

Non-confidential, some content redacted

6 February 2024

Response to ‘resetting the energy debt landscape: the case for a debt relief scheme’ consultation

Dear Dan

Thank you for the opportunity to respond to these initial proposals for a scheme to ‘reset the energy debt landscape.’ We understand some of the concerns raised in the consultation around high levels of consumer debt across the industry and the associated harms this can cause for consumers with acute affordability issues. We particularly welcome that Ofgem is taking a wider approach to debt and billing standards alongside this work. In our experience supplier behaviour has a material influence on levels of customer debt

We are open to Ofgem introducing a one-off, time-limited debt relief scheme which acts as a genuine reset for indebted customers. However, intervention will only be justified if:

1. **The scheme acts as a genuine reset of debt for customers** by helping customers to re-engage and achieving lasting change.
2. **Moral hazard risks are mitigated through scheme design**, particularly the risks of rewarding suppliers for inefficient debt management which we are concerned Ofgem is not taking seriously enough.
3. **There is an appropriate and fair funding mechanism through a network levy.** Suppliers have already made considerable investments from their balance sheets to support struggling customers. A network funding levy would allow costs to be spread over time, and be borne more fairly across the industry and customers.
4. **Ofgem takes a reasonable approach to the question of ‘netting off’ against previous bad debt allowances in the price cap** that sets a ceiling on claims and does not use individual supplier provisioning practices.

1. Making the scheme a genuine debt reset by using debt matching

Ofgem should recognise that the debt situation in the market is not spiralling out of control. The proportion of customers in arrears has been stable for some time and there are signs the rate of growth in total debt and arrears is slowing. We reject any assertions that debt represents a risk to market stability, and therefore **the** key objective for Ofgem in this scheme must be helping eligible customers.

The scheme will only be a success if it achieves lasting change for customers and brings down the high costs of debt being socialised across customers. That means engaging those who receive help in a way that keeps them out of debt longer term. **In our experience, debt**

matching achieves this engagement much more effectively than other interventions like bill credits, even among some of our harder-to-reach customers with persistent debt. We have included more on our scheme's success in our answer to question 16 and in Appendix 1. Achieving this engagement will also be a key part of reducing future debt costs (and price cap allowances) across industry. If pure debt write-off is included in the scheme then we suggest this be subject to tighter affordability criteria and **must** involve some engagement from the customer.

We also want the scheme to help as many eligible customers as possible. We are open to the scheme involving an application route, but think customers should retain the option to apply via suppliers rather than only with consumer groups or charities (CGCs). We understand there could be additional benefits for customers engaging with CGCs, but our experience is that many consumers do not proceed if support requires contacting a third party (see further in questions 22 & 23). We are happy to signpost customers and give them options, but do not want to refuse support to customers who come directly to us when we have the means for them to apply.

2. Mitigating the moral hazard risks of intervention

First, making the scheme time-limited and setting objective and consistent eligibility criteria will be essential to ensuring that the scheme does not lead to customers feeling they do not need to keep up with payments or pay off their debt. We are pleased to see Ofgem recognise this. Ensuring the scheme achieves customer engagement (as in point 1) will also be an important part of reducing this moral hazard risk.

Secondly, we are concerned that Ofgem is not taking the risks of rewarding inefficient debt management practices seriously enough, including in its proposed scheme objectives. Rewarding historic inefficient debt management is not a long-term solution to apparent supplier financeability issues arising from high debt.

We are particularly concerned with the objective to clear debt "in proportion to the debt levels in suppliers' consumer portfolios", and with the proposals to allocate scheme funding on this basis. The level of customer debt held by a supplier is not only linked to its customer portfolio. It is also a function of the suppliers' performance in communicating and working with their customers to manage and reduce that debt level. We have seen this in practice after taking on customers of failed suppliers where we have reduced the level of debt aging into older age brackets. Therefore any plans to clear debt or allocate funding in proportion to individual suppliers' total debt levels **will** act as a reward for inefficient debt management and be in direct tension with Ofgem's design principle to avoid perverse incentives.

Ofgem must remove this objective and instead prioritise setting clear and objective eligibility criteria for the scheme and aim to make it a success for those customers. Ofgem's aim is to set eligibility criteria which targets debt linked to affordability issues and therefore supplier

success in reducing this eligible debt should be what drives **how much debt is cleared by each supplier and what funding is available**. There is no need to have an additional objective on total supplier debt, which will be much more linked to supplier performance than eligible debt.

3. An appropriate and fair funding model means a network levy

As Ofgem recognises, suppliers have already provided hundreds of millions of pounds in discretionary support for customers since 2019, with more than £500m extra support announced in the EnergyUK Winter Commitment. Asking suppliers to fund this scheme on top of current additional support without a way to recoup costs is untenable.

