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Ofgem
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Canary Wharf
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10th February 2025

Sent by email to: DebtConsultations@ofgem.gov.uk

Dear Dan,

RE: Consultation - Resetting the energy debt landscape: the case for a debt relief scheme – non-confidential response

We are pleased to respond to this important consultation. Energy affordability and debt are among the defining issues of the retail energy market at present. The cost-of-living crisis is still putting pressure on the finances of our customers, which is why British Gas has consistently made it a priority to go above and beyond our licence obligations in our commitment to help those of our customers in financial difficulty.

Most notably, we have donated over £200 million to the British Gas Energy Trust (BGET) since 2004, helping more than 2.2 million people across the UK. The British Gas Energy Trust is an independent charity solely funded by British Gas and, as well as directly helping all consumers (i.e. not just British Gas customers) with grants, it also works with and provides funding to other money and energy advice projects.¹ Our work with BGET is part of our wider energy support fund. We have committed £134 million in the UK since 2022. In addition to donations to BGET, the fund is used to further strengthen support at the heart of communities and £2 million was additionally provided to front-line charities like StepChange.² British Gas also provides further direct support itself.



Our 'You Pay: We Pay' initiative is the first of its kind in the energy sector, where we 100% match energy payments made by our customers who are struggling and most in need of help. This targeted scheme provides support for those customers that are in or facing fuel poverty, helping them to either not fall into debt or to reduce existing debt.³ It offers direct support for those customers temporarily struggling to meet their energy payments and those

¹ [British Gas gives £20 million funding boost to the British Gas Energy Trust \(centrica.com\)](https://www.centrica.com/news/2024/01/british-gas-gives-20-million-funding-boost-to-the-british-gas-energy-trust)

² [Centrica Annual Report 2023](#)

³ [British Gas launches new initiative to 100% match energy bill payments for struggling customers \(centrica.com\)](https://www.centrica.com/news/2024/01/british-gas-launches-new-initiative-to-100-match-energy-bill-payments-for-struggling-customers)

in debt, and is designed to help customers prevent and recover from situations of debt by matching payments.



These, and other support arrangements already provided by energy suppliers⁴ are complementary to a future debt relief scheme. Whilst the objective - to support and engage customer struggling to pay their bills - should be the same, the scheme should aim to complement and not duplicate or replace existing schemes.

The case for change

As we noted in our response to Ofgem's Call for Input on debt and affordability⁵, we believe that there has never been a stronger case for Ofgem to work with Government to secure a long-term solution to energy affordability. At £3.8bn, debt and arrears are a critical issue for the energy sector, and Ofgem is right to seek to find a solution.

By contrast, the debt fund is by its nature a one-off intervention. Whilst we consider the case for change to be credible overall, we do have concerns that the benefits of the fund will not be sufficient or enduring. By Ofgem's own calculation the fund will write off up to £1bn of total industry debt and arrears which currently stand at over £3bn. As a result, we expect that our customers will continue to face a challenging debt environment post implementation of the fund.

As Ofgem rightly noted when it first consulted on this issue; *'as the regulator, we can move costs between customers, but we cannot remove them'*.⁶ This point is very relevant to the proposed debt relief fund, given the materiality of funding being proposed. A well-targeted fund will help customers struggling to pay and has the potential to create wider benefits. But funding this debt relief will mean increases to bills for all customers and Ofgem must consider the implications of that. The scheme must be designed to benefit consumers, and we agree with Ofgem's aim that the funding of the scheme should be 'cost neutral'.

It will be critical that Ofgem is able to clearly explain wider benefits of the fund to energy consumers. Immediate bill impacts have the potential to impact the overall perception of the scheme especially if they lead to further strain on customers who have struggled with debt. We believe a flat level of support would be in line with Ofgem's design principle to deliver fair and consistent support and importantly would be simpler for energy consumers and suppliers delivering the scheme.

Although we, overall, support the concept of the fund, we believe the benefits will not be sufficient to address the wider affordability issues in the retail energy sector. To create a long-term solution, with a tangible impact, **the fund needs to form part of a wider set of policy interventions that addresses the issue of energy affordability**. A progressive social tariff with clear eligibility criteria, backed by data sharing is the most appropriate enduring solution and would help to prevent the build-up of unsustainable debt in the future. We would encourage Ofgem to double down on its efforts to enable such a social tariff and do all it can to support the government's ongoing work to introduce meaningful data sharing, which is a critical enabler of such a policy.

⁴ See [Additional support for customers - Energy UK](#)

⁵ [Affordability and debt in the domestic retail market – a Call for Input | Ofgem](#)

⁶ <https://www.ofgem.gov.uk/call-for-input/affordability-and-debt-domestic-retail-market-call-input> Ibid

We set out our view on how Ofgem should work to ensure the fund creates sufficient and enduring benefits below.

Support those with little realistic prospect of being able to pay

We are very supportive of measures to help those struggling to pay and already fund payment matching for our customers as well as wider debt support through the BGET. We agree that support should be directed to those struggling to pay debt. We also consider that the scheme should be complementary to (and not duplicate) the support arrangements already provided by energy suppliers.

