

FAO: Debt Consultations Team

By Email: DebtConsultations@Ofgem.gov.uk

RE: Debt Relief Scheme Working Paper

22 August 2025

Good afternoon Debt Consultation Team,

Thank you for the opportunity to respond on this important consultation. The cost of debt in the UK domestic supply industry has risen exponentially over the last two years, with little impact on the actual debt levels.

Ofgem introduced an additional debt related costs adjustment allowance to the price cap in April 2024, Ofgem also introduced an Additional Support Credit (ASC) allowance to the price cap in October 2023. The total cost of these two allowances amounts to £1.2bn of additional revenue per year for energy suppliers, £40 per household, but we have not seen £1.2bn in debt reduction in the market. This has been a perfect example of government failure, in that Ofgem have made decisions to try to reduce debt in the market but have inadvertently added to debt by increasing bills.

The issue with these two previous decisions was that there were no rules saying that suppliers had to use the additional income to actually clear some debt from the customer accounts, instead it funded debt collection facilities or, in the case of ASC, it is given to help customers on a loan basis, to be paid back by the customer.

The outcome of the latest Operating Cost and Debt Allowances review resulted in a net fall of just £8 per year, which you've attributed to suppliers being "more efficient". It is my hope that this third debt-related cost will be short-lived, and will ultimately result in a reduction in bills by reducing the debt allowances in the operating costs element of the price cap.

Below are my answers to your questions.

Kind regards,

Richard Winstone
The Regulator Guy.

1. Should we cap available DRS support as at statutory consultation date?

I agree with setting the cap on DRS support as the amount of energy crisis debt left at statutory consultation date. The example given in paragraph 3.12 helps my understanding of how the scheme would work, my primary concern is that any debt paid off between the statutory consultation date and the issue date will be counted

Email: richard@theregulatorguy.co.uk

Website: www.theregulatorguy.co.uk

YouTube: www.youtube.com/channel/UCoNLeohKJoBhWECcUUIfCWw

toward the Energy Crisis Debt rather than more recent debt. As long as it is made explicitly clear to suppliers that any debt recovery between these two dates will count towards newer debt first before counting toward Energy Crisis Debt, then I agree with this.

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

Not that I can think of.

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)?

I don't have a problem with the conditions, but I do think clear guidance needs to be issued to energy suppliers to ensure they do not abuse this scheme. It needs to be clear that the supplier cannot force a customer to agree to a smart meter installation in order to access the scheme – they also cannot force a customer to sign up for a repayment plan, force a customer to seek financial advice nor force a customer use the Fuel Direct Scheme. If a customer is engaging in conversation OR taking action (such as making payments or issuing meter readings) then they should be considered eligible for this scheme, as long as they meet all other criteria.

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

Not that I can think of.

5. Which of the three supplier reimbursement options do you prefer?

I prefer option 1, as it has the lowest direct cost to consumers, it's important not to increase the price cap by more than is necessary, otherwise you'll just end up increasing debt even further as we've seen with the last two debt allowances that were added to the price cap.

6. Do you consider that 5% is a reasonable value for customer contributions (including debt displacement) or do you have an alternative methodology for assessing this value?

This is difficult, you've not told us where the 5% figure has come from. Literally all of the information you've given is "our modelling has assumed a value for Customer Contributions and debt repayment displacement of 5%. We welcome stakeholder views on this."

How did you come to this 5% figure?

I think there should be a true-up that looks at the actual figures of Customer Contributions and then either adds or deducts from the price cap there. This way, if customers contribute less than 5% then suppliers are made whole, but if customers end up contributing 10%, 20% or even more, then we aren't massively over reimbursing suppliers.

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

Ofgem needs to know the total amount of eligible debt, and then needs to receive information from suppliers on the Customer Contributions received from the date of statutory consultation onward.

8. Which is your preferred methodology for calculating reimbursement rate?

I prefer the supplier-by-supplier reimbursement rate methodology as it appears to have the lowest cost to consumers. I understand the competitive distortion possible under this methodology, however this is a result of suppliers not engaging customers efficiently over the last two years, even with the increase in debt-related allowances.

9. 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?

I think a single rate is best as it is simplest and easier to consult on than a separate rate per payment type. If you add in extra layers of complexity then it'll take Ofgem more time to work out each rate, it'll take suppliers extra time to produce evidence Ofgem needs and to then review the varying rates, it'll result in fewer charities and consumer groups getting involved in the consultation process and all of this extra time ultimately costs consumers on their bills.

10. Is 'Pay When Paid' with Third Party Assignment Rights the appropriate methodology for reimbursing suppliers?

I think this is a sensible way to handle recovery of the costs of this scheme, it also allows for some data to be gathered on the actual cost of the scheme and the level of Customer Contributions to be assessed so an appropriate level of costs can be recovered through the price cap.

I would recommend revisiting the repayment length and looking at it being as long as the DRS scheme runs. If it ends up running for 2-3 years then consumers should be paying over 2-3 years, rather than assessing after 1 year, guestimating the future costs and forcing consumers to pay the entire cost of the scheme in just 1 year.