The fairest way to fund this scheme is through the proposed network levy, rather than creating a new price cap allowance. Benefits of the network levy over the price cap include:

- Using the price cap means SVT customers covering the costs of the scheme. These customers are by definition the least engaged in the market and it would be unfair for them to bear the higher costs
- Historically, price cap allowances have only been spread over a 1 year period. Using the network levy model would allow for a longer time period over which to spread the cost, lowering the bill increase for all customers. At a time when bills are already still high, this has to be a priority focus for Ofgem
- It is not just suppliers who bear responsibility for debt resulting from an affordability crisis largely outside suppliers' control. Costs increased across the system, including and especially network costs. Funding the scheme via networks would be a fair distribution of responsibility and is a relatively modest ask given that costs would be recovered through higher network charges anyway.

4. Finding a fair approach to 'netting off' previous price cap allowances which does not reward suppliers with inefficient debt management

Finally, we understand Ofgem's concern that suppliers should not be compensated through the scheme for writing off bad debt which has already been notionally "compensated" for via the price cap bad debt allowance. In the first instance however, we urge Ofgem to focus on making the scheme a success (achieving a genuine debt) rather than finding detailed processes to 'netting off.' Suppliers have historically underrecovered their bad debt costs through the allowance and it is not yet clear that scheme costs would exceed the ceiling Ofgem would set on claims to take account of this. If Ofgem does proceed here, we suggest the following

- **Ofgem sets a ceiling on claims as a multiple of the revenue a supplier has received from the bad debt allowance in the price cap.** This multiple should be

based on the average gap between the price cap revenue and actual bad debt costs *across the whole industry*

- **Supplier provisioning decisions are not the same as revenue from the bad debt allowance, and should not be used for setting any ceiling on claims.** We strongly reject that provisioning at the supplier level should be used at all for addressing this issue. Provisioning is an accounting practice which is to some extent subjective and will necessarily vary across suppliers depending on which accounting conventions they use. It is not suitable for use in setting individual ceilings for suppliers.

Further engagement

We welcome the approach Ofgem has taken to engagement with suppliers so far. This scheme potentially entails a lot of complexity and Ofgem has ambitious timelines for delivery. We would welcome further engagement from Ofgem after it has received consultation responses and ahead of the statutory consultation phase. Please do not hesitate to reach out.

Yours sincerely,

Matt Gardner

Energy Market Regulation Adviser

Responses to Consultation questions

Case for change

Q1. Do you agree with our case for change?

We agree with Ofgem that there is a large stock of crisis-related debt, much of which will not be repaid absent any intervention. However for any intervention to be worthwhile, it must be long-lasting and achieve a genuine 'reset' for the customers helped. Debt-related harms can only be tackled through lasting change, with customers put back onto a stable footing where they are re-engaged and do not return to arrears. This will also be the only way that a scheme can make a meaningful difference to lowering the debt costs socialised over other customers.

While the stock of debt is high across the industry, Ofgem rightly recognises that the situation has begun to stabilise somewhat. The proportion of domestic accounts in arrears has been stable for some time, and in recent months the rate of growth in the stock of debt and arrears has dropped substantially and below the trends many were expecting (see Figures 2 and 3 below). In these circumstances we do not think that Ofgem has provided evidence that there is a risk that the level of debt and arrears has become 'unsustainable,'

particularly in a way that risks ‘destabilising the market.’ Well-run energy companies should not be de-stabilised by the current situation. The only reasonable case for change is helping customers, not providing a benefit to suppliers who would like to see their debt levels reduced.

Figure 2 - Proportion of electricity customers in arrears without an agreement to pay or repaying an energy debt ¹

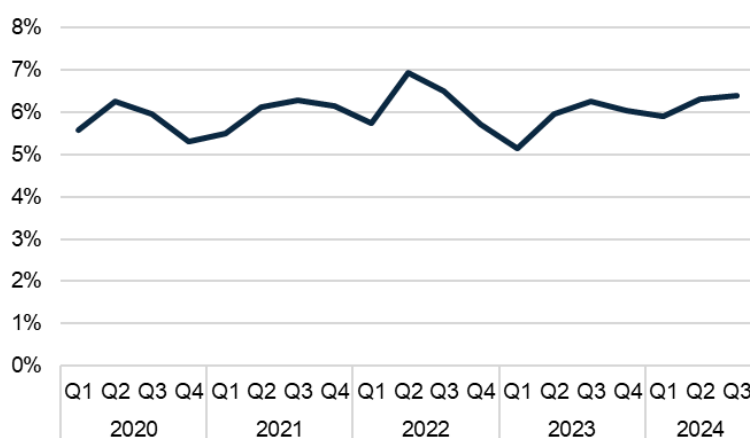
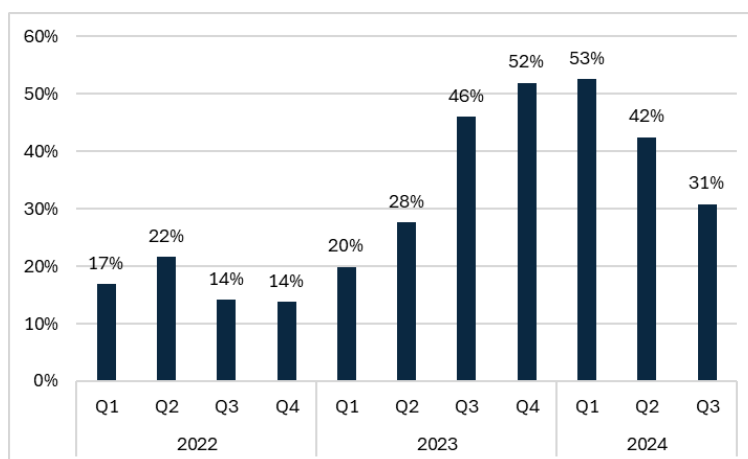


