

- 4.4 The level of support available under a debt relief scheme would depend on the quantity of eligible debt and customer eligibility. Initial estimates place a debt range of £500 - £1,500 and arrears of £1,500 - £3,000 as the most common debt levels for households in the bottom three income deciles. We intend to explore ranges of levels of debt in more detail following the receipt of further data on the distribution of total debt across levels of indebtedness.
- 4.5 Eligible consumers could receive a flat rate of support, or it could be proportionate to their level of debt or arrears. This would have a bearing on whether to provide a smaller number of consumers with more support, or a greater number of consumers with less support. A flat rate of support would not take into account individual circumstances but could be distributed and delivered more easily and quickly to a larger number of consumers. Proportionate support (for example, a percentage of total debt and arrears) would be tailored to individual circumstances and enable those most in need to get the support they require but would also increase the administrative burden in establishing what is a proportionate amount for example through income and expenditure assessments. We are seeking views on the balance of complexity and ensuring a scheme has maximum impact for the consumers it supports.

Scheme delivery options

Scheme Administrator

- 4.6 We are considering two options for the administration and delivery of a debt relief scheme:

Delivery option 1 - Ofgem administers, and suppliers deliver a scheme.

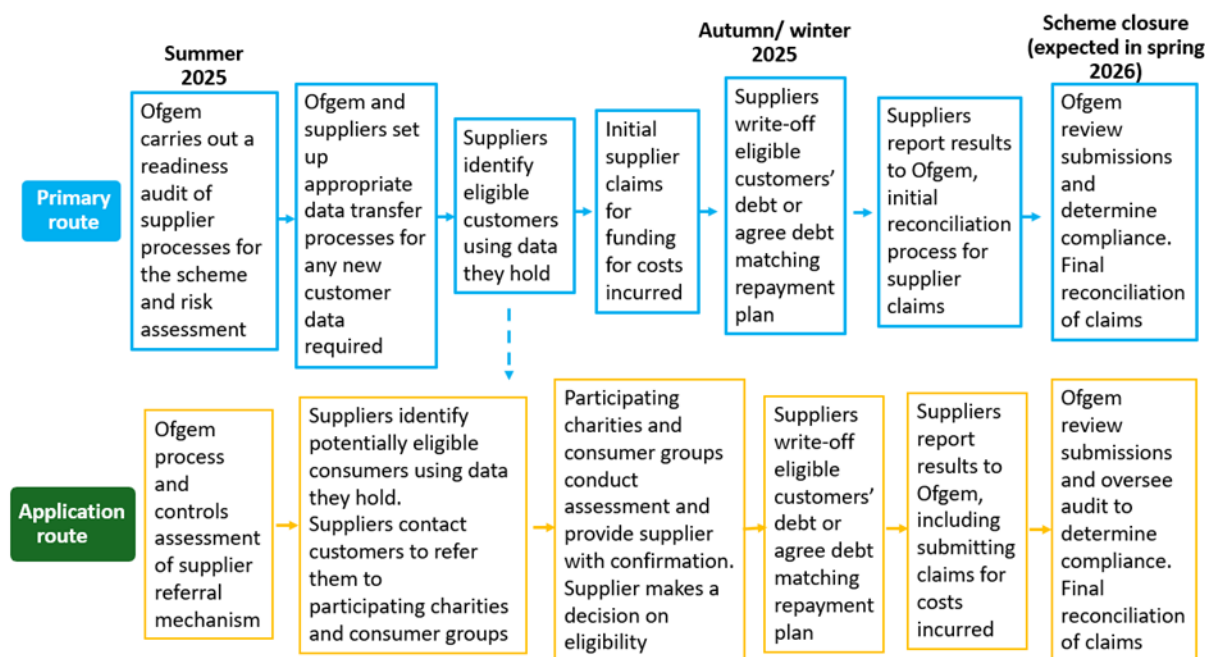
Delivery option 2 - a third-party administers a scheme.

- 4.7 Given our objective to implement a debt relief scheme quickly, our view is that delivery through option 1 is preferable. We do not believe that setting up a new delivery body, as would be required under Option 2 (discussed at the end of this chapter), is feasible in the timescales. However, we do welcome views on this.

Consumer Access to Support

- 4.8 The lead proposal we are considering for consumers to access support includes two routes:
- 4.9 **Primary (automated) route:** Suppliers would use data they already hold, or which can be easily provided to them, to identify eligible customers and directly issue support or, in the case of debt matching, agree repayment plans. Under this route, customers eligible for debt write-off would not have to engage with their supplier as support would be automatically applied to their account. Through using easily accessible data, and making the system as automated as possible, this would provide the fastest delivery and would allow a debt relief scheme to reach consumers, including some vulnerable consumers, who may lose out on support if we were to require engagement with their supplier. However, the drawback of this route is that, by relying on limited data sources, we may fail to target some consumers who need support.
- 4.10 **Secondary (application) route:** to address this risk, we are considering an application route where suppliers identify 'potentially eligible' consumers who have failed to meet the affordability assessment of the primary eligibility criteria. We would require suppliers to refer these consumers to the participating CGCs so that an income and expenditure assessment can be undertaken. This assessment would ultimately be shared with the supplier to make a determination on eligibility. This route could also introduce many consumers to the wider debt support available through CGCs and help rebuild engagement between consumers and their suppliers.

Figure 1: Proposal for delivery and audit routes of a debt relief scheme (including delivery option 1 and audit option 2)



Scheme delivery proposal (Delivery option 1)

- 4.11 Suppliers would assess eligible consumers and identify consumers eligible for debt write-off or, potentially, debt matching. Ofgem would put processes in place to assure supplier readiness and carry out audit of a scheme (options for audit are discussed further below).
- 4.12 We recognise that there may still be administrative challenges with delivery option 1. By not centralising the administration of funds to consumers, this relies on suppliers to drive forward delivery of the scheme and to make the determination on whether write-off should be made following assessment of eligibility. We are proposing, as far as possible, to utilise existing supplier processes and to set prescriptive eligibility criteria to reduce administrative burden.

Audit options

4.13 Under delivery option 1, there are two options for audit of the scheme. These options reflect balancing resource and cost implications with speed of delivery. We consider that robust audit is required to ensure that debt relief through a scheme is provided to eligible customers and so that customer funding into a scheme is protected. However, we also recognise that some of these processes may increase the time taken from the point of policy decision to debt relief reaching customers, and so we are considering different options on the level of audit:

- **Audit option 1** - The administrator carries out pre-readiness checks on suppliers to ensure the correct processes and controls are in place. The

administrator also assesses supplier progress during a scheme and conducts ex-post compliance checks and audit, our initial view is that this would include assurance of suppliers netting-off funding claims to reflect either the level of debt they had previously provisioned for, or the amount accounted for under the cap.

- **Audit option 2** – Audit option 1 with the addition of a detailed assessment of supplier funding claims before debt write-off is applied to eligible customers, with additional reconciliation processes during and after scheme closure.

Audit Option 1

- 4.14 An outline of the audit steps carried out by the administrator under audit option 1 are outlined below.

Administration prior to initial disbursement to customer accounts

- 4.15 Before such a scheme goes live, the administrator would produce guidance for suppliers and CGCs to set out their responsibilities in the scheme. This would also set the eligibility criteria and specify any conditionality on either suppliers or customers which we anticipate would also be underpinned by Standard Licence Conditions (SLCs), discussed further below.
- 4.16 During a pre-readiness audit, the administrator would assess that suppliers have i) appropriate processes in place for the eligibility assessments, ii) ensured that they have access to the appropriate data and correct data transfer processes, iii) the correct validation processes in place. These checks also include ensuring appropriate levels of sign off at each stage in the process and ensure that the referral mechanism for customers under the eligibility application route was robust. Following this pre-readiness audit under the primary route, suppliers would identify eligible customers and write-off their debt or agree a debt-matching plan. Under the application route, suppliers would contact customers to refer them to participating CGCs who would then conduct an assessment for suppliers to make a decision on eligibility.

Ex-post audit after scheme implementation

- 4.17 Once suppliers have directly written off customer debt under a debt relief scheme, a proportionate ex-post audit would be carried out by the administrator or by a third-party auditor to ensure that the issuance of support has been provided correctly. Our initial view is that this would include some assurance of suppliers netting-off previous price cap allowances or the level of debt they had previously provisioned for from funding received through the scheme, and any

voluntary contributions (discussed further in Chapter 5). Checks would also be carried out, for example, on a sample of customer accounts to assess that relief had been applied accurately. The administrator would set the terms of reference for the audit. The administrator would also create templates for suppliers to complete which provide aggregate level data on debt write-offs through a scheme.

- 4.18 In addition, for the direct application route CGCs would also be involved in the audit processes, to ensure that they have a clear and consistent process. Under our proposed delivery route, the cost of this audit could be covered by funding through a scheme or included in suppliers' terms of reference, rather than paid for by the CGCs themselves. This helps to provide appropriate oversight for both the largely automated primary eligibility route and the application route.

Audit option 2

- 4.19 Under audit option 2- all the above audit steps would be conducted by the administrator, with the addition of a detailed assessment of supplier claims. We are proposing this detailed claims assessment process to provide robust assurance of the funds suppliers utilise through a scheme, including assurance of 'netting-off' against historical price cap bad debt allowances or to reflect the level of debt they had previously provisioned for, to protect customer funding support for a scheme. However, we recognise that this process will be resource intensive to implement, given the large volume of funding to be assessed and resultant decision on level of funding for each supplier by the administrator. This could result in longer lead times to customers receiving debt relief through a scheme. Therefore, we welcome stakeholder views on our approach to assessing supplier claims. Also, if this process were reduced, we welcome views on how we could ensure that processes are in place to adequately protect money that customers provide for a scheme.

Funding claims process

- 4.20 There would be an initial process before any debt is written off for suppliers to submit claims for the costs associated with providing debt relief to customers (including administration costs), for the administrator to assess. The administrator could then carry out two further assessments of claims to reconcile costs - one after the initial debt write off process and another when the scheme closes. Having reconciliation activity embedded in the process accounts for the fact that the application route will be open for the duration of a scheme, and so debt write-offs may be applied over a longer period of time. Administrative costs faced by CGCs under the application route can also be

accounted for in the supplier claims, potentially through partnership arrangements between suppliers and CGCs.

- 4.21 Following the assessment process, the administrator would allocate scheme funding to suppliers based on the level of debt their customers had accrued during the energy crisis. This is to ensure that debt support is allocated based on each supplier's share of customer debt and the support provided directly to customer accounts, rather than being a flat rate applied across suppliers. Therefore, we envisage that some suppliers will use the scheme to a greater extent than others, based on this share of market debt.
- 4.22 We are proposing that when suppliers made a claim from the scheme, they would reduce the level of claim to take account of debt they had already been compensated for through existing debt related costs allowances and any voluntary contributions they may want to make. The administrator would consider the evidence provided through the claims and make a decision to determine the level of funding suppliers are able to claim. This follows a similar process to that conducted for [Supplier of Last Resort \(SOLR\) funding claims](#) and provides greater assurance of suppliers incurring efficient costs. We recognise that some of these costs would ultimately feed through to customer bills, so would require a comprehensive audit trail to ensure they reflect efficient costs.
- 4.23 To underpin a debt relief scheme, we propose that we would introduce appropriate SLCs to formalise the process of suppliers submitting these claims to the administrator, including suppliers providing a comprehensive list of costs incurred. The SLCs would also link to the established eligibility criteria and there would be a requirement for suppliers to provide sufficient data and evidence on the level of debt-write-offs completed to facilitate ex-post audit of a scheme.

Alternative administration option (Delivery Option 2)

- 4.24 **Delivery option 2-** a third-party would collect funds and make disbursements to customer accounts. We envisage that suppliers would still be responsible for making the eligibility assessments, and that this would include the direct route for eligibility with the involvement of CGCs. Suppliers would provide evidence of consumer eligibility to the third-party administrator to allow disbursement of the funds from the administrator to consumer accounts.
- 4.25 Delivery option 2 will have a longer lead time to set up and would impact plans to deliver a scheme in summer/autumn 2025. As a result, this option may not be feasible. Equally, we anticipate it would require additional resources and require additional systems and processes as compared to delivery option 1. This

would likely mean that the time between commencing an eligibility assessment and disbursement of the funds would be longer, delaying the time until which consumers can expect to see the support reflected in their accounts.

5. Funding Options

Section summary

This chapter sets out our proposals for how a debt relief scheme could be financed and recovery of these costs. We also set out design features to reduce the overall level of funding required for a scheme with the aim of cost neutrality, including netting off previous funding suppliers have recovered through historical price cap debt related cost allowances, supplier contributions and use of debt-matching.

Questions

- Q13. Do you have any views on the funding options presented, considering the balance between the temporary addition to customer bills against period of recovery?
- Q14. Do you have any views on reducing supplier funding claims to account for historical debt write off that has been funded via the price cap and supplier contributions?
- Q15. What are your views in relation to the approach which should be taken to account for debt which has already been provided for by historical price cap allowances or provisioned for, for a debt relief scheme's eligible customers?
- Q16. Should debt matching be included in a debt relief scheme?
- Q17. If debt matching is included, what are your views on how we could differentiate eligibility thresholds for debt matching and debt write-off and what would you consider is a reasonable ratio for suppliers to match support to customer payments?
- Q18. Should networks pay approved debt relief scheme claims to suppliers in winter 2025/26, or only later when networks have received the funding via higher network charges?
- Q19. Over how many years should networks recover the cost of a debt relief scheme – for example, 1, 3 or 5 years?