Clear the build-up of unsustainable domestic debt and arrears

The debt relief fund is expected to write off between £500m to £1bn of debt and arrears. This is a significant intervention. By way of comparison, in 2023/24, the Warm Home Discount (WHD) Scheme delivered Core Group rebates of £150 to 3.14 million households in Great Britain, meaning the total spend on Core Group rebates was £471 million.⁷ However, Ofgem estimates that total debt and arrears in the energy market currently stands at £3.8bn.

Despite the materiality of the fund, we do not consider its direct impact on overall debt and arrears will ‘clear the build-up of unsustainable debt’ as has been suggested.⁸ We recognise that Ofgem expects longer term benefits from the fund. However, these are uncertain, and we believe that Ofgem must go further to address this problem as part of a wider package of measures.

We strongly encourage Ofgem to revisit its position on introducing a supplier reconciliation mechanism to address levelisation of debt related costs. This mechanism is urgently needed to avoid the introduction of a major and enduring competitive distortion into the retail market. Our preference is that Ofgem introduces effective reconciliation. Consistent with that view, we do not agree with Ofgem’s suggestion that there are significant feasibility barriers which cannot be completely overcome in constructing such a mechanism. We are also of the view that the debt relief scheme is not an enduring solution in relation to future debt that may accrue and will not satisfactorily completely address this issue (indeed, in some policy variations currently being considered, could even exacerbate the distortion). We strongly disagree with Ofgem’s statement that ‘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.’⁹

Improve the consumer experience

Ofgem has set out a range of potential longer-term impacts of the debt relief fund. For example, ‘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.’ It also notes that the fund ‘could establish a formalised role for consumer groups and charities (CGCs) who can provide a holistic view of an individual’s debt status’.¹⁰

⁷ [Warm Home Discount statistics, 2023 to 2024 - GOV.UK](#)

⁸ [Resetting the energy debt landscape: the case for a debt relief scheme | Ofgem](#), Page 10.

⁹ Ibid, Page 13.

¹⁰ Ibid, Paragraph 2.20.

We agree that the scheme could lead to an increase in engagement from consumers in debt. This could be driven by engagement with the scheme or more directly by reducing the debt burden of individual customers. This impact will be supported by Ofgem promoting awareness of the scheme and working with all those delivering the fund to promote a consistent message to consumers. The secondary eligibility route also has the potential to promote engagement with CGCs who are a key stakeholder in supporting consumers to manage debt. However, this objective must be balanced against a need for the scheme to be administratively simple to deliver. A simple approach will facilitate delivery of the scheme ahead of next winter as well as facilitating wider consumer engagement.

Finally, it will be important that Ofgem tracks the benefits of the fund to create an evidence base on these longer-term impacts.

Delivering the scheme

The case for change is important in setting out the aims of the scheme and the benefits for consumers. However, this must be predicated on a scheme that allows suppliers and CGCs to deliver the scheme effectively and recover the costs of funding and administering it. Effective delivery means that suppliers can ensure that customers claims are settled consistently and fairly but also that they deliver on the wider scheme objectives. For this to be the case we believe that the design principles must include that:

- Support is targeted at those most clearly in need,
- The scheme is complementary to (and does not duplicate) the support arrangements already provided by energy suppliers.
- The scheme is administratively simple to deliver.

Data issues will be a key issue in delivering these design principles. A lack of data on financial vulnerabilities is a significant issue in the energy sector. Centrica's long-standing view is that Ofgem must continue its work with HM Government on improving access to data sharing with Government departments. The debt relief fund brings these data issues into sharp relief. Any progress on this will enable suppliers to proactively identify those customers on low incomes who are in most need of support.

Funding the scheme

Ofgem has set out two options for funding the scheme as part of this policy consultation, both of which allow suppliers to recover the costs they incur by submitting funding claims to a fund administrator.¹¹ Our view is that the funding of these claims should be designed to minimise the total funding costs, and the immediate bill impacts for consumers. We consider a network funding solution with suppliers receiving funds after networks begin recovering them through network charges to be most appropriate.

Ofgem has proposed that before submitting funding claims, suppliers make an adjustment for price cap allowances received that relate to provisions made for debt written off. This proposal has the benefit of reducing the upfront funding costs of the scheme. However, we have significant concerns about Ofgem's ability to implement this process and the impact on future price cap reviews. We therefore propose that Ofgem consider accounting for

¹¹ Ofgem has shared a further working paper on 'the supplier funding route'. For the avoidance of doubt, this response is based on the funding options that Ofgem has set out in the policy consultation.

adjustments to previous provisions through a wider review of the debt related costs allowance in the price cap, including levelisation and a supplier reconciliation scheme.

It will be important that the result of this consultation process and subsequent engagement is a coherent funding process that ensures suppliers are able to recover the costs of funding and administering the scheme. This should be in place before Ofgem moves to Statutory Consultation later this year.

We respond to each of the consultation questions in the annex below and look forward to engaging with Ofgem further on this important matter.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tim Dewhurst', with a stylized flourish at the end.

Tim Dewhurst

Director, Regulatory Affairs & Policy, Centrica plc.