Figure 3 - Annual growth in debt and arrears Q1 2022 to Q3 2024²



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

¹ Octopus Energy analysis of Ofgem debt data and DESNZ meter data. Number of customers in arrears without a repayment plan or repaying a debt as a proportion of total electricity meters

² Octopus Energy analysis of Ofgem total debt and arrears data. Growth from same quarter in previous year

We are open to the introduction of a debt relief scheme, but it must be designed in such a way that it (i) creates a sustainable reduction in debt by engaging customers and avoiding debt recurrence; and (ii) does not reward suppliers for not managing debt properly. Anything else risks being an expensive waste of time. Ofgem has rightly identified risks to intervening and must be very confident that these risks are being managed.

Ofgem must remain conscious that debt performance is largely within suppliers' control and an important element of competition. Supplier performance has a significant impact on levels and flow of debt, through helping customers budget and repay arrears. We have seen this first-hand after taking on customers from failed energy suppliers, where we were able to reduce debt flow significantly, reaching our own arrears 'norm' in under a year (see more detail on this point in our response to Q4). Any intervention must avoid where at all possible being a reward for suppliers with poor debt performance. Competition will do much more to drive better debt performance in the long run.

We also note that we are already running programmes to provide debt and affordability support to customers. We have recently been running a 'you pay, we pay' (YPWP) scheme (what Ofgem refers to as 'debt matching') which has been having very positive results supporting customers and leading to increased engagement through material increases in payments. We have included more detail on this scheme in our answer to question 16 and in Appendix 1. We would be very happy to engage further with Ofgem on this if it would be helpful to learn more.

Considerations and Objectives

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

We agree with the proposed design principles. These will be essential for the success of any scheme. We provide more detail on each below.

We have serious concerns however that one of Ofgem's stated objectives for the scheme that "*debt accumulated during the energy crisis is cleared in proportion to the debt levels in suppliers' consumer portfolios*" appears to be in immediate conflict with the design principles on *fairness and consistency* and *avoiding perverse incentives*.

For a scheme to deliver *fairness and consistency* for customers, support should be available based on objective eligibility criteria and not depend on the level of debt a customers' supplier holds. This is also essential for *avoiding perverse incentives* where Ofgem says it wants to 'avoid rewarding suppliers for inefficient debt management practices'. Suppliers with worse debt management practices will have higher levels of debt in their portfolios, and therefore it is difficult to see how the objective could not be in tension with the design principle. **Eligibility must drive which customers are supported and also therefore how**

much debt is cleared by each supplier. There is no need for an objective which goes beyond this on levels of debt in suppliers' portfolios and Ofgem should remove it.

Avoid perverse incentives

We agree that the scheme should not undermine incentives for customers to pay their bills or for suppliers to improve their debt performance. Both of these moral hazards are substantial risks to intervention and should be mitigated wherever possible. We agree that making the scheme time-limited and targeted will be important for limiting the risks of perverse incentives for consumers. However, perhaps a more important mitigation is for the intervention to support and encourage consumers to maintain payments afterwards. Our experience is that debt matching achieves this much more successfully than other forms of bill credit or debt write-off and should therefore be a central part of the scheme (more detail included on this point in response to Q16 and in Appendix 1). Ofgem should also exercise caution in its communication and branding of the scheme to make clear to consumers that it is a one-off related to historic, energy crisis debt.

The best way to mitigate rewarding inefficient debt management by suppliers is to make eligibility for the scheme objective, fair and consistent for customers. Then, Ofgem must ensure the funding mechanism does not reward suppliers for holding ineligible debt, which is more likely to be related to performance than the eligibility of their customer base. We reiterate again that this design principle is in tension with Ofgem's objective to reduce debt in proportion to the debt in supplier portfolios, which is unnecessary.

Fairness and consistency

Setting consistent and objective criteria for support will be essential to any scheme introduced. We agree with the principle that consumers in the same circumstances should have access to the same support regardless of their supplier. This will also be necessary for avoiding perverse incentives as outlined above.

Targeted

We agree that the scheme should avoid writing off the debts of 'able to pay' customers where possible. Ultimately other billpayers will pay for the support given and it will undermine acceptability if funds are not well targeted. Targeting should also mean that support is given in proportion to need, with the most extensive interventions like pure debt write-off reserved for those least likely to be able to pay.

Timely

We agree that delivery should happen as quickly as possible. Getting a scheme up and running quickly will depend on Ofgem setting clear eligibility criteria as quickly as possible. We would be willing and ready to begin delivery of support quickly, particularly if the scheme takes a similar approach to our existing debt matching offer. We would also urge Ofgem to consider whether existing supplier approaches that meet the design of the scheme should be eligible for funding. Octopus and other suppliers are offering support **now**, ahead of the scheme, and would not want to be penalised for doing so when the objective of this scheme is to deliver support quickly.

