

6th February 2025

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## **Resetting the energy debt landscape: the case for a debt relief scheme – Cadent non-confidential response**

As an industry leader in the support we offer to vulnerable customers, we understand Ofgem's concerns over current and future levels of energy consumer debt, however, we think the proposed debt relief scheme is not an appropriate way to address the debt challenge. We believe that mechanisms that enable suppliers to better manage both existing and future consumer debt would be more appropriate. We recognise that energy debt is a complex, societal challenge, and interventions that address the longer-term impacts are required to prevent the issue from growing.

We support Ofgem's objectives of achieving fairness and creating greater protection for consumers, however, we believe these outcomes can be achieved without requiring Gas Transporters to finance a service unrelated to any activities that they are licenced and regulated to undertake. Providing finance to suppliers, effectively acting in the role of a bank, broadens the nature of charges that Gas Transporters can levy on their own customers, and therefore could create confusion on the make-up and cost reflectivity of future charges.

We think the debt relief scheme's impacts on incentives and behaviours within the retail sector needs to be fully considered. The incentive on consumers to manage their debt longer term may also be affected by such a scheme. There are varied levels of arrears across suppliers, due to both the size of portfolios and individual company's effectiveness in managing their consumers' accounts. Some suppliers are not in favour of the debt relief scheme intervention, as it does not recognise current and incentivise future companies to adequately manage their customers' accounts. Without clear limitations that are effectively communicated to consumers and industry that this would be a one-off, there is a risk that suppliers could seek to rely upon a similar intervention in the event of a

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repeat incident in the future. The consultation's impact assessment focuses on the impacts to suppliers in terms of value of debt cleared. We think the scheme's impacts relating to suppliers and their incentives and practices to manage future debt should also be assessed.

Should the scheme be implemented, we do not consider solutions that require network companies to finance suppliers to clear their customers' debt to be appropriate. All consultation materials shared to date do not include any legal or regulatory evidence that explicitly allows Gas Transporters to finance the debt relief scheme. It is difficult for us to support the scheme without evidence that the proposed solution is compliant with the relevant legislation. The charges that we levy should principally reflect the costs we incur in delivering our gas distribution service to our customers. We are concerned by the trend in energy policy development, whereby network companies' charging arrangements are being used to recover costs unrelated to their core activities – e.g. acting as a bank to finance retail consumer debt relief or performing an unsecured creditor role in a failed supplier's insolvency.

The only viable role that networks can perform in helping to finance a debt relief scheme is to act as a passthrough entity (as seen in the Supplier of Last Resort "SoLR"), should it be decided that a debt relief scheme needs to be implemented. This approach where payments to suppliers are only made after money has been received by networks through increased charges within the same regulatory year significantly reduces the impact on networks' financeability. Ultimately, a SoLR-structure debt relief scheme would still add additional costs to all energy consumers' bills during a period of continually high prices.

We of course remain committed to maintaining a safe and reliable network and working with Ofgem to deliver support to consumers through activities that sit within a Gas Transporter's legislative and regulatory remit.

Yours faithfully,

Dr Tony Balance  
Chief Strategy & Regulation Officer



## Consultation Questions and Answers Annex

### 1. Do you agree with the case for change?

We understand a review into how current and future consumer debt is managed in the retail sector could be beneficial, particularly in light of the issue being exacerbated by increased energy prices and the Cost-of-Living crisis. We think priority should be given to assessing the effectiveness of existing interventions, and to ensure that any new scheme(s) are developed as longer-term, more sustainable solutions to the problem.

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

We believe that a debt relief scheme (irrespective of the selected funding source) could send unintended signals to suppliers around future management of their consumers' accounts. The debt relief scheme presents a short-term fix to what is a complex societal issue, and we believe that a longer-term, more sustainable solution is required. The current proposals also raise questions on potential inequities between consumers who decided to prioritise energy bill payments versus others who opted to use their limited disposable income on other essentials.