Annex 1 – Policy Consultation Questions

Case for Change

Q1. Do you agree with our case for change?

Ofgem's case for change is threefold, 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.'*¹²

Considering all three points, we understand Ofgem's case for change and consider it to be credible overall.

We agree that debt and arrears are too high across the energy sector. Ofgem is right to seek to address this issue and there would be significant benefits to a long-term reduction in energy debt. However, we do have concerns that the benefits of the fund will not be sufficient and enduring and work is also required to ensure that the scheme is fully funded and cost neutral for individual suppliers.

We set out our views on each part of the case for change below.

Support those with little realistic prospect of being able to pay

We are very supportive of measures to help those struggling to pay and already fund debt matching for our customers as well as wider debt support through the BGET. We agree that support should be directed to those struggling to pay debt. We also consider that the scheme should be complementary to (and not duplicate) the support arrangements already provided by energy suppliers.

However, we believe the benefits of this fund will not be sufficient to address the wider affordability issues in the retail energy sector. To create a long-term solution, with a tangible impact, the fund needs to form part of a wider set of policy interventions that addresses the issue of affordability of energy. A progressive social tariff with clear eligibility criteria, backed by data sharing is the most appropriate enduring solution and would help to prevent the build-up of unsustainable debt in the future. We would encourage Ofgem to double down on its efforts to enable such a social tariff and do all it can to support the government's ongoing work to introduce meaningful data sharing, which is a critical enabler of such a policy.

Clear the build-up of unsustainable domestic debt and arrears

The debt relief fund is expected to write off between £500m to £1bn of debt and arrears. This is a significant intervention. By way of comparison, in 2023/24 the Warm Home Discount (WHD) Scheme delivered Core Group rebates of £150 to 3.14 million households in Great Britain, meaning the total spend on Core Group rebates was £471 million.¹³ However, Ofgem estimate that total debt and arrears in the energy market currently stands at £3.8bn.

¹² [Resetting the energy debt landscape: the case for a debt relief scheme](#), Page 10.

¹³ [Warm Home Discount statistics, 2023 to 2024 - GOV.UK](#)

Despite the materiality of the fund, we do not consider the direct impact of the fund on overall debt and arrears will ‘*clear the build-up of unsustainable debt*’ as has been suggested. We recognise that Ofgem expects longer term benefits from the fund. However, these are uncertain, and we believe that Ofgem must go further to address this problem as part of a wider package of measures.

We strongly encourage Ofgem to revisit its position on introducing a supplier reconciliation mechanism to address levelisation of debt related costs. This mechanism is urgently needed to avoid the introduction of a major and enduring competitive distortion into the retail market. Our preference is that Ofgem introduces effective reconciliation. Consistent with that view, we do not agree with Ofgem’s suggestion that there are significant feasibility barriers which cannot be completely overcome in constructing such a mechanism. We are also of the view that the debt relief scheme is not an enduring solution in relation to future debt that may accrue and will not satisfactorily completely address this issue (indeed, in some policy variations currently being considered, could even exacerbate the distortion). We strongly disagree with Ofgem’s statement that ‘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.’

Improve the consumer experience

Ofgem has set out a range of potential longer-term impacts of the debt relief fund. For example,

- ‘*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.*’; and
- the fund ‘*could establish a formalised role for CGCs who can provide a holistic view of an individual’s debt status.*’¹⁴

We agree that the scheme could lead to an increase in engagement from consumers in debt. This could be driven by engagement with the scheme or more directly by reducing the debt burden of individual customers. This impact will be supported by Ofgem promoting awareness of the scheme and working with all those delivering the fund to promote a consistent message to consumers. The secondary eligibility route also has the potential to promote engagement with CGCs who are a key stakeholder in supporting consumers to manage debt. However, this objective must be balanced against a need for the scheme to be administratively simple to deliver. A simple approach will facilitate delivery of the scheme ahead of next winter as well as facilitating consumer engagement.

Finally, it will be important that Ofgem tracks the benefits of the fund to create an evidence base on these longer-term impacts.

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

We believe that there has never been a stronger case for Ofgem to work with Government to secure a long-term solution to energy affordability. As Ofgem rightly noted in its call for input on affordability and debt¹⁵; ‘*as the regulator, we can move costs between customers, but we*

¹⁴ [Resetting the energy debt landscape: the case for a debt relief scheme](#), Paragraph 2.20.

¹⁵ [Decisive action needed to tackle fuel poverty - British Gas Energy Trust](#)

cannot remove them'.¹⁶ This point applies well to the debt relief fund. A well targeted fund will help customers struggling to pay and has the potential to create wider benefits. But funding this debt relief will mean increases to bills for all customers.

We agree that Ofgem should pursue the debt relief fund as a targeted one off policy intervention. The fund will provide immediate benefits to customers in debt with no prospect of being able to repay their energy debt.