Introduction on funding for a debt relief scheme

- 5.1 To support the operation of a debt relief scheme, we are considering a range of financing routes and associated recovery mechanisms.
- 5.2 Most of the funding options would involve increasing energy prices for customers through the introduction of new, or increases in, price cap allowances (such as through network charges or an additional allowance). This means that, under these options, we would ultimately be socialising the cost of debt to fund the debt support. However, it is possible that a debt relief scheme may be 'cost

neutral' (depending on the level of debt provisioned within this period) as without intervention we could reasonably expect a portion of debt yet to be provisioned to become bad debt which would likely result in higher bad debt charges within future price caps. We set out the potential impact of this in the Initial IA. This is in line with existing practice under the price cap and it is usual for businesses in many industries, not just energy, to make a provision for bad debt and to cover this through the pricing of their goods and services.

- 5.3 As noted in the Initial IA, we expect to see benefits materialise from a debt relief scheme that will impact all customers in the market. Specifically, we would expect any level of debt matching to 'crowd in' customer money to repay debt where it otherwise may not have been. In addition, we expect a debt relief scheme to lead to positive behaviour impacts for customers that have their debt forgiven, particularly where we also employ debt matching. We have seen evidence from similar schemes that a high percentage of customers that were part of debt matching schemes continued to pay off future consumption after their debt was written off. This policy also results in an overall net positive distributional impact as customers in debt that benefit directly from the scheme tend to be lower income customers. We estimate the overall income weighted benefit for this policy to be c.£1billion – 1.2 billion.
- 5.4 In addition, we are aiming to include scheme design aspects to limit the impact on customer bills. For example, if customer debts were to be written off up front and the funds recovered over a longer time horizon, this reduces the yearly impact on customer bills. Alternatively, customer debts could be written off and the funds recovered in parallel over a number of years. We are also looking at options to reduce contributions from all customers by ensuring that where suppliers have already recovered costs through previous debt related cost price cap allowances, this is accounted for in a scheme so that customers don't pay twice. Furthermore, we are exploring options for debt-matching as part of a scheme to include appropriate funding from indebted customers who would utilise a scheme.

Overview of financing options and recovery mechanisms

- 5.5 The total amount of financing required for a debt relief scheme will reduce based on the design aspects to net off previous supplier recovery through debt related costs in the price cap, and through any debt matching included. We explore these design features further below. At this stage we are considering the following options for financing of the balance of a debt relief scheme:

- Funding provided by network companies and recovered through network charges.
- Funding provided through suppliers, supported by a price cap allowance.

5.6 These financing options have different recovery mechanisms to socialise costs of a scheme across customers:

5.7 Electricity and gas network charges are ultimately recovered through customer bills. A price cap allowance is ultimately paid for by customers, underpinned by a supplier reconciliation mechanism to distribute funds between suppliers.

Overview of scheme design elements to reduce funding requirements

5.8 The following scheme design considerations would also reduce the total size of funding required for a scheme to be socialised between customers or billpayers.

5.9 Suppliers making reduced funding claims from a scheme to reflect either the level of debt they had previously provisioned for, or the amount accounted for in previous price cap debt related cost allowances, ultimately reducing the overall cost of a scheme.

5.10 Debt matching by indebted customers who receive funding from a debt relief scheme (which we consider could act in conjunction with other funding routes).

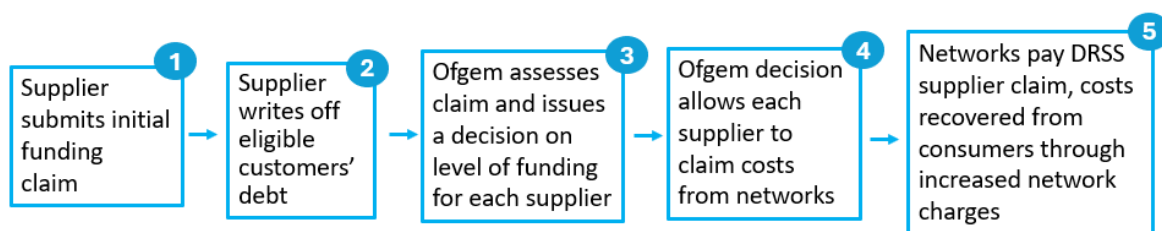
Cost recovery options

5.11 The suppliers receiving a portion of funding through a debt relief scheme is contingent on them following the correct processes to apply debt write-off to eligible customers, and may involve a process of submitting claims for costs incurred, including reducing these claims to take account of debt that has been provisioned for and compensated through previous price cap bad debt allowances and any voluntary contributions. To be able to receive this funding, the administrator would have to have assured that the correct processes were in place. This would involve ensuring that the costs submitted meet the eligibility criteria set by Ofgem and that costs claimed reflect efficient costs of servicing the debt and are reflected directly into customers' accounts.

5.12 Ofgem would have the responsibility of setting or facilitating the change to network charges or a price cap allowance and reconciliation mechanism to fund debt relief scheme (if either of these routes are used), that is ultimately paid for by customers.

Recovery through network charges

Figure 2: Funding through network charges



- 5.13 Under the network charges recovery option, a portion of the one-off costs that suppliers incur to write-off customer debt through a debt relief scheme, after Ofgem has consented to the submitted supplier claim and issued a decision, would be recovered through higher network charges. Any debt relief scheme costs recovered through network charges would be reflected in the price cap, and other tariffs, and ultimately be paid by energy consumers in Great Britain.
- 5.14 We consider that under the network charging approach there is a range of broad scenarios for who provides the initial financing for a one-off debt relief scheme. Under the network financing scenario, networks could pay approved debt relief scheme claims to suppliers over winter 2025/26, before networks recover the costs through higher network charges. Alternatively, we could follow a similar approach to that used under the [SoLR](#) process. Under this 'supplier financing' scenario, payments to suppliers could be delayed until networks begin to recover their costs through higher network charges. This option has established precedent and would likely reduce any concerns networks, and their auditors and investors, may have around financeability and/or adding retail market related cashflow risk to the network companies' balance sheet. A third financing scenario would be for third parties to fund a debt relief scheme, and to recover their costs via higher network charges. Each scenario has advantages and disadvantages. A network financing scenario may offer the possibility of financing costs lower than a supplier financing scenario but places the short-term financing burden upon networks. A network financing scenario could increase the perception of risk faced by investors and lenders to networks. This so-called 'contagion risk' could increase the cost of capital faced by networks, weakening the value of money aspect of this scenario and impact on the wider cost of network investment. Under any network funded scheme, Ofgem will have an obligation to ensure that network companies are able to finance their activities. The third-party financing approach would avoid the need for suppliers or networks to provide finance, whilst also potentially allowing a longer recovery period, but the associated financing cost, increased contagion risk for networks and value for money aspect remains uncertain at this stage.

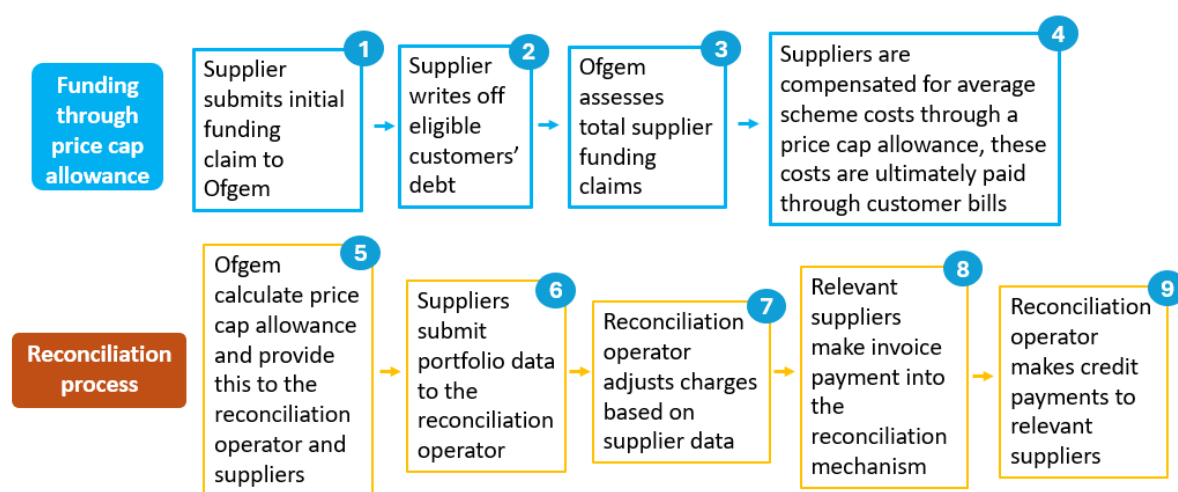
- 5.15 If a longer recovery period was put in place, and should the application route for eligibility be implemented into the design of a debt relief scheme, suppliers would also likely have to reimburse CGCs for their administrative costs, without a prompt recovery for these suppliers (Chapter 6 provides further details on eligibility routes). We welcome views on how quickly suppliers should be paid, and views on which parties should provide the initial financing.
- 5.16 In addition to a range of scenarios regarding who provides the initial financing, there is a range of associated scenarios related to the length of recovery period. Under one scenario, debt relief scheme costs could be recovered via network charges over a short period of time, such as winter 2025/26. Other scenarios include recovery over a one-year, three-year or a five-year period. A 3-year time period balances the timeline for recovery with the impact on customer bills when compared to a longer recovery period. We could reasonably expect any reduced debt provisions for suppliers and/or behavioural impact from customers supported by a scheme to endure for this period, offsetting the recovery cost. As a result, the policy may be understood to be cost neutral, since we could expect debt allowances within future price caps to increase without intervention (depending on the level of provisioned debt within this period) as yet to be provisioned debt becomes bad debt which feeds into higher bad debt charges. We are exploring the possibility of involving third parties in the funding of a debt relief scheme, to reduce the networks' or suppliers' funding requirement and to allow a different recovery period. It is Ofgem's intention to compensate parties for the costs involved in financing a debt relief scheme. In the Initial IA we assess the bill impact based on recovery over different time horizons. We welcome views on the length of recovery period.
- 5.17 We consider that using network charges to fund a one-off debt relief scheme could be beneficial because it allows consideration of consumer bills impacts, with costs potentially recovered over a longer time period. This could increase wider consumer acceptability by lowering the yearly impact on customer bills. In addition, network charges provide a mechanism to balance claims across suppliers, which means that a separate reconciliation mechanism would not be required under this option, lowering associated administrative costs.
- 5.18 We consider that there are delivery risks for this option and therefore we are also considering alternative funding routes. If, following stakeholder feedback, we decide to proceed with this funding approach, we would need to consider licence condition changes. Based on how costs would currently be allocated, we consider that these would fall on the unit rate for gas and the standing charge

for electricity, which we recognise places higher costs on the fixed element of electricity bills. However, we are exploring how these costs could be allocated on electricity and gas bills under a network charges funding route and the associated code modifications required.

- 5.19 We will continue to engage with the networks and suppliers to explore this funding option further and are considering an associated consultation on the supporting licence modifications required to implement this option.

Cost recovery through a price cap allowance

Figure 3: Funding through a price cap allowance and supporting reconciliation mechanism



- 5.20 Another cost recovery route could be to introduce a new price cap allowance to fund the costs of a debt relief scheme. We consider that this allowance could be underpinned by a reconciliation mechanism to manage reconciliation of costs between suppliers who may have a greater or lesser claim on a scheme than they receive from customers through the cap allowance. We would consider whether there has been a material or systematic change in costs faced by suppliers. In this case, as set out above, the growth in energy debt over the period of the energy crisis has posed a material cost.

- 5.21 Under this process, Ofgem would assess the total supplier funding claims submitted. Then Ofgem would calculate an appropriate level for the allowance that compensates suppliers for average scheme costs and add this to the price cap level which is ultimately paid through customer bills.

- 5.22 This option would provide greater flexibility to allocate the costs to different payment methods to adjust how these costs are faced, relative to the network charges option. However, we consider that such an allowance could be

recovered over a one-year period to mitigate impacts on supplier financeability which could create a significant cost to customers' energy bills. Under our regulatory arrangements, suppliers are assessed to have a higher cost of capital than network companies, therefore deferral of costs over a longer period funded by suppliers would represent less value for money for consumers compared to funding the scheme through networks (which is ultimately recovered through network charges).

- 5.23 We consider that this funding option would likely require an additional reconciliation mechanism to recover costs across suppliers, due to suppliers having different customer bases with different levels of debt. Such a mechanism would redistribute the costs of a scheme between suppliers to ensure that no supplier makes excessive gains or losses as a result of contributing to a debt relief scheme. This mechanism could be run by Ofgem or a third party and could calculate and oversee payments required between parties. As part of this, as outlined above, Ofgem would calculate the price cap allowance and provide this to the reconciliation operator and suppliers. Suppliers would submit portfolio data to the reconciliation operator, which would allow the operator to calculate the net cost or benefit for each supplier. Then suppliers would pay invoices or receive credits as directed by the reconciliation operator.
- 5.24 If this option were pursued, further work would have to be undertaken to design an appropriate mechanism to ensure that suppliers with differing customer bases are able to recover appropriate costs and to avoid distorting supplier competition. We appreciate that reconciliation mechanisms have downsides and may not be appropriate in all circumstances. There are costs and complexities associated with this route, and it would likely extend the timeframe before support could be provided to customers. Critically, there could be collateral risks if a supplier cannot pay into the reconciliation mechanism which could lead to underfunding of a debt relief scheme.
- 5.25 We also consider that if we were to implement a reconciliation mechanism under this option, we could include both capped and uncapped tariffs in this. Uncapped tariffs included fixed term contracts and tariffs that have a derogation from the price cap. We consider that if these tariffs were excluded in any reconciliation mechanism this could mean that the costs of funding a debt relief scheme could fall solely on standard variable tariff (SVT) customers.