Management of risk

It seems prudent to avoid unintended transfer of risk across the energy sectors, but it would be helpful to have further detail on what Ofgem's specific concerns are. Debt and affordability should not be seen as supplier-only issues, particularly when the debt being targeted by this scheme is 'crisis-related.' As a principle, where customers need support as a result of high costs, it is fair that firms across the whole sector take some responsibility for reducing customer harm. This is not a 'transfer of risk' but a fair distribution of responsibility.

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

We have two key observations:

1. We do not support the objective for debt to be cleared in proportion to the debt levels in suppliers' portfolios. This is in direct contradiction to the design principles on avoiding perverse incentives and should be removed.
2. Ofgem should consider adding an objective that the scheme reduces debt in an enduring way.

We are concerned that the objective for debt to be cleared in proportion to levels in supplier portfolios is a result of unsubstantiated concerns around some suppliers having higher levels of debt as a result of their portfolios having higher numbers of customers with affordability issues. Our own evidence suggests that supplier performance on customer service and billing are much bigger drivers of debt than portfolio effects. Our experience of migrating customers from Avro, Bulb and Shell shows that important debt metrics fell after migration, something that must be a result of supplier performance and not the make-up of the portfolio. Figures 4 and 5 below show the trends in older aged debt post-migration.

Figure 4 - Proportion of debt ageing into older debt buckets for Avro Energy and Bulb post-migration

[Chart redacted]

Figure 5 - Post-migration, the share of former Shell customers carrying debt older than 3 months decreased by a faster rate of improvement than customers who have always been with Octopus

[Chart redacted]

Ofgem will be setting eligibility criteria for this scheme to target customers least likely to afford paying their debt. It should fall out naturally from this that suppliers with more eligible debt would clear more debt. There is no need for a specific objective on the share of total debt, particularly as this would cover ineligible debt which is most likely to be related to supplier performance.

On the other key objectives Ofgem has put forward, we consider there should be a more explicit reference to the reduction in debt being lasting. It should be very clear in the scheme objectives that a one-off intervention can **only be a success** if it leads to a long lasting reduction in domestic debt levels. This objective should then flow through to all other elements of the scheme, including eligibility and conditionality and the type of support offered, which should all be geared towards achieving ongoing engagement from customers. This is to some extent implicit in the objectives, but would be better stated explicitly

Debt Relief Scheme 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?

In general, making the scheme as simple and automated as possible to administer will increase the speed at which it can be implemented. Much of this will depend on the simplicity of the eligibility criteria and operation of the application route.

We consider that if Ofgem sets out easily verifiable eligibility criteria then the automated element of the scheme could be rolled out quickly, and audit processes could be relatively light touch. The application route will likely slow rollout down, particularly given CGCs have concerns over capacity. However we also think there could also be means to speed this route up by enabling application via suppliers and not just CGCs. Suppliers, including us, already use tools for assessing customer affordability and these could be used in an application route to speed up the process and extend its reach. While giving customers the option to apply via CGC seems reasonable, we think more customers could be helped if they also have the option to proceed through their supplier for example by filling in an income and

expenditure assessment. We have provided more detailed thoughts on this in our responses to the questions on eligibility and conditionality.

Support that aligns with current debt matching approaches would also speed up implementation as much of the infrastructure will already be in place.

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

We strongly agree that the scheme **must** be time limited in order to avoid issues with potential perverse incentives for not paying bills that Ofgem identified in its design principles. This will also need to be communicated very clearly by Ofgem, suppliers and other stakeholders (e.g. debt charities) to ensure consumers understand the time-limited nature of the scheme and that it applies to crisis-related debt only.

On the specific timescales, this will depend somewhat on the design for the scheme. Six months seems like a reasonable time for a scheme to be 'open' but this may have to be time during which support can be agreed e.g. a debt matching plan, rather than when last support is paid to customers. Our debt matching scheme works on a monthly basis over a six-month period where we match any amount a customer pays above their average monthly payment over the prior six months (more detail given in Appendix 1). This approach helps to build engagement and habits of making regular payments and we would encourage Ofgem to include a similar design into this scheme. However scheme time limits would need to take this longer payment period into account.

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

Our preference is that most support given through the scheme is done via debt matching. In our experience, debt matching is much more effective at encouraging ongoing engagement in a way consistent with Ofgem's objectives and design principles for the scheme.

Our debt-matching offers are made by reference to the average monthly payment made by customers over the prior six months. For the following six months we match each month everything paid in excess of the average. This has the advantage of simplicity and control for customers and, most importantly, encourages an ongoing payment habit. Ofgem might also consider using the scheme to go further than only 'matching' so that suppliers make contributions larger than the customer e.g. 1.5x or 2x the customers' payment above their average.

If pure debt write-off is covered under the scheme, we consider that it should be conditional on completing an income and expenditure assessment which shows the customer has low income, and one verifiable affordability criteria. There may need to be an additional cap on total level of debt written off to ensure fairness. We provide more information on this in our answers to questions 20-27.