We know that energy debt can have a serious impact on our customers who are struggling to pay. The impact on customers of being in debt is also be compounded by vulnerabilities. To mark the 20th anniversary of British Gas Energy Trust, it published 'Towards an end to fuel poverty in Britain'.¹⁷

The report found that:

*'For those struggling with their mental health, fuel debt adds another complication, making it harder to manage costs and ask for help. It is a correlation that cuts both ways: research has also shown that entering problematic debt leads to a higher likelihood of experiencing anxiety and depression. 23% of clients seen by organisations the Trust funds live with mental health conditions. However, according to the Money and Mental Health Policy Institute, just 12% of people with mental health problems have told their energy company.'*¹⁸

Our view is that the fund has a role in providing immediate benefits to those struggling with debt.

The BGET report also finds that:

- *'acting holistically delivers the biggest impact for all' but that 'one-off help has a place as the starting point for change'; and*
- *that 'In conversations with the Trust's delivery partners, it was evident that clearing debt, fuel and other vouchers or access to white goods is often a vital first step to long-term help.'*¹⁹

This illustrates the point that, whilst resetting debt can help as a starting point for change, it is equally important that the fund creates enduring benefits.

We believe that enduring benefits will require a wider set of policy interventions that address the affordability of energy. Wider reforms should include working with Government to deliver a social tariff²⁰ that is sufficiently material, and with broad enough eligibility, to ensure that energy is affordable for those least able to pay. Energy is an essential service and the transition to net zero must be socially just.

To make a social tariff work Ofgem must also continue its work with HM Government on improving access to data sharing with Government departments. Any progress on this will enable suppliers to proactively identify those customers on low incomes who are in most need of support. This will also enable the removal of significant customer effort in applying

¹⁶ [Decisive action needed to tackle fuel poverty - British Gas Energy Trust](#)

¹⁷ [roundtable-report_nov24.pdf](#)

¹⁸ Ibid

¹⁹ Ibid

²⁰ This is a general term that refers to a tariff, discount or rebate.

for bespoke support, meaning suppliers can proactively target the right help to the customers who need it most.

Finally, we strongly encourage Ofgem to revisit its position on introducing a supplier reconciliation mechanism to address levelisation of debt related costs. This mechanism is urgently needed to avoid the introduction of a major and enduring competitive distortion into the retail market. Our preference is that Ofgem introduces effective reconciliation. Consistent with that view, we do not agree with Ofgem's suggestion that there are significant feasibility barriers which cannot be completely overcome in constructing such a mechanism. We are also of the view that the debt relief scheme is not an enduring solution in relation to future debt that may accrue and will not satisfactorily completely address this issue (indeed, in some policy variations currently being considered, could even exacerbate the distortion).

Considerations and Objectives

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

Ofgem has set out five design principles for a debt relief scheme. These are:

- Avoid perverse incentives
- Fairness and consistency
- Targeted – as far as possible
- Timely
- Management of risk

We consider these design principles are all important though management of risk, which relates to the funding of the scheme, should be replaced with a broader objective that considers total funding costs of the scheme.

Perverse incentives

The longer-term impacts of the fund are uncertain. Ofgem is therefore right to consider the need to avoid perverse incentives. We agree that *'consumers should continue to be incentivised to pay their bills and suppliers should continue to be incentivised to collect debt via appropriate means.'*²¹ This design principle should consider the benefits of debt recovery to the operation of the market and therefore consumers, suppliers must retain the ability to recover debt and the scheme must therefore be a one-off intervention.

The need to address perverse incentives through *'targeting a scheme at historical debt accrued during the energy crisis during a set period, and at those facing the most severe affordability challenges'* means that it will not be a panacea.²² A wider set of policy initiatives is needed to reduce long-term energy debt. A lack of affordability is the key driver of the high levels of debt that were accrued during the energy crisis. Without tackling this problem, we are concerned that energy debt will remain a serious issue.

Fair, consistent, targeted and timely

Support must be targeted at those most clearly in need as a fundamental principle. Whilst there may be trade-offs between a targetted fund and one that is administratively simple to deliver Ofgem should strive to ensure that both objectives are met. A key issue in delivering this will be data issues.

²¹ [Decisive action needed to tackle fuel poverty - British Gas Energy Trust](#), Paragraph 3.4.

²² Ibid, Page 18.

A lack of data on financial vulnerabilities is a significant issue in the energy sector. Centrica's long-standing view is that Ofgem must continue its work with HM Government on improving access to data sharing with Government departments. The debt relief fund brings these data issues into sharp relief. Any progress on this will enable suppliers to proactively identify those customers on low incomes who are in most need of support. This will also enable the removal of significant customer effort in applying for bespoke support, meaning suppliers can proactively target the right help to the customers who need it most.

Management of risk

Management of risk²³ is important but a broader objective - that the funding mechanism for the scheme should be designed to minimise the total costs and the immediate bill impacts – is required. We consider that it will be critical that Ofgem is able to clearly explain wider benefits of the fund to energy consumers. Immediate bill impacts have the potential to impact the overall perception of the scheme especially if they lead to further strain on customers who have struggled with debt. This could counteract the potential medium- and longer-term benefits of the scheme by increasing debt costs at a time when we know customers are struggling with their bills.