Scheme design factors

Netting off scheme costs against existing price cap allowances

- 5.26 We expect there to be a degree of overlap between debt forgiven under a debt relief scheme and debt that has been provisioned for and compensated through previous price cap bad debt allowances. We aim to avoid a situation where we are 'double counting' money paid to suppliers to deal with problem debt which would result in suppliers over-recovering debt costs.
- 5.27 We note that suppliers will have historically made bad debt provisions for a proportion of eligible debt due to be forgiven via a debt relief scheme. The costs associated with bad debt are reflected in previous price cap allowances and therefore our initial view is that there should be a level of 'netting off' where suppliers make reduced claims under a debt relief scheme to reflect either the level of debt they had previously provisioned for, or the amount accounted for under the cap.
- 5.28 This approach helps to avoid double counting- where the costs of supplier debt write off have already been paid for by customers on SVTs through previous debt related costs allowances. This approach would lead to a reduction in the total cost of funding a debt relief scheme, which would ultimately lower the total impact on customer bills, we set this out further in the Initial IA. This approach also recognises that debt written off at an earlier stage could result in lower working capital costs for suppliers.
- 5.29 As set out in our Initial IA, over the period of time covered by a debt relief scheme we note that suppliers recovered c£1.8bn of bad debt charge via the price cap allowance. We expect a portion of the debt write off that occurred to overlap with the debt written off by such a scheme and reduce the cost of the scheme.
- 5.30 We do not have ability at this stage to accurately assess this ex-ante. However, based on an assumption that the previous debt allowances were equally distributed amongst eligible and ineligible customers, we would expect around £400m of the debt due to be written off under a debt relief scheme to have been recovered already. We would, however, expect a much higher overlap given our lead eligibility criteria proposals would aim to target those customers who are most likely to be unable to pay back their debt, and therefore target debt which is more likely to have already been reflected in provisions. We recognise that suppliers' ability to net off the costs of previous bad debt would rely on being able to accurately assess what provision has already been made in relation to

the debt which would be written off under a debt relief scheme at an aggregate level, and we welcome stakeholder feedback on this.

- 5.31 We recognise that this will be a key area to develop in order to ensure a debt relief scheme provides value for money and does not double count supplier debt costs. We are therefore proposing to engage with suppliers further on this topic in the coming months to develop our thinking in this area. We would look to present a more accurate estimation of the overlap in our statutory consultation and refine this further for our decision based on further data from RFI's to suppliers.

Supplier voluntary contributions

- 5.32 We recognise that if suppliers funded a debt relief scheme purely on a voluntary basis this would likely cause financeability issues and would likely be difficult to build the scheme to a size sufficient to clear the level of debt and arrears needed.
- 5.33 In addition to suppliers making reduced claims from a debt relief scheme to account for historical price cap debt allowances, we are exploring an option in the process for suppliers to make direct voluntary contributions to the scheme. We recognise that suppliers have provided c.£277 million in discretionary debt support, including debt write-off, since 2019 (data sourced from the Affordability and Debt RFI 2024). Suppliers have also committed to providing over £500 million of voluntary debt support tailored to the needs of their customers this winter (2024/2025) (this is in addition to statutory programmes such as Warm Home Discount and other forms of mandatory support). However, debt and arrears levels have continued to increase, as many customers have struggled to pay for their energy. Therefore, we consider that direct supplier contributions to a debt relief scheme, with the design elements to target customers who would benefit from debt relief, could provide an additional opportunity to support eligible customers and contribute to greater stability.

Debt matching (customer contributions)

- 5.34 Debt matching could be built into the design of a debt relief such a scheme. By including debt matching, this which would reduce the total cost of the scheme. Debt matching is a process by which a funding body matches consumers' contributions to their debt. Debt matching could contribute to the benefits of a debt relief scheme in several ways. We believe it is important to build engagement between consumers and suppliers to get those who can afford to pay towards their debt on to repayment plans. We believe debt matching would

further target those consumers who can afford to contribute towards the payment of their debt. However, this could be financially challenging for those customers who are struggling to pay for current consumption, never mind being able to clear accumulated debt in a reasonable period of time.

- 5.35 As highlighted in responses to our Call for Input, many water companies currently utilise debt matching to support customers in clearing their arrears. Under this approach, some water companies offer debt matching to customers who have significant water debt they cannot repay but can afford their ongoing bills. This process involves customers being on a regular repayment plan, then the water company would match customer payments, and may clear remaining debt after a sustained period of repayment by the customer. We have also received feedback from the energy sector that cited positive experiences with debt matching initiatives, including positive feedback from customers involved, reporting that this helped many of them remain debt-free over a year after the intervention.
- 5.36 We recognise there may be some drawbacks to debt matching. Some stakeholders may take the view that if a consumer can pay towards their debt, it is not appropriate to provide support. Some customers will have cut back in other areas to be able to pay their energy bills in full and to avoid building up debt. Some customers may be unable to afford their ongoing usage and therefore may also be unable to afford to contribute to debt matching. Therefore, we would propose to take all of these into account in the design by assessing whether customers were able to make payments towards the scheme before they entered into any debt matching, and customers deemed unable to pay according to the eligibility criteria, may instead be eligible for debt write-off.
- 5.37 It is our view that it would be important to clearly set the parameters of support under debt matching so customers understand how long the arrangement will be in place for (set timelines) and the conditions associated with it. For the purpose of a debt relief scheme, we would envisage an offer would be made to eligible consumers that, if they agree to a repayment plan, the supplier will match the payments made to a set ratio. For example, for every pound of debt a consumer contributes to paying off their debt, a set amount of debt relief would be provided by their supplier. The consumer would be required to complete payments to reduce their debt for an agreed period of time, the supplier would then clear the remaining debt. This would help ensure sustained engagement with the repayment plan. We recognise that this approach can also reduce perverse incentives given a threshold for customers to make regular

contributions to paying off their debt over time, which could then enable them to be eligible for a portion of debt-write off once a certain threshold has been met.

- 5.38 Should a debt relief scheme offer both debt write-off and debt matching, eligibility criteria would identify consumers eligible for each type of support. Debt write-off would be available for consumers assessed as not being able to afford to contribute payment towards their debt. Consumers assessed as being in a better position as regards to affordability would qualify for debt matching. We would appreciate feedback on how we could best set these different levels of eligibility. Under some variants of the proposed eligibility criteria data proxies, it may not be possible to offer debt matching. This is on the basis of the inability of the underlying data to inform an affordable repayment level (for example, if WHD was used as basis for eligibility). This is explored further in Chapter 6.
- 5.39 We welcome stakeholders' views on our proposals for debt matching in a debt relief scheme. In particular, how this should be used in conjunction with pure debt write-off and what level of contribution we should ask customers to make to repaying their debt.

6. Eligibility and Conditionality Options

Section summary

This chapter sets out options for the eligibility criteria for consumers to access support from a debt relief scheme. It also sets out proposed conditions which could be built into the design of the scheme for both consumers and suppliers to access such a scheme.

Questions

- Q20. What are your views on the proposed primary eligibility criteria? We welcome views on our proposals for arm 1 and 2 of the eligibility criteria, considering the options for debt write-off and debt matching.
- Q21. What are your views on proposals for arm 3 of the primary eligibility criteria (affordability assessment)? We would welcome views on both the feasibility of relying on each data proxy and the suitability of each data proxy to target consumers. We welcome views on eligibility criteria, considering the options for debt write-off and debt matching.
- Q22. What are your views on the proposed application route for eligibility? We welcome views on our proposals for arm 1 and 2 of the eligibility criteria, considering the options for debt write-off and debt matching.
- Q23. What are your views on proposals for arm 3 of the application route for eligibility (affordability assessment through a CGC)? We welcome views on eligibility criteria, considering the options for debt write-off and debt matching.
- Q24. Do you agree with our proposals for eligibility in relation to closed customer accounts? What administrative challenges may be faced with these proposals and how can these be overcome?
- Q25. What are your views in relation to the removal of arm 3 of the primary eligibility criteria or the use of indices of deprivation as the affordability assessment? Would you support debt write-off or debt matching for this group?
- Q26. Should conditionality be built into the design of a debt relief scheme and, if so, which elements of conditionality should we include?
- Q27. Are there significant data sharing challenges which we should consider in the selection of design options?

Options for Eligibility

- 6.1 We are currently of the view that prescriptive eligibility criteria are necessary to ensure the accessibility of receiving support from a debt relief scheme. The lack of consistency in terms of requirements to qualify for support is a significant drawback of existing debt support in the sector, leading to a lack of clarity for

consumers and consumer bodies trying to access debt support. We also believe that a prescriptive set of criteria is needed to ensure that the support is as targeted as possible to those who have accumulated debt during the energy crisis and are in need of financial support to clear their debt. Setting prescriptive eligibility criteria may also allow the fastest delivery of support as this would remove the administrative burden from suppliers in building an eligibility framework within any broad eligibility boundaries which we may otherwise set.

6.2 Such a scheme is aimed at domestic consumers, and, so, the consumer being a domestic consumer would be a foundational element of eligibility for all the eligibility routes.

6.3 Intervention is, in our initial view, needed urgently. The speed of delivery, however, creates challenges in relation to targeting those in need of the support. In relation to some of the criteria, the best targeting perhaps could be achieved with the use of data held by government departments (affordability assessment of eligibility on the basis of income and benefits). Government departments are working together to improve data usage and sharing ahead of winter 2025 and beyond. However, given the speed of delivery needed for this intervention, progressing with government data matching for a debt relief scheme may delay the speed at which support could be delivered to consumers. For this reason, the eligibility criteria options outlined in this chapter have largely sought to rely on alternative data sources (particularly those held by or easily accessible to suppliers) to inform the criteria. However, we have included one option which includes a proposal for a new process of government data matching.

The proposed eligibility criteria

6.4 As our lead option, we are considering two routes to access support. The first is the primary eligibility criteria which would be applied by suppliers and, as far as possible, would be automated – meaning little to no engagement from consumers would be needed. There are challenges in ensuring that all eligible consumers receive support, particularly those in vulnerable circumstances, where some level of engagement to access the support is needed. Groups of consumers that may be difficult to target, and to support, include those on traditional prepayment meters, private renters, consumers who do not speak English, and others in vulnerable situations who struggle to engage with the energy market. By aiming to automate eligibility as far as possible, we are more likely to reach support to these consumers. Depending on design, the process may not be able to be fully automated from the perspective of suppliers and the

primary eligibility criteria may require some manual identification by the suppliers. The second route we are proposing would be available to those who did not meet all three arms of the primary eligibility criteria and offers an appeal route via application. We have referred to this route as the 'application route'.

- 6.5 With delivery timescales in mind, the proposed eligibility criteria outlined have been developed with speed of delivery as a priority. Practically, this means that any eligibility criteria must be informed by data which is held by the suppliers or must be informed by data which can be easily accessed by, or shared with, suppliers to allow suppliers to provide the quick delivery of support to consumers.

The primary eligibility criteria

- 6.6 We propose that consumers would have to meet all three arms of the eligibility criteria set out below to access support via suppliers:
- 6.7 **Arm 1: indebtedness or level of indebtedness.** On the first arm of the eligibility criteria, we have two options. We could require only that the consumer has energy debt (of any value), or alternatively, we could require a minimum level of energy debt. We would not propose differentiating between debt and arrears in making this assessment. Between the two options, we would be of the view that a minimum level of indebtedness may be preferable to ensure that we focus support on those customers with the largest debt build up, which is more likely to be at an unmanageable level, unlikely to be repaid in a reasonable timespan. The minimum level of indebtedness could be set at a fixed level (for example, a minimum of £500 of debt) or it could be set as a percentage of the cost of ongoing consumption (for example, 50% of customer's Estimated Annual Cost). We note that the latter option may not be as simple to administer due to challenges in assessing consumption cost where, over the course of time, energy consumption and the cost of this is likely to fluctuate.
- 6.8 **Arm 2: the period of debt accumulation.** The second arm of the eligibility criteria would be that the debt must have been accumulated during the energy crisis. Only debt accrued during this period would be eligible for debt write-off or debt matching. Debts accumulated outside of the eligibility period would be subject to conventional debt collections and recoveries. For the purpose of a debt relief scheme, we propose to define this period as Q2 (1 April) of 2022 to Q1 (31 March) of 2024. Q2 2022 was the point at which the spike in energy debt and arrears appeared and the energy crisis began. We consider Q1 2024 to be a reasonable cut-off date as this accounts for the lag between the initial price shocks seen in the market and increased debt as a response to these shocks.

This also covers the period of the highest quarter on quarter increases in debt (through 2023) before (based on our most recent data) debt growth stabilised. Alternatively, we could set the start of the eligible period in accordance with the first increase in the price cap which accounted for the sharp increase in wholesale prices. We would also welcome views on whether there is good reason to extend the eligible period beyond Q1 of 2024.

- 6.9 We believe this element is important, firstly, to target the problem debt, the accrual of which was triggered by the unprecedented increase in energy prices during this period. However, we also believe that this element is necessary to avoid encouraging a consumer mindset against paying energy bills. The proposal for a debt relief scheme is a one-off, short-term, targeted intervention and, in the absence of a market upset of the same magnitude, we do not believe that a similar intervention should be necessary in future. With the exception of any affordability interventions brought in by government, consumers should be aware that paying for their base consumption of energy is a necessity.
- 6.10 We understand that suppliers do hold historical data relating to the date of debt accumulation. Therefore, we would expect that including this criterion does not pose significant challenges to the pace of delivery.
- 6.11 **Arm 3: affordability.** The final element of eligibility would be aimed at assessing the affordability of repaying towards existing debt for that particular consumer or household. This is needed to ensure that support is provided to those in need, but it is also an essential element should debt matching be built into the design of the pool.
- 6.12 As we would plan to progress with the delivery of a debt relief scheme at speed, identifying eligibility criteria for this arm poses the most significant challenges. There will potentially be a significant trade-off between targeting and the speed of delivery. In order to achieve speedy delivery, any criteria will need to be informed by data held by suppliers or that can be easily accessed or shared with suppliers. We are considering a number of data proxies to inform the eligibility criteria for this arm. We are considering multiple criteria options which could be combined or may represent separate bases of eligibility. We could have multiple, alternative eligibility criteria under the affordability arm to ensure a sufficiently wide pool of consumers is targeted.