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 do not think that Delivery Option 2 is feasible or desirable. Delivery Option 1 through suppliers would enable a scheme to be delivered faster, help more people, engage consumers better and do so at lower cost.

Timeliness, cost and efficiency

Suppliers have a good track record with delivering support quickly, such as during the energy crisis where the Energy Price Guarantee and Energy Bill Support Scheme were designed and delivered within a few months. As then, suppliers are also best placed to deliver support quickly in this scheme. We already have relevant information on customers, and the ability to contact, make payments or write off debt directly. Appointing an independent administrator would add significant complexity to almost every part of the journey and would almost certainly preclude the scheme from being rolled out quickly, in line with Ofgem's objectives. The added complexity from appointing a third party is also likely to add significantly to the administrative costs of running the scheme. Suppliers already have the contact and IT systems set up to deal with customer contacts and queries. It would be a significant risk to efficiency and delivery to expect an independent administrator to deal with up to 2.3m eligible customers (many of whom will be vulnerable) across multiple suppliers.

Customer engagement and helping more people

The scheme will only be a success if it engages the consumers it helps and does not lead to recurrence of debt. This is much more likely to happen through direct contact between the supplier and customer, particularly if delivered via debt matching or otherwise requiring engagement from the customer. As Ofgem says in the scheme objectives, this is an opportunity to build relationships between customers and their suppliers. We are also likely to help more people this way. Introducing a third party with whom the customer has no relationship will mean some customers dropping out of the journey. In a recent trial, we referred 30 customers with whom we had good engagement to a charity for debt advice and just 8 went on to engage with the charity. While this is a small sample, it shows the risks of losing customers through referral rather than direct engagement. In general, we have very

good engagement with our customers and find that customers are more likely to pick up the phone to us than others.³

It's worth noting that many of these concerns also apply to the application route covered elsewhere in the consultation. While we think it is reasonable to offer customers the option of going through an application route with a CGC, we think they should also have the option of progressing the application with their supplier. As above this is likely to be more timely, cost effective, and better at reaching customers.

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

We understand that audit will be important for ensuring that funds available for the scheme are used appropriately. Ofgem should follow a principle that the level of audit should be proportionate to the risks of funds not being used appropriately. If eligibility criteria are set which are easy for suppliers to verify and apply automatically then a lighter touch audit process, closer to audit option 1, is much more likely to be appropriate, and would also allow the scheme to be delivered more quickly.

Ofgem should seek to learn lessons from DESNZ's auditing processes for the EBSS and EPG. Our experience of those schemes is that audit processes for these have run on for far longer than necessary (they are still ongoing now) primarily due to administrative issues with the auditors. The process could have been managed better and closed more quickly, and this is a good opportunity for Ofgem to learn from the successes and failures of prior support schemes. Ofgem should also consider the audit process it uses for WHD, and whether this approach could be applied to the scheme.

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

We have serious concerns with the proposed step in audit option 2 that scheme funding would be allocated to suppliers *"based on the level of debt their customers had accrued during the energy crisis."* We do not see why this step is necessary and we reiterate the concerns we raised under Questions 3 and 4 above that trying to use the scheme to clear debt in proportion to debt in suppliers' portfolios is not consistent with design principles of *fairness and consistency* or *avoiding perverse incentives*. If customers who meet eligibility criteria are to have access to support through the scheme on an equal basis, then any funding needs to be decided ex-post based on the share **eligible** debt that the supplier has

³ 

written off. **Allocating funding on the basis of the share of ineligible debt just risks rewarding suppliers with higher levels of debt related to poor debt management.**

As Ofgem says, the process for SOLR funding claims could be a reasonable model for approval of claims on the fund. We would however urge Ofgem to make the process as simple and fast as possible, and be very clear about how claims should be evidenced so that suppliers can be completely clear about the money they can claim through the fund in advance. Uncertainty about the level of allowable claims would be detrimental to supplier finances.

Q11. Are there any other considerations for the delivery mechanism for a debt relief scheme we have not explored?

Given Ofgem's desire to act quickly and the complex questions around scheme design (in particular eligibility), Ofgem may want to consider a phased approach to the DRSS.

We would also urge Ofgem to consider whether existing support being delivered by suppliers could be eligible for funding under the scheme. This would allow suppliers to begin ramping up of support immediately without having to wait for Ofgem to set a scheme start date. Furthermore, excluding existing support which meets scheme design would disincentivise suppliers to continue with their existing schemes until the Ofgem debt relief scheme comes into place, and penalise suppliers who move forward with their own programmes in the meantime. This would not be good for customers who have to wait longer for support from their supplier, or a fair outcome across suppliers as those providing less support now get rewarded for their inaction.

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?

Any delay in payments would have a working capital impact on suppliers over the winter period which is already the most challenging time of the year for working capital management for suppliers. The significance of this impact will of course depend on the size of the scheme, customer take up and the length of delay. Ofgem should conduct a proper assessment of the working capital impact on suppliers and this should be a consideration in the final design of the scheme.

Funding options

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?

As Ofgem recognises, suppliers have already provided hundreds of millions of pounds in discretionary support for customers since 2019, with more than £500m extra support announced in the EnergyUK Winter Commitment. Asking suppliers to fund this scheme on top of additional support without a way to recoup costs would be untenable.