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

Ofgem's objectives include both short-term outputs of the scheme, medium-term outcomes and long-term impacts.²⁴ These are all important objectives, and we consider each in turn:

Short term outputs

Ofgem's objectives for the scheme include the delivery of two short-term outputs:

1. to reduce levels of debt and arrears on customer accounts
2. to reduce the level of debt in a way that is in proportion to each suppliers' total debt

The first output is core to the delivery of the fund. Successful operation of the fund will deliver reduced levels of debt and arrears as suppliers write off debt on customer accounts according to the eligibility criteria. However, there is some uncertainty as to whether this will be on an enduring basis. And Ofgem should consider the period over which debt and arrears are reduced. A long-term reduction would be consistent with the longer-term impacts below.

The second short-term output is to reduce the level of debt in a way that is in proportion to each suppliers' total debt. We agree that eligibility criteria should be clear and administratively simple to deliver. However, this may not lead to all suppliers writing off the same proportion of debt. Suppliers' customer bases differ in a wide range of ways and Ofgem has not yet defined the eligibility criteria.

²³ This refers to the need to avoid the funding of the scheme leading to unintended transfer of risk across the energy sectors. [Resetting the energy debt landscape: the case for a debt relief scheme](#), Page 19.

²⁴ Based on example of a linear Theory of Change, [HMT Magenta Book.pdf](#), Page 32.

Medium term outcomes

Ofgem aims for the scheme to reduce, or avoid an increase in, future debt allowances against the baseline of not intervening.

We agree that the scheme must be designed to benefit consumers, and support Ofgem's wider aim that the funding of the scheme should be 'cost neutral'.

In the medium term, the scheme may affect future allowances by writing off debt that would otherwise have been provisioned and potentially written off at a later date.²⁵ We agree that the benefits of this fund should be directed to those struggling to pay debt. However, it is not possible (or desirable) to target the scheme at customers who will not repay the debt on their account at a later date.

Long term impacts

Ofgem's long term objective for the scheme is to facilitate improvements in the culture of debt management and provide an opportunity to build relationships between consumers and their suppliers. We agree that the scheme could lead to an increase in engagement from consumers in debt. This could be driven by engagement with the scheme or more directly by reducing the debt burden of individual customers. This impact will be supported by Ofgem promoting awareness of the scheme and working with all those delivering the fund to promote a consistent message to consumers. The secondary eligibility route also has the potential to promote engagement with CGCs who are a key stakeholder in supporting consumers to manage debt.

²⁵ Debt that is written off and has already been provisioned is proposed to be netted off from suppliers claims from the fund. [explain impact on future allowances]

Administration and Delivery Options

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?

Affordability criteria must be clear and deliverable to enable Ofgem's ambitious proposals for delivery of the fund by Spring 2026. However, support must be targeted at those most clearly in need as a fundamental principle. Whilst there may be trade-offs between a targetted fund and one that is administratively simple to deliver Ofgem should strive to ensure that both objectives are met.

The scheme is still in the design phase and there are several unknowns. Given this it is difficult to comment in detail. However, we note that there will be trade-offs between deliverability and targeting of the scheme. Effective targeting may require a degree of complexity which will inevitably affect lead times. From a supplier's perspective this will depend on the eligibility criteria and the audit requirements of the scheme.

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

Time limits for the scheme will need to be long enough to ensure support can be delivered to all eligible customers. This would include time for suppliers to put in place and implement controls to ensure that funding is delivered correctly and accurately as well as audit requirements to be implemented.

Where the scheme includes debt matching this will include the time taken for debt matching agreements to be carried out. British Gas provides payment matching for customers who agree to a regular monthly payment arrangement by Direct Debit for six months. The scheme (You Pay: We Pay) 100% matches any fixed amount that is affordable to the customer. For example, if a customer pays £50 a month for six consecutive months, we'll pay £50 into their energy account each month for the duration of the payment arrangement - £300 in total. A similar model for debt matching within the scheme would require a longer scheme duration.

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

We support a flat level of support which would be administratively simple and would be in line with Ofgem's design principle to deliver fair and consistent support. All eligible customers will meet eligibility criteria but may have varying levels of debt. Applying a flat amount recognises the role of the supplier and customers in managing debt. This is consistent with the objective of the fund to *'facilitate improvements in the culture of debt management and provide an opportunity to build relationships between consumers and their suppliers'*. We believe the ongoing benefits of the fund are crucial to unlocking wider benefits.

We note that full debt write off can be beneficial because it means that a customer is more likely to be returned to a credit position and thereby be able to keep up with payments for current consumption. However, the time limits of the scheme will mean that customers may continue to be in a debt position as a result of debt accrued before or after the scheme period. This is a necessary limitation of the 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)?

We agree that Ofgem should oversee the delivery of the fund.

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

We strongly agree with Ofgem's view 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*'.²⁶ The key difference between the options presented is a detailed assessment of supplier funding claims before debt write-off is applied to eligible customers under Option 2. The requirement for this step will partly depend on the scheme design.

As we have noted above, a clear and administratively simple eligibility criteria will be important. One reason for this is that it will reduce the complexity of audit of the scheme and increase suppliers' ability to assure the accuracy of write offs provided to customers. If the scheme becomes more complex the arguments for a pre-assessment of claims increases. Given the potential size of the scheme, it will be critical that suppliers are confident that they can deliver the scheme as intended and that scheme audit is proportionate.