Data proxies and affordability criteria

- 6.13 Data proxy options which we are considering as options to inform the eligibility criteria for the affordability arm are outlined below.

- 6.14 **Credit reference agency data.** This data is used by some suppliers already to support affordability assessments. We are considering whether this data could be used, or new arrangements could be put in place to require suppliers to use this data, to support eligibility criteria targeted at assessing affordability.
- 6.15 If we selected this data proxy, we would propose assessment of the circumstances of the named account holder(s) as opposed to assessment of an individual named consumer. This may pose some challenges. For example, if we were to allow closed accounts within the scope of eligibility, we recognise that the account holders may have lived together at the time of the debt accumulation but no longer do so. This could lead to consumers, whose current circumstances would arguably merit support, not being able to access support. We also recognise that there may be limitations in terms of what data can be acquired through the agencies in relation to each named account holder. However, by assessing all account holders, we increase the chance that we would not providing support to those who, when considered as a household, have the ability to pay towards their debt. We would welcome views on this proposed approach.
- 6.16 While we understand that some suppliers may be able to access credit reference agency data, questions remain regarding the feasibility of implementing this option across suppliers, the uniformity of application, and the best use of this data to assess affordability. To achieve uniformity, we could require suppliers to choose from a prescribed list of credit agencies or commission one credit reference agency. We do recognise this could lead to a risk of additional cost, and possible delays in accessing data, if agencies are inundated with requests from multiple suppliers at the same time. We would welcome views on this.
- 6.17 Concerns have been raised by some stakeholders in relation to credit reference agency data. These concerns primarily relate to issues related to granularity and coverage. There may also be challenges related to assessing gross income and income paid into joint accounts and an inability to gather data on unbanked customers.
- 6.18 We also recognise that suppliers may incur expense to access this data and, therefore, should this be recoverable under the scheme, some suppliers who may already have agreements to use this data in their ordinary business, could make gains from the scheme by being able to recover these costs.
- 6.19 Subject to replication across suppliers, there are potentially options for eligibility criteria using this data. Assuming this is data which can be accessed through

credit reference agency data, we could base eligibility on income. Income is broadly a good marker for affordability and, additionally, the simplicity in the criterion may make this easier to apply. However, we would welcome views in relation to alternative criteria options using this data proxy. A maximum level of income for debt write-off and a minimum and maximum income for debt matching, could be set. In identifying a reasonable maximum income level for debt write-off, we could set this in line with the [ONS definition](#) of the poverty line, as a household's disposable income being less than 60% of the national median equivalised disposable income (currently £21k per annum). This definition avoids certain jurisdictional divides, as is present in relation to the definition of fuel poverty. Based on initial estimates, our internal analysis indicates that up to 71% of debt value (in repayment plans and excluding debt from those in fuel poverty) is held within those with salaries below £55k per annum. To target those most in need of support, and those who face the greatest challenge to repay their debt in a reasonable time, it may be best to set the maximum income level for debt matching at a lower figure.

- 6.20 There are alternative eligibility criteria which may be possible with the use of this data. However, by deploying more complex eligibility criteria, we do have concerns about whether all suppliers could access the data needed, potentially relying on different credit reference agencies, and achieve consistent application across the sector. Some of these options are:
- Average income over a set time period (for example, income over 12-month period) to measure an average income or to identify a significant drop in earnings over that period.
 - Indebtedness scores, based on an assessment of ratio of essential outgoings versus income.
- 6.21 **Warm Home Discount (WHD) eligibility.** This option would target support at those consumers approved as eligible for the WHD on a set year. While we are exploring what historical WHD data is held by suppliers, our view is that the criteria should be based on the most current WHD data which will still allow for delivery of a debt relief scheme in accordance with our planned timescales.
- 6.22 This option may be attractive as the data underlying the assessment of WHD is reliable as it is informed by government data. Our early analysis also indicates that WHD eligibility could be a good proxy for affordability. For example, whilst March 2024 Debt and Affordability RFI data indicates that the WHD customers made up just 11% and 10% of all customers in debt and arrears respectively, the average value of debt and arrears for these WHD customers is notably

higher than for non-WHD customers and higher than the total domestic WHD inclusive average. Eligibility relies on the receipt of means tested benefits.

- 6.23 The drawbacks of this option are that WHD will represent a relatively small pool of eligible consumers. However, this does not mean the total debt within this group is small. We are gathering data to make this assessment. There are also jurisdictional differences in the assessment of WHD which may lead to some inconsistency in eligibility. Another drawback of WHD is that the WHD scheme does not obligate all suppliers so some consumers who would otherwise be eligible may not qualify due to their supplier not being within the scope of WHD. Those consumers with suppliers not obligated would, however, equate to a very small number of consumers as only suppliers with fewer than one thousand consumers are not obligated. These drawbacks in scope could be mitigated by including other options under the affordability arm of the primary eligibility criteria and by including the application route for eligibility. Another drawback is that WHD is reassessed each year and, therefore, it may be the case that the pool of eligible consumers one year does not align with the pool of eligible consumers in another year. This poses a significant issue of fairness in that, depending on which dataset by WHD year is selected for the eligibility criteria, a consumer who may have been eligible for WHD during the energy crisis, and faced significant affordability challenges during that period, may fall out of the scope of eligibility should they no longer qualify for WHD. While such a scenario may have exacerbated the speed and level of the debt or arrears built up during the crisis, current eligibility, as opposed to past eligibility, for WHD may best inform a consumer's current ability to repay standing debt or arrears.
- 6.24 This option remains subject to verification that there are no significant restrictions relating to use of the data, which remains under review.
- 6.25 **WHD plus** - this option would be an expanded WHD model. This could involve small amendments to expand the existing eligible pool under WHD or this option could involve a new data matching model.
- 6.26 This option offers many of the benefits outlined in relation to WHD eligibility. However, for example, by removing the assessment of high energy costs which forms part of the current WHD assessment for core group 2 this would significantly expand the pool of eligible consumers without, we expect, significantly impacting the strength of this criteria in terms of targeting those in need of the support. We could also include some non-means tested benefits, such as disability related benefits. This option could remove the jurisdictional divides present under WHD. However, we have significant concerns regarding

the feasibility of this option as removing an element of the existing WHD eligibility assessment would create a higher bar to overcome in terms of complying with data sharing requirements and may be more difficult to roll out from an operational perspective as, unlike using WHD data, it would require the roll out of new and potentially complex processes for government departments and suppliers.

- 6.27 **Income assessments undertaken by suppliers.** Suppliers are obligated to take all reasonable steps to ascertain the Domestic Customer's ability to pay and must take this into account when calculating instalments under SLC 27.8. As part of this obligation, many suppliers use income assessments to help inform their assessment of a consumer's ability to pay towards their debt and to inform a reasonable payment level and timespan for repayment plans. This option would propose using these assessments to inform eligibility criteria.
- 6.28 Should we use these income assessments, we would like to ensure that there is some consistency across suppliers in the way in which these assessments are undertaken to mitigate the risk of inconsistent eligibility. We would also like some assurance that the information which is used to inform these assessments is reasonably reliable. If information is only self-reported by the consumer and not verified by other means, we are concerned this may increase the risk of unreliable reports. As detailed in our debt standards consultation, we share concerns that some suppliers have inconsistent and unstandardised approaches to affordability assessments that can result in unaffordable repayment plans ([The debt protection gap, Citizens Advice](#)). We also recognise the risk of consumers experiencing a change in circumstances since participating in such an assessment. We believe this risk could be mitigated by relying only on assessments which have been undertaken recently (for example, in the last 12 months). We are also considering how this information could be combined with other data sets to strengthen the tie to affordability. For example, data relating to self-disconnection or self-rationing (particularly frequency and duration) may provide further evidence to indicate consumers are struggling to pay their gas and electricity bills. Where income assessments have been used to set repayment plans, also considering the record of repayments could assist. For example, if a consumer has consistently managed to pay towards their debt, this may indicate that the income assessment when used to set the level of repayment, is more reliable to indicate the repayment level is affordable. However, we do recognise this could be a marker of under-reporting ability to

- pay. This would perhaps be more suitable in a debt matching design, rather than debt write-off.
- 6.29 One of the significant drawbacks of this data set is that a significant portion of the total debt and arrears is being driven by the increase in arrears. This indicates that, for a large portion of the consumers whose circumstances are driving the increase in debt and arrears, suppliers have not been able to reliably assess the ability of consumers to pay towards their debt. They are, therefore, unlikely to be captured within this data set. If we were to rely solely on this data set, we are concerned that we would not target all the consumers we would aim to reach to achieve all the objectives of a debt relief scheme.
- 6.30 In terms of eligibility criteria, we would welcome views on setting a maximum level of income for debt write off and a minimum and maximum level of income for debt matching, or looking to include a more complex assessment of affordability, as outlined under the options for the use of credit reference agency data.
- 6.31 **Do Not Install Involuntary PPM.** [Ofgem's Decision on Involuntary PPM](#) and associated supplier licence conditions set out when it is acceptable to move a customer involuntarily to a prepayment meter (PPM) and identifies markers of customers where the risk of detriment is considered highest when subjected to Involuntary PPM. Those within the Do Not Install Involuntary Prepayment Meter (DNI PPM) classification are considered to be consumers at the highest level of risk. This option would propose targeting support at those consumers within this classification.
- 6.32 The justification for using DNI PPM group to target debt relief support is that those customers cannot have a PPM for safety reasons, are in a vulnerable situation and, therefore, build up debt. An additional benefit of this option is that it may increase accessibility of support as it would allow us to target a group of consumers who are considered vulnerable to access the support, with little to no direct engagement required from them.
- 6.33 In terms of potential drawbacks, the DNI PPM was not developed to consider affordability. It is, instead, targeted to ensure protections for the most vulnerable customers for whom PPM may not be a safe option. However, we have received anecdotal feedback from stakeholders, on one hand, that the DNI PPM markers may be a good proxy to identify those in need of support, and on the other, that this would be a poor proxy, warning against conflating vulnerability and affordability. We do not currently have strong evidence that

DNI PPM is a good proxy to inform financial vulnerability. We do not currently have granular data relating to DNI PPM consumer debt to indicate whether it would be a good data proxy to target those with little ability to pay. We also believe there may be some degree of inconsistency in the application of the code across different suppliers (generally suppliers choosing to expand on the minimum requirements of the code) and, so, using this to inform eligibility criteria may lead to inconsistency in eligibility.

6.34 **Council Tax.** This option would propose using council tax bands to target support. Council tax differs by jurisdiction. However, broadly, it is assessed on the basis of the estimated historical value of the property. Council tax is not reflective of the current financial circumstances of the occupant. In addition, the jurisdictional differences in the approach to calculating council tax bands could lead to unintended jurisdictional differences in eligibility for a debt relief scheme.

6.35 While council tax bands are public data, we are not clear how easily this data could be utilised by suppliers and combined with consumer data. Early indications suggest that finding council tax band data to match with customer records may be an arduous, time-consuming process as at the highest-level individual towns must be searched to provide property council tax band listings. As this is not a process already integrated into supplier operations, we are concerned this may prove challenging to implement, causing delays or errors in application, and impact overall administration costs.

6.36 If we were to use this proxy, we would propose eligibility on the basis of the council tax band of the household.

Application Route- overarching design

6.37 For those consumers who do not meet the primary eligibility criteria, we are also proposing to include an application route to eligibility.

6.38 While there are clear benefits to automating assessments of eligibility, we also believe there are strong benefits to including a process which facilitates engagement between consumers, their suppliers, and CGCs. This is likely to deliver benefits to increase engagement and to improve relationships and communication between consumers and suppliers. By including a requirement for an income/expenditure assessment, we would require engagement from the consumer. This may help to facilitate more positive relationships between consumers and suppliers and may also act as a first step towards consumers engaging with CGCs to access the support they can offer. The application route may also introduce more consumers to wider debt support and advice. Including

this route would also expand the pool of eligible consumers, allowing us to reach more consumers in need of support, who may not meet what may be the restrictive criteria under the primary eligibility criteria. This route could achieve these benefits without the need to build in additional conditionality measures into the design of the scheme, which could act to reduce engagement.

- 6.39 Feasibility of including the application route option in the design will likely rely on an assessment of the likely volume of applications which could be received as compared against the capacity of CGCs to process these applications. We would be particularly interested in feedback from eligible CGCs as to their funding limitations and practical constraints in building capacity by October 2025.
- 6.40 We would propose that Ofgem would identify the participating CGCs for a debt relief scheme. We propose this would only include organisations regulated by the Financial Conduct Authority.
- 6.41 We envisage that the application route would act as an appeal route, for those consumers who meet the first two arms but do not meet the final, affordability assessment, arm of the primary eligibility criteria. We are proposing the application route would be built on three assessment arms:
- 6.42 **Arm 1: indebtedness or level of indebtedness.** We would propose the first arm of the eligibility criteria would be one of the two options reflected under the primary eligibility criteria. This is data which is held by suppliers. Between the two options, we could consider making a different selection to that made under the primary eligibility criteria. However, there may be drawbacks in doing so on the basis of ensuring smooth administration processes for suppliers. There may be merit in requiring a minimum 'level of indebtedness' into the criteria as this may prioritise support to those most in need and help to manage the risk of unmanageable volumes of applications.
- 6.43 **Arm 2: the period of debt accumulation.** The second arm of the assessment would reflect that of the primary eligibility criteria. Again, we understand suppliers have the data to identify data accumulated during the crucial period. This element remains an important addition to target the correct pool of existing debt and reduce the risk of perverse incentives by creating perverse incentives.
- 6.44 **Arm 3: an income assessment carried out by a CGC.** This arm would require the CGCs participating in the scheme to play a direct role in identifying eligible consumers and supporting them to have access to a debt relief scheme, through use of a robust income and expenditure assessment, such as a Standard Financial Statement (SFS) or Common Financial Tool (CFT). In terms

of eligibility criteria, we would propose this is based on a set ratio of essential outgoings versus income. However, we could also simply set an income threshold.