On the proposed routes for funding, we would not support funding the scheme via another price cap allowance. Funding the scheme via a network levy would be much fairer for two main reasons.

First, a network levy ensures that the cost is spread simply across all customers, and not just those on SVTs. It would be entirely unfair and regressive for the scheme to be funded only from customers on SVTs. These customers are, by definition, the least engaged in the market and should not have to bear higher costs. Even if followed by some kind of levelisation process, this would increase the complexity and risk for the scheme and reduce our ability to simply anticipate future industry costs. This adds regulatory uncertainty which is unnecessary given a network levy option is available.

Secondly, funding the scheme via a network levy allows the potential for costs to be spread over a longer period (e.g. up to five years) to mitigate the impact on customer bills. Historically, price cap allowances have only been spread over a 1 year period. Having a longer time period over which to spread the cost lowers the bill increase for all customers. At a time when bills are already still high, this has to be a priority focus for Ofgem.

We are entirely unconvinced of concerns that funding a scheme through networks would be an ‘unintended transfer of risk across the energy sectors.’ It is not just suppliers who bear responsibility for debt resulting from an affordability crisis largely outside suppliers’ control. Costs increased across the system, including network costs. As Ofgem notes, suppliers have already provided hundreds of £millions of discretionary support for customers since 2019, and more than £500m support was announced in the EnergyUK Winter Commitment. It is only fair that networks contribute, and funding the scheme is a relatively modest ask given that networks’ costs would be recovered through higher charges anyway. This is not a ‘transfer of risk’ but a fair distribution of responsibility. Networks also have precedent for being used in this way during the pandemic.

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?

Joint response with Q15 below

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?

We agree with Ofgem's intention that suppliers should not be compensated twice - initially through the notional bad debt allowance in the price cap and then in future from the debt relief scheme. In the first instance however we urge Ofgem to focus on making the scheme a success (acting as a genuine debt reset for customers by helping them to re-engage) rather than finding detailed processes to 'netting off.'

If Ofgem does proceed with finding a methodology for netting off, we propose the following

Proposal

The amount of bad debt incurred is already greater than what has been recovered from the price cap so suppliers are already in deficit and should be able to claim from the scheme from the start, without netting off. **Ofgem should then set a ceiling up to which suppliers can claim.** We propose that Ofgem should use data that it already holds to establish the ceiling.

Specifically data on:

- the amount of notional bad debt that has already been recovered across the industry through the price cap over the relevant period (*A*)
- the actual bad debt costs that the industry has incurred over the same period (*B*)
- the amount of nominal bad debt that has already been recovered by an individual supplier through the price cap over the relevant period (*C*)

The ceiling for each supplier would be calculated using a multiple of the revenue received from the price cap bad debt allowance. This multiple would be set at an industry-wide level based on the gap between total bad debt costs and recovered revenue, then applied to individual suppliers using the formula [method]:

$$\text{Industry bad debt to debt allowance ratio [D]: } A / B$$

$$\text{Individual supplier ceiling: } [C / D] - C$$

This would be a simple approach to the question of 'netting off', and we do not believe that Ofgem needs to overelaborate beyond this because:

- The amount that has been underrecovered by suppliers is large - and likely larger than the amount they would recover through the scheme

- Engaging customers that are in long term arrears is not easy (assuming that customer engagement will be a key eligibility criterion for participation in debt write-off)

Finally, we note that supplier provisioning decisions are not the same as revenue from the bad debt allowance. We strongly reject that provisioning at the supplier level should be used at all for addressing this issue, and are concerned that Ofgem has not clarified this, despite us raising this point several times in the past. Provisioning is an accounting practice which is to some extent subjective and will necessarily vary across suppliers depending on which accounting conventions they use. It is not suitable for use in setting individual ceilings for suppliers.

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

Yes, we think debt matching should be the main mechanism by which customer debt is written off under the scheme if it is to meet the objectives and design principles. **Our experience is that debt matching influences customer payment behaviour much more than other forms of bill credit or write-off we offer.** We currently run a debt matching programme which we offer to customers identified as needing additional support with making payments. Our programme takes the following approach:

- When a customer is invited to the debt matching programme, we observe the average payments that they have made per month in the six months leading up to their enrollment in the programme.
- We then observe the payments each month for the six months thereafter. Any increase in payments is matched by an equal value of credit on their account, which is effectively a debt write-off.
- Crucially our contribution is also made monthly over the six-month period so that the customer receives ongoing positive feedback. We find that this is very successful at keeping customers engaged in an ongoing payment journey.
- We stop matching payments earlier than six months if the customer is no longer in debt.

We have found very good take-up of these offers among customers we reach out to. Among customers who have completed an income and expenditure assessment through a tool we use called Paylink, around half take up the debt matching offer. We also see some take-up amongst harder to reach groups, with more than 15% of persistent debtors⁴ or those with our Internal Escalation Teams and Sensitive Care Teams also taking up the offer.