Our current view is therefore that audit option 2 is required.

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

No comment at this stage.

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?

We have not further comments at this stage but note that the debt relief fund is in the early design phase. Ofgem should continue to work with suppliers on the delivery and funding of the debt relief fund and explore any further considerations.

²⁶ [Resetting the energy debt landscape: the case for a debt relief scheme](#), Paragraph 4.13.

Funding Options

Ofgem's proposals are at an early stage and there are a number of options that will impact the funding costs of the scheme. We are pleased to see that Ofgem is engaging with suppliers to resolve these uncertainties during the consultation process. However, Ofgem has shared a further working paper on 'the supplier funding route' without sufficient time for us to account for this in our response. For the avoidance of doubt, this response is based on the funding options that Ofgem set out in the policy consultation.²⁷

It will be important that the result of this consultation process and subsequent engagement is a coherent funding process that ensures suppliers are able to recover the costs of funding and administering the scheme. This process should include consideration of the impact on future price cap reviews ensuring that suppliers have transparency of any impacts of the scheme on such reviews.

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?

Our view is that the funding mechanism should be designed to minimise the total funding costs, and the immediate bill impacts for consumers. We consider a network funding solution with suppliers receiving funds after networks begin recovering them through network charges to be most appropriate.

A network funding model would facilitate funding of the scheme over a longer time-period reducing immediate bill impacts. We consider it would also be the easiest option to implement. As Ofgem notes, this could follow the established precedent of the SOLR process; a process that industry is familiar with.

We have not commented on the proposed third-party funding route as Ofgem has provided limited details of this option.

Funding the costs of the debt relief fund through the price cap would be more complex. The price cap can only allow suppliers to recover revenue according to the allocation approach proposed by Ofgem. This means that such an allowance will create a distortion whereby suppliers do not receive funding in relation to the costs they incur. Importantly, suppliers with low levels of eligible debt would over-recover and suppliers with high levels would under-recover. For this reason a supplier reconciliation process would be required as a pre-requisite to price cap recovery.

This requirement for a cross-supplier reconciliation would mean that initial cost recovery would not be well targeted and suppliers with higher costs would not recover their costs until the reconciliation process had concluded with associated mutualisation risks.

As Ofgem further notes, suppliers are assessed to have a higher cost of capital than network companies under Ofgem's regulatory arrangements so that, all being equal, price cap funding would lead to higher overall funding costs. Linked to this, the need to recover a price cap allowance more quickly could lead to a large immediate bill impact.

Finally, we note that the requirement for a cross-supplier reconciliation would need to be implemented at pace to avoid a delay to the delivery of the scheme. An existing

²⁷ [Resetting the energy debt landscape: the case for a debt relief scheme](#)

reconciliation mechanism has been developed to support levelisation of standing charges between PPM and DD customers. This could provide important learnings for the development a further reconciliation including on the timetable for delivery and we recommend that Ofgem engages with scheme administrator.

This existing reconciliation is applied to the standing charge. Should Ofgem proceed with funding the costs of the scheme through the price cap option it should urgently restart work on a unit rate reconciliation mechanism to avoid allocation constraints on the scheme allowance. This would also allow Ofgem to also address wider issues around debt related costs. This, as Ofgem well understands, is the only enduring solution to resolving the allocation constraints of the price cap.

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?

Historic price cap allowances will include amounts relating to provisions made for those customers who will have their debt written off by the fund. Making an adjustment for these allowances before suppliers make claims from the fund (netting off 'the overlap'²⁸) will reduce the upfront funding costs. However, we have significant concerns about Ofgem's ability to implement this process and the impact on future price cap reviews.

Our view is that Ofgem should consider the alternative of accounting for adjustments to previous provisions through a wider review of the debt related costs allowance in the price cap. This alternative should be included as an option at the next stage of consultation.

When suppliers write off debt via the fund, this will be accounted for by suppliers, and would be expected to feed through to a lower debt related costs allowance in any subsequent review. This is intuitive as debt and arrears will be lower industry wide.

As well as being intuitive, this approach would be transparent. Suppliers currently report bad debt provisions and write offs to Ofgem through the debt related costs RFI. We expect that this data, combined with suppliers funding claims, would fully capture the impact of the fund on the notional suppliers' efficient costs. The critical point is that addressing the impact of the fund on historic allowances through the price cap process would ensure that any adjustment is universal.

We are also concerned that Ofgem has not fully considered the implications of its proposal to net off 'the overlap' on the price cap process. Our strong view is that this should be set out as part of the consultation process so that suppliers have a clear understanding of how future cost recovery will be affected. This should include consideration of the impact of any changes to the allocation of debt related costs as part of the operating costs review including the impact of the levelisation of costs between payment types.

²⁸ The 'overlap' refers the write off of previously provisioned debt where these provisions have been recovered via the bad debt allowance in the price cap.

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?

Ofgem has provided a number of indicative options for suppliers to adjust claims for 'the overlap'.²⁹ These options are helpful, but all have drawbacks. As these are indicative options, we have set out overarching points on key elements of each option. We ask Ofgem to consider these points carefully.