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

- Avoid perverse incentives – we agree that Ofgem should be mindful that undesirable practices aren't incentivised when making industry interventions. In our view, the debt relief scheme as proposed could send the wrong signal to suppliers around their future management of consumers' accounts, particularly as the consultation does not restrict the scheme to a one-off intervention.
- Fairness and consistency – we agree that fairness and consistency are important principles of any scheme design. It is important that if implemented, the scheme delivers upon the expectation of being 'cost neutral', and there is a net present value and clear link between funding received by suppliers and a future reduction in bad debt charges.
- Targeted – we agree that the scheme should be as targeted as possible to ensure that the most in need customers receive support, rather than simply targeting a number for overall value of debt cleared through the intervention.



- Timely – Should Ofgem proceed with the debt relief scheme, consideration must be given to the established timelines for providing notice and enacting network licensee charging changes. It is vital that Gas Transporters can match supplier payments to revenue recovered from increased network charges within the same regulatory year. Failure to do so will negatively impact on the financeability of network companies.
- Management of risk – we agree that the management of risk and avoidance of contagion cross-sector are vitally important considerations when determining the scheme's design. We believe solutions to the consumer debt issue should be developed within the retail sector, and that any viable alternate option should be based on the principles utilised in SoLR, should Ofgem be considering a network-led approach.

#### 4. Do you agree with our key objectives for the scheme?

- To reduce the levels of domestic debt and arrears in the energy sector and have this shown directly on customer accounts – We agree with this objective as a guiding principle for any scheme's delivery and a measure of its success. We think it is vital that effective controls are put in place to ensure that well-evidenced claims are consented to by Ofgem. Funding should not be provided to clear debt already provisioned for through the price cap allowance. It is essential that longer-term, sustainable options are considered more widely, that provide an enduring solution to the issue of domestic consumer debt.
- To facilitate improvements in the culture of debt management and provide an opportunity to build relationships between consumers and suppliers – We question whether the options presented can achieve this objective. In our view, introducing a scheme that provides funding to all suppliers with approved claims sends the wrong signal to the sector around its management of future debt. Potentially, the scheme does not provide incentive to suppliers, that have historically managed their customers' accounts more effectively, to continue to do so.
- 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 – The administrative complexity challenges raised in the consultation should not exclude a price cap funding mechanism from being considered. A price cap-based solution may be more appropriate, as it retains



the funding source/solution within the same sector as where the debt has materialised.

- 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 – Whilst any intervention should aim to reduce consumer debt on an enduring basis, more detail is required on exact value of debt to be cleared and how wider arrears not attributable to the energy crisis will be treated.

**5. 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?**

We recognise the desire to keep lead times on this scheme to a minimum. However, the proposal to pay the customer debt in October 2025 will be extremely challenging with a SoLR-style scheme, as charges for the forthcoming year have already been set by networks. This would therefore require a mid-year price change, with any price changes being published no later than the 31<sup>st</sup> of July 2025. Ofgem must give sufficient time, following the relevant notice periods, to allow networks to complete the necessary changes, calculations and sign offs to allow the price change to take effect. Making the necessary amendments by 31<sup>st</sup> of July 2025 is going to be a significant challenge, should a SoLR-style scheme be adopted involving the networks (which we believe is the only practicable form of the scheme that could be applied to networks).

Assurance and audits are fundamental to every stage of the scheme to ensure that: the right consumers are being supported with debt relief, that suppliers do not get subsidised twice by different relief and recovery schemes, and that the scheme is only funding the debts accumulated during the energy crisis period. There is a risk that bringing a scheme into effect by October 2025 could result in ineffective controls and assurance procedures being implemented, meaning the policy does not deliver its intended effects.

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

It is important that consideration is given to the levels of historic funding that suppliers have received through mechanisms such as the price cap allowance. Clear evidence should be provided in support of any claim to demonstrate that the relevant supplier has not already received funding to clear the eligible debt. In our view, not doing so would send an



undesirable message to suppliers on their use of other interventions and business as usual practices to improve their overall levels of debt.