⁴ A persistent debtor is defined as an account: with at least 6 months on supply, that has not paid anything in the last 4 months and has a debt of at least £800

Our experience with debt matching so far is that we see a significant increase in monthly payments of around £30-£50 from customers after enrollment onto the programme. We do not see similar increases in payments from other types of support like bill credits or standing charge holidays via our Octo Assist fund. As shown in figures 6 and 7 below, for customers who filled in a Paylink in December 2024, we saw a **⌘ increase in the monetary value of payments in the following 30 days compared to the average over the previous six months**. This was just ⌘ for customers who filled in a Paylink and received an Octo Assist bill credit or standing charge holiday.

Figure 6 - Average monthly customer payments in the six months before intervention and 30 days after intervention, for customers completing a Paylink in December 2024

[Chart redacted]

Figure 7 - Average increase in monthly payment 30 days after intervention, customers completing a Paylink in December 2024

[Chart redacted]

This effect on engagement is very significant, and Ofgem should particularly note the difference with other interventions. We see debt matching as being a highly suitable mechanism for the debt relief support scheme.

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?

Under our debt matching scheme we match 1:1 any payments made by the customer above their average payment over the prior six months. Ofgem could consider setting a ratio above 1 for debt matching so that the scheme can make the offer more attractive and write off more of the debt e.g. that suppliers match 1.5x or 2x the customer contribution. The key point of debt matching is encouraging a habit of monthly payment which can lead to customers not accruing debt again immediately after the intervention.

We do recognise however that some customers with acute affordability issues will not be suitable for debt matching but should still be able to get debt write-off through the scheme. However, given the relative lack of engagement that pure write-off achieves, we consider that there should be more stringent affordability criteria for customers to be eligible, and that they demonstrate engagement by some other means. Engagement could be demonstrated by the customer completing an income and expenditure assessment, and affordability by the

customer reporting a low household income through that assessment and meeting one verifiable affordability criteria like Warm Home Discount eligibility.

We give more detail on how we think eligibility and conditionality should work for the scheme in questions 20-26, including on differences for debt matching vs debt write-off.

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?

Any delay in payments would have a working capital impact on suppliers over the winter period which is already the most challenging time of the year for working capital management for suppliers. This is not an issue which affects network companies to the same extent and in principle we see no reason why claims could not be paid by network companies ahead of adjustments to network charges in the spring of 2026.

The significance of the working capital impact on suppliers of a delay in being able to make claims will of course depend on the size of the scheme, customer take up and the length of delay. Ofgem should conduct a proper assessment of the working capital impact on suppliers and this should be a consideration in the final design of the scheme.

We would prefer that payments are made sooner rather than later but if this is going to be a block on the network funding route, then we would prefer Ofgem look for solutions rather than defaulting to a supplier-funded model.

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

A key advantage of funding the scheme via a network levy is that costs can be spread over time, and therefore the annual impact on bills is reduced. We recognise that the length of time will need to be proportionate to the cost of the scheme however, and that this needs to be balanced against interest costs to customers. If the cost is as much as £1bn then 3 or 5 year recovery will be more appropriate. If the cost of the scheme is £500m then Ofgem's impact assessment suggests just £3 difference in the impact of recovery over 5 years vs 3 years, in which case 3 year recovery may be more appropriate in order to reduce interest costs borne by customers.

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.

We agree that there should be a minimum level of debt on an account in order for it to be eligible (Arm 1) and that the eligible debt should be limited to the crisis period (Arm 2).

Ofgem's suggested period of Q2 2022 to Q1 2024 for Arm 2 seems reasonable.

For Arm 1, we suggest that a fixed £ amount of debt would be more appropriate than setting a proportion of ongoing consumption. Consumption can change over time and records of customer consumption might be based on estimates rather than actual readings. It would be simpler for Ofgem to choose a fixed £ debt threshold which will extend eligibility to a reasonable pool of consumers, including those who have relatively low ongoing usage.

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

Engagement conditions on consumers

Beyond Arms 1 and 2, we think the most important means to make the scheme a success is ensuring **engagement** from the customers helped. **Any support from this scheme must be conditional on some kind of engagement from the customer with the supplier.** We are answering this question before those on affordability criteria, because we consider this engagement point to be the most important factor once a customer meets Arms 1 and 2. We propose that customers must meet at least one of two engagement criteria to be eligible for support:

- 1. Payment towards consumption in the prior six months.** We are pleased to see this included in the consultation and agree with Ofgem that it will be an important factor in determining whether a customer is engaged. Ofgem may want to consider how this condition interacts with the scheme time limits, and whether customers should be proactively told they could meet this condition by making contributions before the end of the scheme.
- 2. Completing an income and expenditure assessment.** We understand that not every customer with acute debt affordability issues will be in a position to have been paying towards consumption. We would not want to exclude these customers from support, but they should still show some level of engagement. Completing an income and expenditure assessment could be sufficient, and could be done with the supplier (we use a tool called Paylink) or with a CGC.

Supplier conditions

We are not convinced of the need for additional conditions on suppliers. Adding complexity to the scheme could lead to greater customer confusion and lower take-up. We would not

support conditionality on the basis of compliance with licence conditions on debt standards not yet introduced. This adds to regulatory uncertainty. Regardless of our views on the licence conditions themselves (which are yet to be written), this is not an acceptable means of introducing new rules.