Previous ex-post adjustments to the debt allowances in the Default Tariff Cap have generally been applied through the adjustment allowance and, while they have been allocated in a range of ways, they have fed through to price cap allowances and affected all suppliers in a uniform manner for each price cap allowance.

We believe that any methodology that 'nets off' historical price cap allowance in proportion to eligible customers would lead to an uneven recovery of those allowances across suppliers. This cannot be Ofgem's intention.

Differential impact on suppliers (Eligible debt approaches)

Suppliers will all have different proportions of customers eligible for the scheme as the eligibility criteria will be based on customers' characteristics and each supplier has a different customer base. This means that any approach that links adjustment of historic price cap allowances to the proportion of eligible customers will lead to differential impacts on suppliers.

This point is exacerbated by the approach Ofgem has taken to allocating historic allowances among customers. Direct debit (DD) customers have historically paid a portion of bad debt allowances. However, DD customers are likely to make up a relatively small proportion of eligible customers. This means that for DD customers, a supplier would pay back a smaller proportion of historic allowances.

Alternative approaches that use provisioning data also present risks due to variation in provisioning rates between suppliers.

Use of historic provisions (provisioning approaches)

Suppliers will provision at different rates.



Whilst this process is audited this does not mean that they are consistent across suppliers. Different assumptions and the timing of adjustments can all affect provisions rates in a fixed period.

Under Ofgem's proposal, a supplier who had provisioned at a high level during the scheme period would recover less from the fund; there is no justification for this.

²⁹ Ofgem workshop, Interactions between the bad debt allowance in the price cap, industry debt provisioning, and a debt relief scheme. 8th January 2025.

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

Including debt matching or payment matching in the debt relief fund would need to be considered in the context of the eligibility criteria that Ofgem decides to apply. Any criteria would need to be able to identify a cohort of customers who would be eligible for matching and not write off. We expect that matching would be most suited to the secondary (application) route. As this is proposed to be provided by CGCs, Ofgem would need to consider resourcing constraints as well as CGCs wider views on having two routes for applications.

Ofgem should also consider the impacts of debt or payment matching on delivery of the scheme. The proposed close of the scheme is in spring 2026. Ofgem have noted that the scheme could remain open after this date with a discretionary period to allow for the distribution of funds following official closure of a scheme. This discretionary period would need to allow for the completion of any matching agreements.

By way of example, British Gas provides payment matching for customers who agree to a regular monthly payment arrangement by Direct Debit for six months. The scheme 100% matches any fixed amount that is affordable to the customer. For example, if a customer pays £50 a month for six consecutive months, we'll pay £50 into their energy account each month for the duration of the payment arrangement - £300 in total.³⁰

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?

British Gas operates a payment matching scheme for its customers. A detailed assessment is made to determine if customers qualify for the scheme but broadly, they must:

- Be in or facing fuel poverty
- Must have obtained or will obtain debt advice
- Have been a British Gas customer for at least 6 months
- Pre-agree a payment amount following the assessment

For the debt relief fund we recognise that alternative eligibility criteria may be appropriate depending on the wider eligibility of the scheme. However, we consider that it would be important that any matching process is time bound, and that the ratio would need to be considered alongside eligibility criteria. We are happy to engage further with Ofgem on this point and also consider that Ofgem should seek input from CGCs whom it proposes would deliver the secondary (application) route.

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?

The speed of supplier recovery will need to be considered in the context of a clearer view of the size of the fund including any third-party costs that suppliers would incur. However, our initial view is that some delay to supplier recovery is reasonable subject to overall recovery of funding costs. This would facilitate a three-year recovery of the costs of the fund through network charges reducing the annual bill impact for consumers. This would also allow

³⁰ [British Gas Energy Support Fund](#)

associated revenues to be collected through future tariff setting rather than resetting published tariffs.

Finally, we welcome Ofgem exploring how these costs could be allocated under a network charges funding route. Further increases to the electricity standing charge should be avoided. As we set out in our response to your Call for Input on standing charges, we see scope to make positive progress and reset the direction of travel in the short-term including by halting further standing charge increases.³¹

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

Network recovery should be over at least a three-year period. Our view is that the funding mechanism should aim to minimise the total costs and the immediate bill impact. The immediate bill impact is important as significant short term bill impacts could affect the scheme and have the potential to lead to further strain on customers who have struggled with debt. This could counteract the potential medium- and longer-term benefits of the scheme by increasing debt costs at a time when we know customers are struggling with their bills.

Recovery by networks over a longer period also provides the possibility that medium- and longer-term benefits could feed through to lower industry wide debt costs and offset increases to network charges. Whilst this effect is uncertain, we consider that there is merit in Ofgem's point that *'A 3-year time period balances the timeline for recovery with the impact on customer bills when compared to a longer recovery period.'*³²

³¹ Centrica response to Standing charges: domestic retail options, 20 September 2024.

³² [Resetting the energy debt landscape: the case for a debt relief scheme](#), Paragraph 5.16.

Eligibility and Conditionality Options

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.

