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**“Debt Relief Scheme (DRS): Policy update working paper” – So Energy Response**

Dear Colleague,

So Energy is a leading energy supplier providing great value renewable electricity to homes across Great Britain. We supply over 300,000 customers and as one of the last challenger suppliers left in the market and one that is backed by ESB Group’s resources and expertise, So Energy is able to provide a unique view of on indebtedness in today’s energy market.

Our key feedback is as follows:

1. Phase 1 should be split into two phases. The first should cover automatic debt write-off for customers on benefits and the second should invite customers on benefits to apply. It is important to keep each phase simple and clearly defined in order to deliver a simple message to customers and promote engagement at the right time.
2. More lead time is needed between Ofgem arriving at a scheme with clearly defined requirements and the commencement of the scheme. Ofgem’s indicative timeline shows the decision being laid out in ‘Winter’ and the first write offs commencing in January. Based on our experience with EPG and EBSS, that is not nearly enough time. Ofgem’s initial guidance will prompt further questions from suppliers on the specific requirements and much of the preparatory work will only be able to be started when ambiguities are cleared up. Again, splitting Phase 1 would be helpful in this regard as it would allow suppliers to move away from trying to stand up two sets of processes at once.
3. We are greatly concerned that funding will be provided years after the debt is written off – funding off supplier balance sheets represents a complete policy u-turn that has not been accounted for in fixed tariffs already sold.
4. Of the reimbursement options presented, no customer contribution should be accounted for, given these customers have outstanding debt that is several years old. A notional supplier model of debt provisioning should be adopted as this will smooth out differences in suppliers level of conservativeness/aggression in accounting for bad debt in company accounts.

Our response to each of your consultation questions is set out below.

We hope this feedback is useful. We are keen to continue a dialogue with you in order to ensure we fully understand your emerging position and you fully understand our feedback. Open and honest dialog will help build a better debt write-off scheme. With that in mind, we would value a bilateral call to discuss these matters with you further. Please get in touch with us at your convenience.

**1. We welcome stakeholder views on whether we should cap available DRS support as at statutory consultation date?**

It makes sense to cap the level of support by a set date as this helps prevent unwelcome behaviours from customers as awareness of the DRS grows, such as cancelling repayment plans.

**2. Are there any alternative engagement pathways that customers could choose to demonstrate a commitment to resolving debt sustainably?**

It is unclear whether a repayment plan includes the customer agreeing to switch their smart meter to prepayment mode in order to pay down their debt. If it does, then this should be included as an engagement pathway.

With regards to engagement, it must go beyond words and relate to concrete actions by the customer. Speaking with a supplier about speaking with a debt advice charity should not count as engagement. Completing and submitting an income and expenditure assessment with the help of a debt advice charity should count as engagement.

**3. Do you agree with the conditions proposed for both engaged and currently disengaged customers, or do you believe that the threshold for accessing DRS should be lower or higher (and if so, please clarify how)?**

If the scheme as a whole is going to demand supplier engagement as a condition, then it should be limited to actions that actually clear down their debt. A halfway house where customers can 'engage' in some way but does not address their debt issues helps no one. To that end, requesting a smart meter should not count as engagement as there is no direct link to addressing their debt issue. We would be worried that customers these customers chief motivation would be getting their debt written-off, rather than getting a smart meter – therefore, they would request but not attend the smart meter appointment on the day. This would mean less available appointment slots for customers who genuinely want a smart meter. If a customer were to request and have installed a smart meter for the purpose of using it in prepayment mode, this would more clearly link to addressing their debt issue.

**4. Are there any improvements that could be made to existing processes or rules to make the scheme more effective – e.g. to the Fuel Direct Scheme**

The Fuel Direct Scheme is restrictive in its criteria for reasons that sit with the Department of Work and Pensions. Opening up the criteria for Fuel Direct once again, would be useful in managing customer debt, but this requires the DWP to change their position.

**5. Which of the three options is preferred?**

Option 3. DRS is targeting customers who have not paid their energy debt for several years. In most cases, they will not have an ongoing payment plan. The scheme, as proposed, allows for customers to qualify for debt write off by requesting a smart meter – something that bears no direct relation to paying off debt. Therefore, the assumption should be made that debt will not be paid off by customers to any appreciable extent.

**6. We welcome stakeholder views on whether 5% is a reasonable value for Customer Contributions (including debt displacement) or do you have an alternative methodology for assessing this value?**

0% - see our response to question 5.

**7. What data does Ofgem need to help inform this decision?**

As this data is related to future repayment rates by suppliers as a result of behaviour change triggered by the DRS, it is very difficult to identify useful datapoints that are held by suppliers today.

**8. We welcome stakeholder views on your preferred methodology for calculating reimbursement rate?**

Notional supplier is our preference. Debt provisioning is a separate activity to the recovery of debt from individual consumers. A key driver of debt provisioning is a suppliers confidence in their future recovery of debt and their ability to persuade auditors that this provisioning is broadly realistic. That means the amount a supplier is recompensed is tied, as much as any other factor, to their innate level of prudence or aggression in ones assumptions. A notional supplier approach evens out this potential for suppliers to be over or underfunded as a result of individual stances on what is financially prudent to include in company accounts, which can vary.

**9. We welcome stakeholder views on whether under a hybrid or supplier by supplier model we should set a single rate for each supplier, or a rate for each supplier by payment type**

No, a notional supplier approach is best for the reasons we have set out in our response to question 8.

Yours Sincerely,

Paul Fuller  
Head of Regulation