- 6.45 We would want to ensure that there is consistency in the assessments undertaken across the different CGCs involved in conducting the assessments. By requiring use of the SFS or CFT, we believe this should ensure a consistent standard. However, we would welcome further views on how to ensure a consistent approach with reliable outcomes, particularly where a number of different organisations may be involved in carrying out these assessments.

Application route – design of customer journey and administrative mechanisms

- 6.46 We would propose that this route is an appeal route. In conducting the primary eligibility criteria assessment, suppliers would identify consumers who have met the first two arms of the primary eligibility criteria but have failed to meet the eligibility criteria under the affordability arm. We would require suppliers to contact these consumers to inform them that they may be eligible for support from a debt relief scheme and to advise them to contact one of the participating CGCs for further assessment. Suppliers would be required to provide key information, including the name of the CGCs which could provide assistance and the time limits which apply to the application and the scheme more broadly. This could be combined with issuance of a formal confirmation document that the first two arms of the eligibility criteria have been met, which would need to be produced by the consumer to the participating CGC. This referral approach would ensure that the CGCs do not undertake assessments of individuals who will not qualify for support. Alternatively, we could require direct data sharing between the supplier and CGCs to provide confirmation that the consumer has met the first two arms of the eligibility criteria. The CGCs may need to gather consent from the consumer as a first step in conducting the assessment. We anticipate this may encourage people to approach CGCs independently and risk overwhelming the resource capacity of participating organisations. We would, therefore, propose that a referral approach is preferable. Due to the eligibility criteria being prescriptive, there may be little value in allowing self-identification where we can determine those consumers up front who we know will not meet the eligibility criteria. There is clear benefit with indebted consumers engaging with CGCs. However, the volume risk, which could lead to the scheme failing to reach those who could qualify, and the inability to provide debt relief support due to ineligibility, would arguably outweigh this benefit.

- 6.47 Having made contact with the CGC and having gathered confirmation of potential eligibility, the CGC would conduct the affordability assessment. Regardless of whether the consumer met the eligibility criteria under the income and expenditure assessment, with the consent of the consumer, we would expect the CGC to notify the supplier and provide a copy of the assessment. The supplier would then use this data to make a determination as to whether the eligibility criteria had been met and, where satisfied it had, take the decision to issue the support, whether that be debt relief or to arrange a debt matching agreement.
- 6.48 We believe the proposed design, as an appeal route requiring referral, would have the greatest success to provide an efficient and smooth administrative process for all participants and manage the risk of the participating CGCs being overwhelmed with requests for assessments. To further mitigate the volume risk, we could also build in structures to ensure the prioritisation of support. For example, this could be achieved by limiting the number of applications which will be completed up front, and prioritising referrals on the basis of an assessment of need. In the absence of any information on affordability, this could be measured by total debt level. We would expect suppliers to conduct this assessment across the base of 'potentially eligible' consumers before referring them to the CGC. We could also manage the volume risk through setting time limits, within those of the overarching scheme time limits. These limits could either be placed on the consumer to take action to contact the CGC after referral or for the final assessment to be submitted by the CGC to the supplier. There are difficult balances to be struck between ensuring accessibility of the support, particularly for vulnerable consumers, and managing the potential administrative ask on CGCs. We would welcome views on this issue.
- 6.49 Under this proposal, the CGC would claim their administrative expenses from the supplier. The supplier could then claim this as part of their total debt relief scheme administrative costs. Assuming we included the application route with a design requiring referral by the supplier, we would expect the supplier to pay the CGC regardless of whether the particular consumer ultimately qualified for support from a debt relief scheme. We could also set a flat rate or a cap on the administrative costs which the participating CGCs could claim for each assessment. We would welcome views on this. We would also welcome views as to whether there would be value in pre-approving a level of funding commitment to allow CGCs to build capacity in anticipation of demand.

6.50 An audit of the participating CGCs and the suppliers would be overseen by the administrator or be a supplier commissioned third party audit, either after each assessment, before final distribution, or in bulk following distribution of the funds. We envisage, in relation to the CGCs, that this would principally be focussed to confirm that the assessments had been conducted in accordance with the scheme rules. We would also audit scheme cost claims. In relation to suppliers, the audit would be to confirm that the decision to issue support was in line with the eligibility criteria, and the support provided complied with the rules of the scheme, following the correct process. This is discussed in further detail in Chapter 4.

Supplier switching and address changes ("closed accounts")

6.51 Eligibility for a debt relief scheme could be specifically designed to ensure those who have switched suppliers or those who have moved properties at crucial points in their debt journey are eligible for, or are excluded from receiving, support from such a scheme. This is a particularly important consideration if we choose to include a minimum level of indebtedness in the eligibility criteria.

6.52 When a consumer tries to move suppliers while they have debt, with some limited exceptions, a supplier may object to a consumer switching if the debt has been outstanding for more than 28 days. Where a consumer does complete a switch with existing debt, or where they move out of the property listed on the customer account without notifying their supplier, ordinarily the debt will lie, and suppliers will continue to attempt to chase the repayment of this debt.

6.53 We would propose, the following outcomes for each set of circumstances listed below. However, we would welcome views on each proposal –

- **A consumer accumulated debt with one supplier and then left that supplier.** So long as the eligibility criteria are met on the account held with the supplier, we envisage that the consumer will qualify for support.
- **(Assuming no minimum level of debt is required for eligibility) a consumer accumulated debt with one supplier and then moved suppliers and continued to accumulate debt with their new supplier(s).** Support will be applicable to the individual account for which the eligibility criteria has been met, whether this is all, one, or none of the accounts. For the avoidance of doubt, only the debt accumulated during the critical period identified in the eligibility criteria would be eligible for debt write off or debt matching.

- **(Assuming minimum level of debt is required for eligibility) a consumer accumulated a small amount of debt, insufficient to meet the eligibility criteria, with one supplier and then moved suppliers and continued to accumulate debt with their new supplier(s).** We envisage that this debt will qualify for support so long as the debt sitting across suppliers, and debt holder, meet the eligibility criteria. For the avoidance of doubt, only the debt accumulated during the critical period identified in the eligibility criteria would be eligible for debt write-off or debt matching.

If we were to permit eligibility in these circumstances, it would require some engagement and data sharing between suppliers towards verifying eligibility. We would be interested to hear supplier views in relation to this option and any additional requirements needed to ensure this could be run smoothly from an administration perspective.

- **A consumer accumulated debt and moved properties (new supplier(s), if any, not known) and the supplier has continued to chase the debt.** Support will be available to the individual account should the eligibility criteria be met.
- **A consumer accumulated debt and moved properties without notifying the original supplier (new supplier(s), if any, not known), and the supplier has been unable to chase the debt due to the property move.** In most cases, we would expect that this debt has been cleared on the consumer account. If that is not the case, we would propose that support will be applicable to the individual account should the eligibility criteria be met. However, we could choose to exclude this group. Arguably there are legitimate reasons for doing so. For example, a supplier may have written off the debt and, as they are not being chased, the consumer is not being subjected to the same level of detriment associated with this. There is also an argument to be had against rewarding disengagement behaviour in consumers. There is rationale for including these accounts. Clearing this debt would contribute towards the benefits which are not directly associated with consumer debt experiences. Additionally, should the debt still be lying in the account there is a possibility that, if contact were re-established, debt chasing could recommence. From a practical perspective, it will be unlikely that the supplier will have up-to-date data in relation to this consumer to allow them to meet the primary eligibility criteria, so they are unlikely to qualify. However, the application route of eligibility may provide opportunity for the consumer to proactively re-establish that contact and evidence that

they cannot repay the debt. Overall, we feel it is likely this represents a small group and there would be overall benefits to include such accounts within the scope of eligibility.

Level of debt within eligible pool

- 6.54 Until we finalise our selection of the eligibility criteria and have the opportunity to consider the data in relation to the level of debt within this group, we will not know how much debt lies within the eligible pool. There is a risk that due to the reliance on proxies, which are in the early stage of testing, the eligible pool could be poorly targeted or contain a relatively small level of debt. Therefore, the rationale for providing support only to this group may be weak or clearing the debt within this group will not provide sufficient benefits. This is only a significant risk if we also decide against the application route for eligibility.
- 6.55 Should this scenario be realised, we could remove the third arm of the primary eligibility criteria. If we were to do so, we would expect the pool to equate to up to £1.29 billion of debt and arrears (the total debt and arrears accumulated during the proposed definition of the energy crisis period). Selecting this design for the eligibility criteria would limit options for the design of debt matching or, debt matching may not be possible if we were to select this route. Alternatively, we could rely on indices of deprivation to inform affordability.
- 6.56 We acknowledge that proceeding with this design for eligibility, due to the broad scope nature of this approach, would risk providing support to those who can afford to repay their debt. We also acknowledge the risk of rewarding undesirable behaviour in consumers (choosing not to pay and disengagement). However, we would expect this to be a fairly small pool of consumers. The risk of providing support to those who do not need it would likely be further reduced by setting a minimum level of indebtedness within the criteria. It may be the case that risking providing support to those who are not in need would be outweighed by the benefits of clearing a larger portion of debt.

Options for Conditionality

- 6.57 Conditions on accessing a debt relief scheme could be set for consumers and suppliers. By including conditions, the positive impact could be strengthened, particularly in relation to the ancillary objectives of such a scheme. However, increasing the conditionality to the scheme could create barriers, particularly for consumers in vulnerable situations, and careful consideration would need to be given to restricting access.

- 6.58 We would expect consumers to have paid towards their ongoing consumption in the six months leading up to the start of a debt relief scheme. This could include insufficient payments to meet ongoing demand but presents evidence of a willingness to pay a contribution.
- 6.59 In relation to conditions which could be placed on consumers, they could be required to complete an income and expenditure assessment with a qualified debt adviser to assess eligibility and level of need. In turn, the level of support could be tailored to individual, or household circumstances and puts customers in arrears on an affordable repayment plan. This could perhaps be a requirement placed solely on those where initial qualification under the primary eligibility criteria indicates that debt matching would be suitable as opposed to debt write off. This may help to ensure that any repayment plan is set at a sustainable level. Consumers could also be required to accept a smart meter as a condition of support, making it easier to deliver future financial support and increase debt prevention through more accurate bills.
- 6.60 In relation to suppliers, supplier access to funds contingent on complying with Standard Licence Conditions on debt management, as set out in the [accompanying consultation](#). This would drive higher consumer standards and set the right incentives. Suppliers who are not meeting this condition could be required to fund the debt write-off for eligible consumers themselves providing an incentive to improve their practices. This would enable eligible consumers whose supplier does not meet these requirements to still benefit from the scheme. Suppliers could also be required to provide debt advice and energy efficiency measures (through an existing scheme such as the Energy Company Obligation (ECO)) to eligible customers to help tackle the root cause and prevent the consumer falling back into debt. Debt advice would enable debt support based on ability to pay, and energy efficiency measures would help tackle the root cause of the debt problem but increase barriers and complexity of the scheme, particularly for those in transient circumstances such as the private rental sector or social housing. Adding energy efficiency benefits onto the scheme would require strategic alignment with other energy efficiency schemes. For example, requiring suppliers to signpost consumers who wish to access support from a debt relief scheme to the ECO scheme could be a beneficial way to provide practical benefits by using an existing energy efficiency scheme targeted at low income and fuel poor households.

7. Conclusion and Next Steps

Section summary

This chapter sets out the next steps for each debt relief scheme policy option, alongside setting out interacting workstreams.

- 7.1 This consultation paper explores the case to introduce a debt relief scheme to address the issues of consumer debt and arrears in the energy sector and explores a range of design and policy options to introduce such a scheme. This chapter sets out the next steps, considering the range of options available to us. These options should be considered in the wider context of related retail pricing workstreams, particularly those that consider approaches to debt.
- 7.2 Following the close of this consultation, we will carefully consider and review the responses. If we go ahead with the scheme, then we aim to publish a statutory consultation in early 2025 with a view to making a final decision by summer 2025.

How to respond

- 7.3 We want to hear from anyone interested in this consultation. Please send your responses to this consultation by 6 February 2025. Please send your responses to DebtConsultations@ofgem.gov.uk. Please include detail and supporting evidence in your comments wherever possible.
- 7.4 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 7.5 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Appendix 1 – Summary of Questions

A1.1 Please provide answers to the questions below and provide any other comments that may be relevant. In all cases, please provide as much detail as possible to support your input.

Q1. Do you agree with our case for change?

Q2. Should we intervene through the introduction of a debt relief scheme?

Q3. Do you agree with the proposed design principles for a debt relief scheme?

Q4. Do you agree with our key objectives for a scheme?

Q5. What are your views on how we could best reduce the lead time between our proposed policy decision on a scheme and introduction of a scheme, balancing this with robust audit and readiness assurance processes?

Q6. Do you agree our proposals in relation to a scheme time limits for a debt relief scheme?

Q7. What are your views on the type and level of support that could be provided by a debt relief scheme?

Q8. Do you agree that a scheme should be implemented through supplier delivery with Ofgem oversight (Delivery option 1) or through an independent administrator appointed by Ofgem (Delivery option 2)?

Q9. Do you have any views on the audit options presented?

