



Debt Relief Scheme (DRS): Policy update working paper - Utilita Response

Introduction

Utilita is supportive of the goals of the Debt Relief Scheme: to reduce levels of domestic debt and arrears, facilitate improvements in the culture of debt management, and to improve debt outcomes for customers and the sector.

We wish to emphasise the importance of Ofgem ensuring Suppliers are fairly reimbursed for debt write-offs. Our interpretation of the current licence drafting is that participation in this scheme is mandatory, and the customers' debts meeting eligibility criteria must be written off. Given this mandatory participation, assigning fair effective reimbursement rates to Suppliers is critical.

If reimbursement rates are too low, suppliers are effectively being forced to sell assets below their value. We do not believe Ofgem has the legal authority to mandate this, and we have already sought legal advice on the matter.

We are confident that industry and Ofgem can collaborate to ensure reimbursement rates are calculated appropriately. We provide feedback on this in our response below and are willing to offer any support or evidence that may assist Ofgem in this process.



Delivery Questions

Revised Scheme Objectives and Design

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

Utilita supports capping available DRS support at statutory consultation date.

Suppliers need to take a fixed snapshot of customer debt to begin identifying eligible customers with eligible debt. Taking this snapshot at statutory consultation date seems to be the earliest date this can be done.

Engagement Conditions

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

We believe you have captured the main engagement pathways.

Utilita seeks confirmation that, as per previous Ofgem workshops, the use of Prepayment with debt recovery rates set is considered a debt Repayment Plan for the purposes of scheme eligibility.

2. 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)?

Utilita supports the threshold as set.

Customers not actively repaying their debt must be compelled to re-engage. Utilita has raised concerns about energy debt not being considered a priority by many consumers. Whilst much more is required to be done to reframe energy as a priority debt, this is an encouraging first step.

3. 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

We would welcome clarity on how a customer's use of Additional Support Credits impacts their eligibility. We expect these customers to be considered engaged, as they must speak to us directly to request ASC. These customers will already be on a repayment plan (see question on prepayment eligibility above) however they are continuing to build debt. This building of debt is due to Ofgem's historic ASC policy and guidance and general de-prioritisation of energy debt since 2022.

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Financial Questions

Supplier Reimbursement

1. Which of the three options is preferred?

We cannot support the use of a customer contribution percentage until we have sight of the methodology used.

Customer contributions should not apply to already engaged customers, as the DRS scheme will not affect the effective value of their debt. These customers are already repaying, and we do not anticipate changes to recovery rates or consumption patterns due to partial debt removal.

In the case of disengaged customers - Our concern is that Ofgem/industry cannot guarantee an increase to the effective value of non-eligible debt because of the DRS scheme. There is no guarantee that these customers will continue to pay once their eligible debt has been removed. It is also not clear why an increase to the effective value of non-eligible debt should be calculated as a percentage of eligible debt, as these two figures are unrelated.

Our answer to question 3 explains how Ofgem could go about calculating customer contributions.

In the absence of data and modelling insights, our preference is that no customer contribution is factored into the calculation of reimbursement rates.

2. Whether 5% is a reasonable value for Customer Contributions (including debt displacement) or do you have an alternative methodology for assessing this value?

We propose an alternative methodology in our answer to question 3 below.

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

Ofgem should handle this in the same way other debt allowances are being handled: retrospective adjustments to the price cap to adjust for proven variations.

Once an increase to the effective value of re-engaged customers' debt can be evidenced, the bad debt allowance under the price cap can be adjusted.

Ofgem will be given a view of disengaged customers through Supplier DRS submissions. This view will include their outstanding debt – and Ofgem can assume the value of this debt using the scheme's effective value calculations.

In subsequent years, Ofgem can request an updated debt position for all these previously disengaged customers. Suppliers can indicate which customers became re-engaged through the DRS scheme and provide an updated total debt position for each customer.

Ofgem can then assess the *actual* benefit of customer contributions via DRS, and adjust the bad debt allowances under the price cap.

Reimbursement Rate

1. Preferred methodology for calculating reimbursement rate?

Our current preferred methodology would be the use of a Supplier-by-Supplier model, split by Payment Method.



However, we would not rule out supporting a hybrid approach, but we would require some indicative figures as to what the minimum provisioning rates would be if it were to be calculated separately for each payment method.

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We recognise that a hybrid approach would likely result in Suppliers receiving the fairest effective reimbursement rate, given that each Supplier will not be the same. Applying a minimum provisioning rate prevents Suppliers from unfairly benefitting due to overly optimistic assessments.

2. 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

As stated above, we support a rate for each supplier by payment type.

Funding and supplier cost recovery process

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

We do not believe it is most economically efficient for third party assignment rights to be available to Suppliers – these should be provided to networks instead, who can secure the funds at a lower total cost. Networks can then release these funds to Suppliers – with the proposed recovery/repayment process remaining. We are supportive of the general structure of cost recovery (price cap recovery through network charges).

We are concerned about the delay between debt write-offs in Q1 2026 and payments to suppliers in May 2027. It is encouraging that Ofgem are considering third party assignment rights, to ensure Suppliers receive timely reimbursement for writing off eligible debt. Our feedback here focusses on the most economically efficient way to secure these funds in advance of their full recovery.

Third party assignment rights would allow for the timely release of funding; however, it would be more economically efficient for these rights to be assigned to Networks. Ofgem have previously assessed the cost of capital to Suppliers at 12.3%¹ and to Networks at 5.09% (gas) and 5.62% (elec)². It would seem that any third party would offer preferential rates to networks because of this. In the interest of economic efficiency – it would seem best for networks to enter into third party assignment agreements and to release the funds to Suppliers. Networks can then recover these funds through network charging (in whatever years/durations Ofgem deems appropriate.)

We would also encourage Ofgem to explore whether any funding gap could be filled by GB Energy. This would likely be the most cost-effective route. GB Energy already has the funds available and providing short term funding here would undoubtedly improve the economic efficiency of the energy sector.

Regardless of how funds are secured, it is critical that Suppliers do not have to wait 18 months to receive funds. Suppliers are already under significant cash flow pressures due to competing

¹ <https://www.ofgem.gov.uk/sites/default/files/2024-02/Energy-price-cap-additional-debt-costs-review-decision.pdf> - 6.30, page 63

² [RIIO-3 Draft Determinations Overview Document](#) – 9.7, page 97



Ofgem schemes (such as the recent Warm Home Discount expansion), we cannot be expected to fund further schemes without receiving the required funding in advance.