The primary route is a critical part of the fund. It will have the scope to deliver a significant amount of debt write off alleviating the burden of debt of up to 2.3 million customers. Because the primary eligibility criteria will be automatic it will also reach customers in debt who have not engaged with their energy suppliers.

A poll of 2,000 adults commissioned by British Gas revealed that whilst just under 40% are having challenges managing their bills, over 45% have never sought assistance, from either loved ones or professionals.³³ We believe it is important that this group benefits from this scheme not only because they may benefit from help but because engagement with the scheme may engender longer term engagement with their energy supplier.

Our initial view is that including all debt in arm 1 would be the most consistent and fair approach. Determining a minimum level would be difficult and what is an '*unmanageable level of debt*'³⁴ would be likely to differ for households in the eligible sample. A minimum level would also lead to differential impacts on lower consuming and higher consuming households with low users potentially being excluded.

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.

Affordability criteria must be clear and deliverable to enable Ofgem's ambitious proposals for delivery of the fund by Spring 2026. Clear and deliverable criteria will also facilitate consistent application by all suppliers which is important for fair delivery of the fund to all eligible customers and providing confidence to suppliers that they will be fairly funded for the write offs that they deliver to customers.

A lack of data on financial vulnerabilities is a significant issue in the energy sector. Centrica's long-standing view is that Ofgem must continue its work with HM Government on improving access to data sharing with Government departments. Any progress on this will enable suppliers to proactively identify those customers on low incomes who are in most need of support. This will also enable the removal of significant customer effort in applying for bespoke support, meaning suppliers can proactively target the right help to the customers who need it most.

The debt relief fund brings these data issues into sharp relief. As Ofgem notes in its consultation,³⁵ delivery of the fund by spring 2026 will require Ofgem to use data that is either already available to suppliers or easily accessed. We are concerned that this will limit the ability of the fund to effectively target customers and support Ofgem in considering a wide range of data sources to mitigate these data issues as far as possible.

³³ [Half of consumers who struggle with their energy bills have never asked for help. - British Gas Energy Trust](#)

³⁴ [Resetting the energy debt landscape: the case for a debt relief scheme](#), Paragraph 6.7.

³⁵ Ibid, Paragraph 6.12.

Of the sources that Ofgem has identified we consider that WHD availability (potentially including WHD plus) is the only criterion that clearly meets the need to be easily accessible. However, given the known drawbacks of this dataset in targeting financial vulnerability we consider additional criteria should be included.

We agree that Ofgem should continue to work with suppliers to assess the feasibility of using credit reference agency data. If Ofgem does go down this route it would need to be able to assure that suppliers have consistent data sets available across their customer base. Our view is that this is unlikely to be the case at present, but this information may be 'accessible'. Equally, we consider this data to provide the best potential for effective targeting of the fund as it directly targets affordability.



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.

A secondary route for customers who do not meet the primary criteria will be important if the eligibility is relatively narrow. It will also ensure that customers who narrowly miss out on eligibility for the fund are not excluded from the scheme. Ofgem will need to work with supplier and CGCs to ensure that the referral of customers to this route is considered carefully to maximise consumer engagement with the process. Engagement with suppliers and CGCs is critical for delivery of Ofgem's long term objective that the scheme facilitates improvements in the culture of debt management.

We consider the secondary (application) route to be primarily for customers who do not meet arm 3 of the eligibility criteria. Introducing different criteria for arm 1 and arm 2 under this route would increase the complexity of the scheme and complicate referrals. The exception to this is where a customer has a small amount of debt over the scheme period, in this case Ofgem would need to consider whether it is proportionate to refer that customer for a secondary (application).

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?

We agree with the general design principle that access to the debt relief fund should be consistent and fair and that, as Ofgem note, '*Consumers in the same circumstances should have equal access to support*'.³⁶

However, there are practical difficulties in engaging with customers in relation to closed accounts and we are pleased that Ofgem is considering this. Engagement with customers

³⁶ [Resetting the energy debt landscape: the case for a debt relief scheme](#), Page 18.

with closed accounts would be important because data on closed accounts will not be on the same basis as live accounts. There may also be third parties involved in this process making identification of debt more difficult. For these reasons the primary route may not be appropriate for closed accounts.

Ofgem should also consider cases where a supplier may hold no details for the occupant of a property. In these cases, we would have no way of validating eligibility criteria.

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?

Ofgem would need to clarify what it means by '*rely on indices of deprivation to inform affordability*'. As we noted in relation to the case for change, we are very supportive of measures to help those struggling to pay. We agree that support should be directed to those struggling to pay debt.

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

Eligibility checks should be the primary route to determine access to the scheme. And it is important that criteria for these checks are clear and administratively simple to deliver. Additional 'conditionality' requirements will need to follow the same principles. However, we note some conditionality for the secondary (application) route is inevitable if arm 3 of the assessment is based on an income and expenditure assessment, such as a Standard Financial Statement (SFS) or Common Financial Tool (CFT).

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

We are not aware of any data sharing challenges in addition to those identified by Ofgem in the consultation document. However, as Ofgem proceeds to provide further information on the eligibility criteria for the scheme and the 'referral' process we may need to comment further on this point.