Q10. Do you have any views on how the supplier funding claims process should work under audit option 2?

Q11. Are there any other considerations for the delivery mechanism for a debt relief scheme we have not explored?

Q12. Are there any other financing or administrative considerations for your organisation that we have not considered as part of Chapter 4 or the initial Impact Assessment?

Q13. Do you have any views on the funding options presented, considering the balance between the temporary addition to customer bills against period of recovery?

Q14. Do you have any views on reducing supplier funding claims to account for historical debt write off that has been funded via the price cap and supplier contributions?

Q15. What are your views in relation to the approach which should be taken to account for debt which has already been provided for by historical price cap allowances or provisioned for, for a debt relief scheme's eligible customers?

Q16. Should debt matching be included in a debt relief scheme?

Q17. If debt matching is included, what are your views on how we could differentiate eligibility thresholds for debt matching and debt write-off and what would you consider is a reasonable ratio for suppliers to match support to customer payments?

Q18. Should networks pay approved debt relief scheme claims to suppliers in winter 2025/26, or only later when networks have received the funding via higher network charges?

Q19. Over how many years should networks recover the cost of a debt relief scheme – for example, 1, 3 or 5 years?

Q20. What are your views on the proposed primary eligibility criteria? We welcome views on our proposals for arm 1 and 2 of the eligibility criteria, considering the options for debt write-off and debt matching.

Q21. What are your views on proposals for arm 3 of the primary eligibility criteria (affordability assessment)? We would welcome views on both the feasibility of relying on each data proxy and the suitability of each data proxy to target consumers. We welcome views on eligibility criteria, considering the options for debt write-off and debt matching.

Q22. What are your views on the proposed application route for eligibility? We welcome views on our proposals for arm 1 and 2 of the eligibility criteria, considering the options for debt write-off and debt matching.

Q23. What are your views on proposals for arm 3 of the application route for eligibility (affordability assessment through a CGC)? We welcome views on eligibility criteria, considering the options for debt write-off and debt matching.

Q24. Do you agree with our proposals for eligibility in relation to closed customer accounts? What administrative challenges may be faced with these proposals and how can these be overcome?

Q25. What are your views in relation to the removal of arm 3 of the primary eligibility criteria or the use of indices of deprivation as the affordability assessment? Would you support debt write-off or debt matching for this group?

Q26. Should conditionality be built into the design of a debt relief scheme and, if so, which elements of conditionality should we include?

Q27. Are there significant data sharing challenges which we should consider in the selection of design options?

Appendix 2 – Initial Impact Assessment

A2.1 This Appendix sets out an initial Impact Assessment (IA) for our proposal to introduce a one-off debt relief scheme to address debt accrued during the energy crisis. This IA represents our initial analysis based on the data we currently hold. We expect to refine our methodology and findings for our statutory consultation based on responses to this policy consultation and information gathered via the Request for Information (RFI) sent to suppliers.

A2.2 The impacts in this IA are assessed against a baseline of not intervening and the current approach in the industry to addressing the issues of debt. Where price cap impacts are referenced, these are assessed against the current price cap period 13a (1 October 2024 to 30 December 2024). We do however note that Ofgem is currently conducting a review of operating cost allowances within the cap. We will look to reflect any changes in our draft IA for our statutory consultation. Our approach to this IA is based on Ofgem’s current guidance on impact assessments.

A2.3 The draft IA is structured as follows:

- i) Scope and approach
- ii) Summary of findings

A2.4 Impacts of a debt relief scheme on energy customers

- i) Impacts on future price cap allowances
- ii) Impacts on suppliers
- iii) Administration costs
- iv) Competition assessment

Scope and approach

A2.5 This Impact Assessment sets out our initial assessment of how this scheme will impact customers, suppliers, debt in the market and the price cap. We also set out our initial assessment of how this policy may affect competition in the market.

A2.6 There are a number of detailed scheme design elements that remain unknown at this stage particularly related to scheme delivery, funding, and eligibility. Where relevant we have included the impacts of each of these options in each section of this IA, noting where impacts differ depending on the option chosen.

A2.7 As noted above, we have made the below assessment based on the information Ofgem currently holds. We are collecting information from suppliers to allow us to understand the distribution of debt and how it intersects with eligibility via our RFI. This

information will allow us to more accurately determine the costs and benefits of this policy, particularly how this changes with different eligibility criteria. We welcome comments and views on our draft IA.

Summary of findings

A2.8 Our proposal to introduce a one-off debt relief scheme, depending on design, could provide direct debt forgiveness to up to 2.3m households, writing off up to £1.29bn of debt. The exact size of support will vary depending on our decisions regarding eligibility criteria, we have set out below some initial estimates of how the criteria set out in this policy consultation will affect the total level of support.

A2.9 We expect the total cost of the policy to fall below the total level of support provided to customers in debt, and as such the policy may be understood to be 'cost neutral'. In particular we would expect that where eligible debt had been provided for under previous cap allowances this would be netted off the cost of the policy. Where debt had not been previously provided for, we would expect that a future portion of this would have become bad debt and contributed to a higher future cap level.

A2.10 We expect to see benefits materialise from this scheme that will impact all customers in the market. Specifically, we would expect any level of debt matching to 'crowd in' customer money to repay debt where it otherwise may not have been. In addition, we expect the scheme to lead to positive behaviour impacts for customers that have their debt forgiven, particularly where we also employ debt matching. We have seen evidence from similar schemes, that a high percentage of customers that were part of debt matching schemes continued to pay off future consumption after their debt was written off.

A2.11 This policy results in an overall net positive distributional impact as customers in debt that benefit directly from this scheme tend to be lower income customers. We estimate the overall income weighted benefit for this policy to be c.£1bn - 1.2bn.

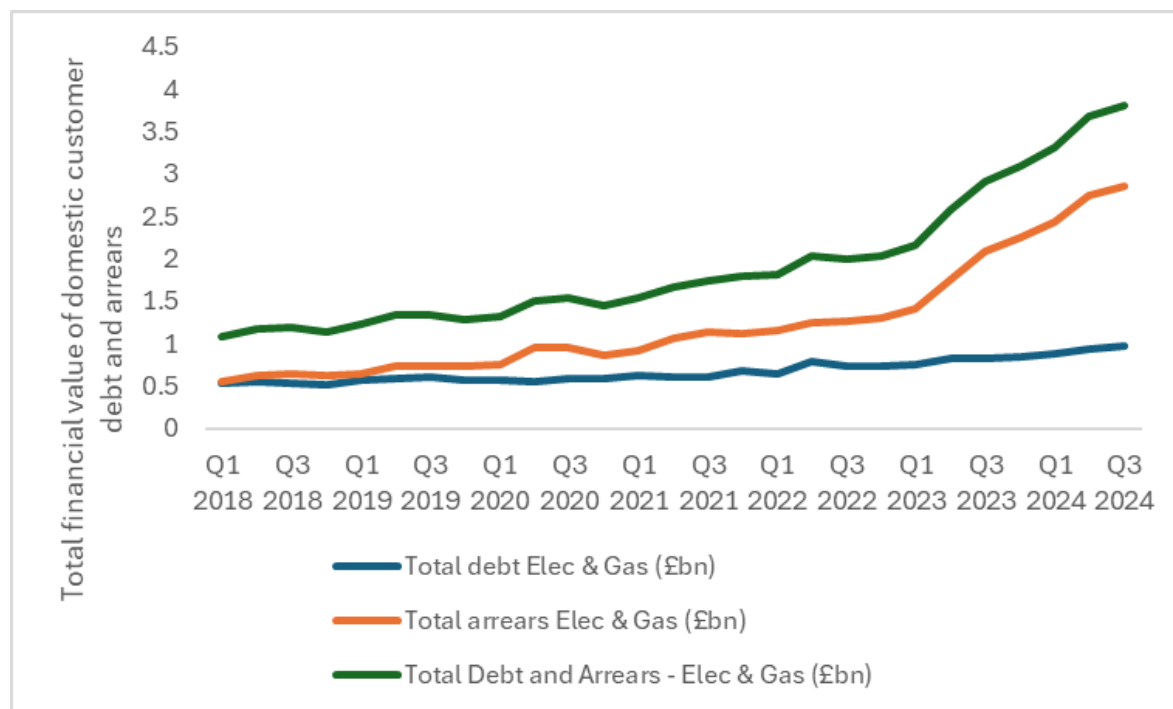
Impacts of a debt relief scheme on energy customers

A2.12 This section sets out our preliminary analysis of the impact of a debt relief scheme on different types of consumers. We have focused on the direct benefits to customers in debt as well as the impacts of other customers in the market that will not receive direct debt support. We also set out the distributional impacts of our policy.

A2.13 Based on the [latest data](#) we hold from suppliers we estimate that total debt and arrears in the energy market currently stands at £3.8bn with c.1m households in debt with a repayment plan and c.1.3m accounts in arrears that are not currently on a repayment plan. As figure A2.1 shows, a large amount of this debt was built up during the energy crisis with total debt and arrears increasing by around £1.29bn during the

period Q2 2022 to Q1 2024 predominantly driven by an increase in arrears. The large rise in arrears has been driven both by an increasing number of customer accounts in debt with no repayment plan as well as an increase in the average level of debt per customer account.

Figure A2.1 - Total debt and arrears (£bn)



A2.14 Under the current price cap arrangements end customers do not necessarily see the direct impacts of supplier debt write offs on their accounts. Our proposal to introduce a one-off debt relief scheme will provide direct debt relief to those customers in debt that are eligible for the scheme.

A2.15 Ofgem’s customer research indicates that the cohort of customers in debt or arrears tends to have a lower level of income compared to the wider population of energy customers. Our research indicates 33% of customers in debt or arrears earn less than £16K compared to around 16% of customers that are not in debt. As demonstrated in table A2.2 below, Ofgem’s consumer research continues to indicate that customers in energy debt are also more likely to report having a disability or long-term illness. We note that majority of the findings from Ofgem’s own research correspond with findings from the latest UK Parliamentary Office of Science and Technology [report on Consumer Debt and Mental Health](#).

Table A2.2 Vulnerability characteristics of customers in energy debt compared to customers not in debt

	Customers in debt	Customers not in debt
Medical equipment in home	8.6%	4.4%
Disability or illness in household	44.2%	29.5%
Percentage of customers who have reduced energy use that have experienced mental health impacts as a result	18.6%	9.6%
Percentage of customers who have reduced energy use that have experienced physical health impacts as a result	21.6%	12.5%

A2.16 As set out in chapter 6 of our consultation, not all customers in debt will be eligible for the scheme. The overall level of support for customers in debt will therefore depend on the eligibility criteria utilised. To ensure the scheme is targeted at those in debt that most require support we have proposed three arms of eligibility:

- i) Arm 1: indebtedness or level of indebtedness
- ii) Arm 2: period of debt accumulation
- iii) Arm 3: Affordability

A2.17 We are currently limited in our ability to accurately assess the extent to which the above eligibility criteria affect the level of debt support we would expect a debt relief scheme to provide. For the purposes of this, we have utilised Living Costs and Food Survey data from Ofgem’s consumer archetypes and assumptions from the RFI sent to suppliers in the spring to estimate the impacts of different eligibility criteria on the overall level of support. These numbers should be taken as estimates only and are likely to be revised for future impact assessments. We are collecting further information from suppliers via a Request for Information (RFI) to help us further refine our analysis in this area and produce more accurate estimates.

A2.18 Regarding eligibility Arm 1, data based on our monthly household survey sent to suppliers indicates that there are currently c.1m accounts in debt and c.1.3m accounts in arrears with a total debt and arrears value of c.£3.8bn. The average level of debt sits at c.£946 with the average level of arrears equal to around £2,157 per household. At this

stage we do not have the data to estimate the impact of applying an eligibility criterion based on the level of debt on a customer account. We are gathering this data via our RFI to suppliers.

A2.19 For debt to qualify for the debt relief scheme it must have accrued during the energy crisis. We have defined this period as Q2 (April 1st) of 2022 to Q1 (March 31st) of 2024. We currently hold aggregated data from suppliers and estimate the total level of debt and arrears accrued in this period to be around £1.29bn of the total £3.8bn currently owed by customers. It is likely that the majority of the c.3.4m customer accounts with outstanding debt accumulated at least some of their debt during the crisis. We will update the figures after we receive responses from the RFI.

A2.20 The third arm of eligibility is aimed at assessing the ability of a customer to pay back their existing debt they had accrued. Due to the speed of delivery, we are considering a number of data proxies to inform the eligibility criteria for this arm. The options we are considering include supplier held Credit Reference Agency Data, WHD eligibility or 'WHD Plus'. We note the exact definition of WHD Plus remains open at this stage. However, one of our key options is to remove the assessment of high energy costs from the definition which would expand the current pool of eligible customers without significantly impacting the strength of the criteria in targeting those in need of support. The details of this are set out in Chapter 6 of this document.

A2.21 The data we currently hold does not allow us to estimate how the use of Credit Reference Agency data as eligibility criteria would impact the number of customers eligible for debt support, we have however estimated the distribution of debt and arrears based on different income levels using our consumer archetype framework. We have also included preliminary estimates of the split of customers in debt that receive WHD or would be eligible under a WHD Plus eligibility criteria. The details of this are set out in table A2.3 below.

A2.22 Based on our most recent data for total debt and arrears (March 2024), WHD recipients account for 11% of all customers in debt and arrears, and 12% of all debt and arrears total value. In the same period, WHD recipients had an average debt level 23% greater than the non-WHD recipient average, and an average arrear level 24% greater than the non-WHD recipient average. Assuming that WHD recipients represent the same proportion of debt built up during the crisis period, we would expect WHD customers to account for c£155m of debt built up over the crisis across around 640K customers.