**8. Do you agree that a scheme should be implemented through a supplier delivery with Ofgem oversight, or through an independent administrator appointed by Ofgem?**

Should a debt relief scheme be implemented, we believe the option of Ofgem retaining an oversight position of supplier delivery is more appropriate given the experience gained with the SoLR process. It is critical that Ofgem verify the accuracy of and ensure supplier claims are reasonable. This would maximise the protection of consumers from the risk of funds being provided through both the price cap allowance and debt relief scheme to clear the same debt. The appointment of a third party could result in greater administrative costs, reducing the proportion of each pound spent through the scheme that results in direct benefit to end customers.

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

Any scheme that is implemented should be accompanied by robust audit procedures. There must be effective checks and controls in place to ensure the appropriate relief reaches the right customers in a timely manner. It is also essential for any audit to ensure that suppliers do not get subsidised twice by different relief and recovery schemes and that the scheme is only funding the debts from the energy crisis period.

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

We are not the best placed to fund the debt relief scheme and network companies should not be used to cross subsidise the retail market. Should Ofgem progress with the proposal to fund the scheme through increased network charges, the only practicable approach to avoid significant consequences to accounting and financeability issues is to follow a SoLR style approach. This means that payments to suppliers to reduce consumer debt must only be paid after the money has been received by networks through increased charges within the same regulatory year. The suggestion that payments can be made up front and then recovered in a subsequent year would result in network companies acting as banks, which is not viable because it puts the financeability of the companies at risk and is outside of their operating licenses. Our financial resilience would be impacted due to a reduction in cashflow impacting headroom to our financial covenants.

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Should a pay when paid approach be followed, Ofgem are best placed to determine the necessary scheme period. It is important that Ofgem consider the cumulative impact of debt relief additional charges on customer bills in the context of other potential and planned changes to the billing regime, such as the accelerated depreciation proposed in RIIO-3.

**14. 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?**

We agree with the consultation position; in that it recognises the importance of ensuring value for money and that the scheme does not double count supplier debt costs. The ability by Ofgem to accurately identify and net off previously awarded funding against supplier claims will be essential in achieving these outcomes.

**18. Should networks pay approved debt relief scheme claims to suppliers in Winter 2025/2026, or only later when networks have received the funding via higher network charges?**

We consider the only option capable of being implemented to be the 'pay when paid' approach, should network companies be required to fund the debt relief scheme. Under this approach, payments would only be made to suppliers once network charges are in place to allow the revenue to be collected by network companies which matches the costs of the debt to be covered within the same regulatory year. This was the case for the recent SoLR schemes, which is a 'tried and tested' method that is understood across the industry. This also ensures compliance with agency accounting and the associated taxation regime.

The proposal to pay the customer debt in winter 2025/2026 will be challenging with a SoLR-style scheme supported by the networks, as charges for the forthcoming year have already been set. It would require a mid-year price change; and Ofgem must also give sufficient time, following the relevant notice periods, to allow network companies to complete the necessary changes, calculations, and sign offs to allow the price change to take effect. Price changes must be published no later than the 31<sup>st</sup> of July 2025 and making the amendments by this date is going to be a significant challenge. There is a risk that bringing a scheme into effect by October 2025 could result in ineffective controls and assurance procedures being in place, meaning the scheme could be more susceptible to increased costs and inefficiencies.

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

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We believe there is flexibility in how Ofgem shorten or elongate the recovery period through increased network charges, should a SoLR-model be followed. For instance, a supplier could utilise other funding sources (e.g. consumer credit balances, cash reserves) to clear the eligible debt in line with the consultation timelines and subsequently recover their costs from networks over either a shorter or longer period. Suppliers could submit claims to networks for cost recovery at a value of their total debt cleared (single year recovery with charges increased to recover all funds in the same regulatory year) or a proportion of the costs to clear the total debt (reduced increase in charges but with a longer cost recovery period). In Cadent's view, this model only works if the costs networks are asked to meet in a given regulatory year are equivalent to the value recovered through increased charges (on a pay when paid basis). As mentioned above, it is important that Ofgem consider the cumulative impact of additional charges associated to debt relief on gas consumers' bills, particularly in the context of other potential changes to the revenues in RIIO-GD3.

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