A2.23 Median estimates for expanding WHD eligibility by removing the EPC criteria could expand the value of targeted debt to c. £438 million across up to c. 1.8 million customers.

A2.24 The largest eligible group (excluding all customers with debt during the target period) is a combination of the WHD plus and those with low income (defined here as £21k or less based on 60% of the [UK median household income](#)). Our archetype data suggests there is significant overlap between these groups, with low income customers representing 20% of all households in the data set, and WHD recipients representing 17%. There is notable overlap within archetypes of those in receipt of benefits which would qualify for WHD (when excluding the EPC assessment) and archetypes with a high proportion of customers classed as on low income. We have estimated using this 3% difference the customers and value of debt and arrears for a combination of low income and WHD plus. Our estimates (included in the table below), assume that since 100% of the larger group or value would be included in the combined total, 3% of the smaller group or value would sit outside of the crossover and has therefore been added in addition to the larger single group total.

Table A2.3 Summary of estimated support under different eligibility criteria

Eligibility criteria	Number of customers eligible (Debt)	Number of customers eligible (Arrears)	Total value of debt (£m)	Total value of arrears (£m)
Total eligible debt based on the time period Q3 2022 – Q1 2024	1m	1.3m	£88m	£1198m
Customers in debt that are WHD eligible	0.34m	0.30m	£12m	£143m
Customers in debt that are eligible under WHD plus	0.95m	0.85m	£34m	£404m
Customers in debt with household income of less than £21k	0.34m	0.44m	£147m	£342m
Customers in debt with household income of less than £21k OR that are eligible under WHD plus	0.96m	0.86m	£148m	£415m

Costs of a debt relief scheme to energy customers

A2.25 To support a debt relief scheme, we are considering a range of funding routes that will have direct impacts on end customer bills. We have set out below illustrative

estimates of the impact on bills of funding a debt relief scheme via electricity and gas network charges. These will necessarily change as our policy develops, particularly as we make decisions on eligibility criteria that narrow the level of support a debt relief scheme will provide.

A2.26 We would expect total impact on customer bills to be lower than the total amount of debt written off as part of a debt relief scheme. We expect that there will be a 'netting off' effect where suppliers make reduced funding claims from the scheme where they have previously been compensated for debt-write off through previous cap allowances. During the eligible period, we note that suppliers recovered c£1.8bn of bad debt charge via the price cap allowance. We expect a portion of the debt write off that occurred to overlap with the debt written off by a debt relief scheme and reduce the overall cost of the scheme. We do not currently have the data at this stage to accurately assess this. However, based on an assumption that the previous debt allowances were equally distributed amongst eligible and ineligible customers we would expect around £400m of the debt due to be written off under a debt relief scheme to have been already. We would however expect a much higher overlap given our eligibility criteria will target those customers most likely to be unable to pay back their debt, and therefore more likely to have already been reflected in debt provisions.

A2.27 In addition to the above we are proposing to use debt matching to complement debt write off. To the extent that customers pay a proportion of their debt off under a debt relief scheme this will further decrease the cost of the scheme relative to the level of total debt written off as part of the scheme. Our proposals for debt matching are not yet mature enough to allow us to estimate the impact of this but we would expect to be able to provide an estimate in our IA that will accompany our statutory consultation.

A2.28 To demonstrate the impact on customers of the scheme we have focused on the impact of bills at two funding levels (£0.5bn and £1bn). These two levels of funding sit underneath the theoretical maximum amount of funding a debt relief scheme would require (c.£1.29bn if all eligible historical debt was written off and funded through bills). They are both set below this level to reflect the fact that we would expect the eligibility criteria to narrow down the total level of support as well as reflect the netting off of previous debt allowances and customers contributions via debt matching.

A2.29 As noted in Chapter 5 of this document, a key benefit to using network charges to fund a debt relief scheme is that the costs can be spread over multiple years, limiting larger shocks to customer bills. We are currently considering recovery over a 3 or 5 year period. The latter allows for lower annual bill impacts but increases the overall cost of the scheme via higher interest charges. The opposite is true for the 3 year option. Tables

A2.4 and A2.5 below set out the cost implications of £0.5bn and £1bn debt relief scheme, respectively, recovered via network charges.

Table A2.4 Bill impacts of £500m support recovered via network charges

	Total support (£m)	Interest costs (£m)	Average annual bill impact (£ per annum)
Recovery over 3 years	£500m	£63m	£7
Recovery over 5 years	£500m	£101m	£4

Table A2.5 Bill impacts of £1bn support recovered via network charges

	Total support (£m)	Interest costs (£m)	Average annual bill impact (£ per annum)
Recovery over 3 years	£1,000m	£127m	£14
Recovery over 5 years	£1,000m	£202m	£9

Distributional impacts

A2.30 We have utilised Ofgem’s energy consumer archetypes to understand the impacts of this policy on different groups of consumers. The archetypes were designed to assist with the identification and understanding of different types of energy consumers, including those in vulnerable situations, and to model the impacts of future policy changes.

A2.31 In this analysis, we have considered the impact on a subset of vulnerable consumers (specifically those on low incomes), by weighting impacts relative to their household income. We have used Ofgem’s consumer archetypes listed in Table A2.6 below. We have also considered these archetypes across ten income deciles to assess impacts across a diverse range of circumstances.

Table A2.6 – Consumer Archetypes

Archetype	Characteristics
A1	Lowest income; mains gas; retired; 75+ years old; single adults; owner-occupied; urban; not early adopters; no internet connection; no degree or higher

Consultation - Resetting the energy debt landscape: the case for a debt relief scheme

A2	Low income; housing association; single adults; 55+ years old; prepayment meter; WHDS eligible; good EPC rating; no degree or higher
A3	Low income; mains gas; retired/unoccupied < 65 years old; prepayment meter; housing association/local authority; disability benefits; mobility disability; CWP eligible; WHDS eligible; good EPC rating; no degree or higher
B4	Low income; electric heating; retired/unoccupied; 65+ years old; purpose-built flats; owner-occupied/housing association; high electricity consumption
B5	Low income; electric/solid fuel/LPG heating; 45+ years old; retired/unoccupied; disability benefits; high electricity consumption
B6	Low income; mains gas; private rented/local authority; 45-74 years old; low gas consumption; early adopters
C7	Lower-middle income; mains gas; purpose-built flats; housing association/local authority; full-time/part-time employed/ 25-54 years old; early adopters; high proportion BAME
C8	Lower middle-income; electric heating; purpose-built flat; private rented/local authority; full-time/part-time employed; 1 child; 25-54; early adopters; high proportion BAME
C9	Lower-middle income; couples/single adult woman; retired; 65+ years old; owner occupied semi-detached/terraced dwellings; average energy consumption; WFP eligible
D10	Lower-middle income; mains gas; disability benefits; mobility and dexterity disability; retired/unoccupied; owner occupied; semi-detached/terraced; 55+ years old; not early adopters; CWP and WFP eligible;
D11	Lower-middle income; low energy consumption; good EPC rating; purpose-built flats; full-time employed; 25-74 years old; early adopters; urban; low scheme eligibility
D12	Lower-middle income; retired 65+; owner occupied; detached; couples; high gas consumption; not early adopters; eligible for WFP; suburbanites
E13	Middle income; <35-54 year old unoccupied/retirees; 1+ children; disability benefits; early adopters; high energy consumption; CWP and WHDS eligible; prepayment meter; hard-pressed living
E14	Middle income earners; 2+ children; 25-54 year olds; full-time/part-time employed; private-rented/owner occupied; urban; early adopters
F15	Middle income; other/electric heating fuel; 2+ children; full-time/self-employed; 25-54 year olds; early adopters; high electricity consumption
F16	Middle income; electric heating; has degree or higher; purpose-built flats; 16-54 year olds; good EPC rating; full-time employed; couple/single adult man; early adopters
G17	Upper middle income; Oil/Other heating system; unconventional housing; Owner occupied; self-employed; couple/single adult; 45+ year olds; rural; unknown EPC rating

G18	Upper middle income; Other heating fuel; owner occupied; full-time employed/retired 65+; low scheme eligibility
H19	Upper-middle income; oil heating fuel; retired 65+/full-time employed; poor EPC rating; rural; owner-occupied; detached/semi-detached; WFP eligible
H20	Upper-middle income; mains gas; early adopters; 25-54 years old; full-time employed; below average consumption
I21	High income; mains gas; 1 child; full-time employed; 25-54 years old; early adopters; owner-occupied/private rented; semi-detached/terraced; high ECO eligibility
I22	High income; no children; mains gas; highest gas consumption; 45-64 years old; full-time employed; early adopters; has degree or higher
J23	High income; mains gas; 2+ children; 35-54 years old; full-time employed; owner-occupied; semi-detached/terraced; early adopters; urban
J24	Highest earners; 1+ children; oil heating; highest electricity consumption; rural; full-time employed; owner-occupied; poor EPC rating; early adopters

A2.32 Table A2.7 and table A2.8 below show the estimated distribution of net impacts across Electric customers. At this point in the policy’s development, these totals act as illustrative estimates, until eligibility criteria are agreed which will allow us to calculate the scheme’s total support value.

A2.33 Using customer archetypes and income deciles, we estimate that the overall net impact of the policy across fuels at both £1 and £0.5 billion in value will be positive. This is driven by our assumption that the costs of a debt relief scheme will be lower than the total level of support provided to eligible customers due to the netting off effect to account for previous bad debt allowances. In the above impacts, we have taken the low estimate for total eligible debt allowance (£400 million). Deducting prior debt allowance, the cost of the policy to be recuperated through the Networks is limited, leading to lower levels of fund cost and interest being added to customer bills.

A2.34 The consumer archetype data provides us insights into the number of customers in debt within each archetype. It is unlikely that debt is uniformly distributed across all customers in debt and therefore we have made assumptions around how the level of debt is distributed. We have assumed that customers in fuel poverty (defined as customers whose energy bill accounts for over 10% of their income) have a higher level of debt compared to the general population. This is an assumption we expect to refine based on data gathered via our RFI to suppliers.

Table A2.7 – Net Impacts at £1 and £0.5 billion fund (Unweighted)

Archetype	Net impact	Net impact
	(£1bn debt relief fund)	(£500m debt relief fund)
A1	£ 47,755,711	£ 28,599,587
A2	£ 24,404,036	£ 19,290,275
A3	£ 111,923,377	£ 63,174,210
B4	-£ 6,896,661	-£ 711,676
B5	£ 14,701,361	£ 9,091,824
B6	£ 67,295,949	£ 41,160,611
C7	£ 51,690,023	£ 31,230,216
C8	£ 3,079,937	£ 2,394,944
C9	-£ 77,666,195	-£ 11,004,672
D10	£ 4,818,715	£ 11,912,259
D11	-£ 20,152,644	-£ 302,934
D12	-£ 10,136,015	£ 6,834,264
E13	£ 65,270,776	£ 38,276,090
E14	£ 71,368,070	£ 45,307,254
F15	£ 12,459,394	£ 7,440,004
F16	£ 1,058,441	£ 4,232,531
G17	-£ 895,894	£ 162,640
G18	-£ 3,534,261	£ 731,967
H19	£ 3,987,916	£ 4,522,521
H20	-£ 82,396,637	-£ 12,294,196
I21	£ 46,305,649	£ 41,200,129
I22	-£ 40,378,405	-£ 5,553,777
J23	-£ 11,203,895	£ 10,368,417
J24	£ 141,253	£ 937,511

A2.35 We have also calculated the benefits for each archetype using an income-weighted analysis. Income-weighted analysis considers how a £1 cost or saving has a different marginal utility depending on income. In a weighted analysis, financial benefits for lower income households are given a higher social value than the equivalent benefits for higher income households. Distributional weights have been applied to equivalised household disposable income deciles in line with the Green Book guidance published by HMT.

A2.36 Applying income weighting we find an estimated net benefit to customers of a between £1 and £1.2 billion, reflecting the fact that customers most likely to receive debt support as part of a debt relief scheme are lower income customers.

Table A2.8 – Income Weighted Benefits

Distribution Estimate	All Fuels (£1bn)	All Fuels (£0.5bn)
Scenario 1 (No Fuel poverty adjustment)	£1,178m	£1,004m
Scenario 1.1 (Fuel poverty adjusted)	£1,279m	£1,055m

A2.37 Table A2.8 above shows the estimated net benefit for a £1 and £0.5 billion value of support across two scenarios, one where the average level of debt and arrears by payment method across all archetypes and deciles, and the second where archetype and decile combinations which meet the threshold for fuel poverty are scaled to an inflated average.

A2.38 We expect this benefit to increase further with the addition of debt matching (in which customers pay into the debt reduction) which will reduce the cost required to be recovered through Networks.

Impact on future price cap allowances

A2.39 Suppliers' bad debt costs are currently paid for by consumers. These costs are socialised across consumers through price cap allowances. The allowance is provided to suppliers for costs related to debt and debt recovery, the majority of which is to cover the costs of debt that becomes unrecoverable ('bad debt'). The current allowance is untargeted as all suppliers receive the same allowance regardless of the level of consumer debt in their customer portfolio. While this arguably incentivises debt recovery by suppliers, as the levels of debt vary by supplier, the existing design of the price cap-based approach risks over-rewarding some suppliers, while others under recover on their bad debt costs.

A2.40 A debt relief scheme would act to pay off eligible consumer debt directly in a more targeted manner with suppliers claiming in line with the level of debt they hold. As noted above we would expect that where eligible debt had been provided for under previous cap allowances this would be netted off the cost of the policy. Where debt had not been provided for under previous cap allowances, we would expect that a future portion of this would have become bad debt and contributed to a higher future cap level.

We'd therefore expect to see some positive impact on the cap to the extent that the debt that is written off under a debt relief scheme has yet to be provisioned for.

A2.41 As discussed in section 4 of this document, we intend to build debt matching into the design of the scheme. We expect this to 'crowd in' customer money to pay off a portion of their debt to access the write off of the scheme and therefore reduce the amount of debt in the system. A reduced level of debt in the system due to customer contributions via debt matching should act to decrease future cap levels.

A2.42 We expect the introduction of a debt relief scheme to lead to future behaviour changes in relation future debt for those customers eligible for the scheme. We would expect these behaviour changes to manifest due to better relationships between consumers and suppliers regarding debt. We'd expect this to occur particularly where debt matching is utilised as this gives customers in debt an incentive to engage with their current debt where they may have no repayment plan in place. Better relationships will allow suppliers to engage customers earlier when they build up debt in the future.

A2.43 Customers in debt that are eligible on the scheme are likely to be more able to afford current consumption and repayments on any future debt as the total debt burden on their account would have been reduced.

A2.44 In addition to the positive behavioural effects noted above there is also the possibility that this policy incentivises negative effects. If customers have an expectation of future debt relief, they may be less willing to take action to tackle debt in the future. We intend to mitigate the risk of moral hazard associated with this policy by committing to a time limited intervention that won't set expectations for future levels of debt relief.

A2.45 We are not able to accurately quantify the impacts of future behaviour changes on the debt related cost allowance in the price cap, but we would expect any behaviour changes to positively impact future allowances.

Impact on suppliers

A2.46 The introduction of a debt relief scheme would have an impact on all suppliers to the extent they have customers in debt that are eligible for the scheme. The most direct effect of the scheme would be to reduce suppliers' overall levels of debt and arrears and reduce the costs associated with holding that debt, namely debt admin costs and bad debt costs.

A2.47 We have estimated the supplier impacts below and set out a range of reductions in total debt. We have set out impacts as a range of percentage reductions compared to the current levels. Generally, we expect the impacts of a debt relief scheme on suppliers to be broadly positive and act to reduce overall supplier costs. We expect supplier debt

admin costs to reduce in particular as a result of the policy writing off and / or supporting debt matching to lower overall debt.

A2.48 As we do not currently know the exact design of a debt relief scheme, we have estimated the supplier impacts based on assumptions. To illustrate how the scheme will impact on suppliers we have assumed that all the eligible debt is written off. We note that the level of debt support will ultimately be lower than the total debt accumulated in the eligible period (c.£1.29bn) as eligibility criteria are introduced. Therefore, this analysis does not consider the estimated value of debt cost reduction, but rather provides a range of possible percentage reductions of these costs across hypothetical suppliers. This analysis will be updated for the statutory consultation to reflect our policy option.

A2.49 Our analysis uses notional suppliers to demonstrate how a debt relief scheme may impact suppliers with differing customer bases. We have also conducted this analysis using actual suppliers for a realistic range of debt as spread across payment methods to similar results. Table A2.9 below shows how customers are spread across each notional supplier.

Table A2.9 Spread of customers across notional suppliers

	DD	PPM	SC
Supplier A	64%	14%	22%
Supplier B	85%	5%	10%
Supplier C	5%	90%	5%

A2.50 Each notional supplier is designed to provide an example of supplier specialisation to assess the impacts of a debt relief scheme on suppliers which have a majority, or significant proportion, of their customer bases in specific payment methods. We believe that using such examples will highlight any difference in impact for suppliers with a high proportion of customers using a particular payment method.

A2.51 Supplier A represents a supplier with a significant portion of accounts paying by Standard Credit. Supplier B represents a Direct Debit majority supplier. Supplier C represents a Pre-Payment Meter majority supplier.

A2.52 We assume that the split in customers is reflected in the split of customers in debt (for example, Supplier B having 85% of its customers on DD, we would assume that 85% of Supplier B's customers in debt would be on DD).

A2.53 In addition, we assume that, by payment method, each customer in debt will have the same value of debt (which is determined by the payment method average for debt and arrears).

A2.54 It should be noted that we would realistically expect (based on existing data) that the number of customers in debt by payment method for a particular supplier would not necessarily reflect the proportion of total customers on that payment method. For example, SC customers have a higher prevalence of debt than DD customers.

A2.55 This difference in debt between payment methods, however, has been accounted for by the average level of debt by customer, where the value of debt for the average DD customer is significantly lower than an SC customer. Therefore, whilst split of customers in debt across payment methods in this analysis is dictated by the overall customer split, the value of debt contributed by each customer is aligned with the overall average for their payment method, leading notional suppliers with more DD customers, for example, to exhibit a lower value of total debt.

A2.56 In addition to our notional suppliers, impacts have been estimated against a range of scenarios covering differing proportions of eligible customers and prior levels of debt allowance as received under the price cap or supplier provisioned debt to be deducted from eligible debt.

A2.57 The exact eligibility criteria at this stage are unknown, however we expect this will feature a criterion for indebtedness, and a criterion to act as an income proxy. As a result, we have estimated impacts using two scenarios:

- i) Scenario 1: Assumes that the proportion of eligible debt within a payment method will reflect the proportion of total debt value within a specific payment method (for example, if 21% of all energy debt in the market is in Direct Debit, this scenario assumes 21% of a supplier's DD debt will meet the criteria for indebtedness). We then assume that this same split exists for the proportion eligible under the income proxy. Using the DD 21% example, we would assume that 21% of the debt value deemed eligible under the first indebtedness criteria would also be eligible under the second income proxy criteria.
- ii) Scenario 2: Assumes the same as Scenario 1 for indebtedness, but assumes that, as we cannot know the proportion of eligible debt under the income proxy criteria in a specific payment method, all payment methods hold an equal proportion of eligible debt for the second criteria. (Using the DD example, 21% of DD debt would be

eligible under the indebtedness criteria, but 33% would be eligible under the income proxy criteria).

A2.58 Similarly, as the exact proportion of eligible debt already provisioned for an average or specific payment method specialist supplier is unknown, we have applied a “medium” and “high” scenario for the proportion of eligible debt covered by pre-existing allowances which have been factored into our estimated range of reductions in Table A2.10 below.

Table A2.10 – Reduction range in notional supplier debt by Scenario

	Estimated Reduction Range (All)	Scenario 1	Scenario 2
Supplier A	3-9%	5-9%	3-6%
Supplier B	3-6%	3-6%	3-5%
Supplier C	1-3%	1-2%	1-3%
All Suppliers	1-9%	1-9%	1-6%

A2.59 We estimate based on our eligibility assumptions that a debt relief scheme could reduce supplier total debt by 1 to 9%. Supplier C, as a PPM specialist, is estimated to have the lowest level of reduction, whilst Supplier A, the SC predominant supplier, sees the highest estimates for proportion of total reduction. This is likely driven by the assumptions used for the first eligibility criteria, which follow that each payment method’s proportion of total debt value corresponds with the proportion of debt value in that payment method which would be eligible. PPM, as a payment method which requires payment ahead of use, represents the lowest proportion of total debt across payment methods.

A2.60 Similarly, Supplier B, as a predominantly DD supplier, also sees more limited estimated reductions due to the assumed lower proportion of debt within this payment method which would be eligible.

A2.61 We acknowledge that all estimated reductions at this stage are illustrative due to the uncertain eligibility criteria. We will provide an updated version of supplier impacts in the statutory consultation which will offer more grounded values as a result of fixed eligibility criteria.

Administration costs

A2.62 As the scheme is not yet fully resourced, it has not at this stage been through the business planning cycle. However, should Ofgem act as an administrator, we estimate that the cost to administer the scheme is likely to be between £0.6 - £1 million.

Competition assessment

A2.63 Although we could expect long lasting effects on affordability, as a one-off intervention looking at writing-off historical accumulated debt over a specific time period, we should not see major movements in the market structure as a result of this policy. Indeed, the current estimates of debt-reduction differences across suppliers is marginal.

A2.64 A customer with debt is restricted from switching away. Also, holding debt may affect the perception of quality of service of its own supplier. Therefore, we expect that forgiving debt could lead to an increase in switching flows by restoring the ability to engage for a higher share of the population and ultimately have a positive effect on competition. Indeed, the higher the number of engaged customers, the higher the competitive pressure is exerted. However, as we currently do not know: (i) what the eligibility criteria will be, (ii) what will be the distribution of targeted customers across suppliers, and (iii) by how much they will see their debt level written off, (iv) to what extent this will impact customers' behaviour as a result, we cannot establish the magnitude of an increase in switching. The population targeted will be on average lower-income, therefore we could expect a smaller effect than a general release in switching opportunities.

A2.65 Holding debt affects the perception of quality of service. Therefore, reducing debt levels could restore the damaged quality of service, which should allow suppliers to compete based on the effective quality of service rather than one based on the perceived quality of service biased with the debt levels.

A2.66 As a one-off mechanism, we do not expect the mechanism to limit incentives for suppliers to offer appropriate support to customers in needs and therefore compete for customers struggling to pay bills over the winter. Also, we believe that the households recipients of a debt relief scheme are unlikely to overlap with those that suppliers are willing and incentivised to support. Therefore, we do not believe that the one-off mechanism will disrupt the competitive process, as it does not interfere with incentives, but it corrects for the lack of incentives for engaging with those with affordability issues.

A2.67 Various reasons could explain why some suppliers have a less indebted customer base. Some suppliers could have a customer base that is generally less indebted, and/or some suppliers are more efficient in recovering debt. However, it gives them a competitive advantage as they do not need to cross-subsidise the potential loss associated to the debt risk and bad debt across customers. The debt mechanism is not meant to improve the ability of suppliers to recover debt over time, but to temporarily reduce some of the accumulated debt that has been difficult to absorb through the cap – this accumulated debt represents 34% of the total debt as of December 2024. Therefore,

we do not expect suppliers that are more efficient for the above reasons to be taken away their competitive advantage such that it will disturb the ability to compete.

A2.68 Some suppliers could argue that their better debt-management comes at a cost that other suppliers do not bear. Therefore, the former type of supplier will benefit from twice – they are allowed to charge for a debt allowance, and they will be allowed to write-off the debt that they do not bother to manage. We found that suppliers that concentrate most debt are not necessarily those who match the cap. All suppliers have been matching the cap, and therefore we believe that suppliers that managed debt better than others do take advantage how the price cap is set. Therefore, we believe that this mechanism could level out the competitive advantage led by the cap.

A2.69 A one-off mechanism targets an excess of debt more efficiently than a continuously increased allowance. Indeed, we expect that some suppliers concentrate more of the excess of debt than others. However, a debt allowance provides one same allowance to all suppliers. Therefore, some suppliers are left behind and some are given an advantage. A reset should restore the likely heterogenous distribution of the excess in debt and restore the ability to compete.

A2.70 All suppliers will benefit from this intervention, proportionally to their low-income indebted customer base. Therefore, we do not believe this mechanism could distort competition but only improve it.

A2.71 We also believe that if some suppliers improve their ability to compete as a result, it is in favour of consumers of today and tomorrow. However, this mechanism is not meant to do so, it is meant at relieving customers from unsustainable indebtedness, that is detrimental to themselves and impair the market. Therefore, it is expected to improve cost recovery of suppliers when the cap's design is not efficient to do so.

A2.72 The market does not incentivise to serve customers that cannot afford their bills, and we believe that a one-off debt mechanism is what will disturb competition least to protect them.

A2.73 We believe that suppliers that are more efficient at managing debt are also more efficient elsewhere and will not be superseded as a result. Lastly, we do not consider that effective competition should be carried out at the expense of lowest income consumers. Therefore, we do not believe that competition should be based on the competitive advantage acquired due to a customer base less prone to debt or effective debt management.

Risks, assumptions, and limitations

A2.74 As noted above, our scope to evaluate the total level of support from a debt relief scheme is limited. We are reliant on aggregated data that does not allow us to analyse

the distribution of debt in the industry. We are seeking further information on suppliers on this topic, and we intend to update and refine our Impact Assessment for statutory consultation.

A2.75 We are limited in our ability to accurately quantify impacts on future debt allowances in the price cap due to a debt relief scheme. We note that there is currently uncertainty on future debt related cost allowances with a review ongoing by Ofgem.

Wider impacts

Impact on inflation

A2.76 We do not expect this policy to impact inflation to any significant degree.

Environmental impact

A2.77 We do not expect reductions in consumer debt to have environmental impacts.

Supplier and network resilience

A2.78 We explore supplier impacts in the above IA. Overall we expect this to have a positive impact on suppliers by reducing the amount of debt on their books, this positive impact will differ from supplier to supplier based on the amount of customer debt they hold that is eligible for the scheme.

A2.79 We are considering a range of financing options for a debt relief scheme, one of which is through network charges, with finance provided by network companies, (further details are in Chapter 5). Under this option, there is a chance that a network financing scenario increases the perception of risk faced by investors and lenders to networks. This so-called 'contagion risk' could increase the cost of capital faced by networks, weaken the value of money aspect of this scenario and impact on the wider cost of network investment.

Public sector equality duty (Equalities Act 2010)

A2.80 Ofgem has a legal duty to consider the impact of our policies on people with protected characteristics under the Public Sector Equality Duty (PSED). The main objective of the PSED is to:

- i) Eliminate discrimination, harassment, victimisation, and any other conduct that is prohibited by or under this Act. Eliminate discrimination, harassment, victimisation, and any other conduct that is prohibited by or under this Act
- ii) Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it

- iii) Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

A2.81 Our assessment is that this policy overlaps with the PSED for the following portrayed characteristics: age and disability. Some of the distributional impacts on these groups are included implicitly, where relevant, in the distributional impacts reported in Table A2.7. We also note that, as set out in table A2.2, this policy is likely to result in a net benefit for customers with disabilities as they are significantly more likely to be in debt.

Appendix 3 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be as specific as possible.)

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for (be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. ‘six months after the project is closed’)

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data

- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

10. More information For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)".