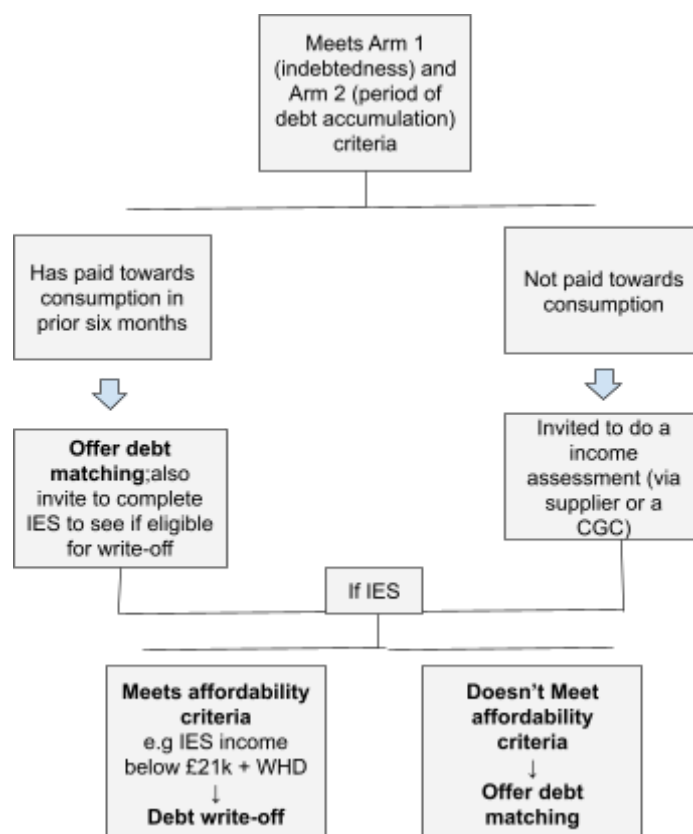
Q21. What are your views on proposals for arm 3 of the primary eligibility criteria (affordability assessment)? We would welcome views on both the feasibility of relying on each data proxy and the suitability of each data proxy to target consumers. We welcome views on eligibility criteria, considering the options for debt write-off and debt matching.

If debt matching is included in the scheme, which we strongly support, we would suggest that meeting Arms 1 and 2 of the primary eligibility criteria plus one engagement criteria may be sufficient for consumers to be eligible. Arms 1 and 2 should to some extent identify customers who have been having difficulty keeping up with their bills given that the eligible debt would be crisis-related and the customer is still holding debt. The risk of supporting “won’t pay” customers should be relatively low given that debt matching support is conditional on the customer making payments.

For debt write-off however, we consider that there should be more stringent engagement conditions and affordability criteria applied. We would suggest that for customers to be eligible for debt write-off that they should complete an income and expenditure assessment (with the supplier or a CGC), that this shows they are on a low income, and that they meet one other affordability criteria which is easily verifiable such as receipt of WHD. The reason for combining the low income criteria with WHD is because it can be difficult to verify information given by customers through an income and expenditure assessment.

Taking these dual approaches for debt matching and debt write-off should ensure that the most support goes to those with the most acute affordability issues and that all consumers are engaged through the process. We have summarised this potential model for the scheme in the diagram below

Figure 8 - Potential process for eligibility and conditionality for debt matching and debt write-off



Ofgem's suggested data proxies for affordability

Regarding Ofgem's suggested data proxies for the Arm 3 affordability criteria, there are substantial issues with many that would make them ill-suited to automation or assessment affordability. Warm Home Discount eligibility would seem to be the best of the options presented in the consultation.

- **Credit Reference Agency data.** We do not have household income data from this source and only have data on the primary account holder
- **Council tax.** This a poor proxy for affordability on its own
- **DNI PPM.** A poor proxy for affordability - for example including very wealthy households with young children
- **Indices of deprivation.** Not a good proxy for affordability at the household level. Excluding people from support on the basis of geography would be unfair

- **WHD eligibility.** We hold this information and it could be used as an affordability proxy
- **WHD expanded.** This could also be a good proxy for affordability, but would require government sharing the data quickly.
- **Income assessments undertaken by suppliers.** We can undertake these with customers although there is a reliance on information provided by customers. We find that they are a good positive step in engagement however, and could be used in the scheme alongside WHD.

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.

Joint answer with Q23

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.

While we do not oppose an application route in principle, customers should have access to apply through their supplier and not just through CGCs. While we understand there may be merit in customers receiving more holistic debt advice and support through a CGC, we are concerned that an unintended consequence would be that customers are lost through the journey and miss out on support. In our view it would be best for customers to be given a choice of progressing through application either via the supplier or via a CGC. A model for this could be as laid out in Figure 8 above. Suppliers should be well set-up for an application route that for example just requires an income and expenditure assessment.

Involving suppliers would also relieve pressure on CGCs, who may struggle with the administrative burden of helping an influx of customers, while still giving customers the choice of further engagement with CGCs if needed.

Our concerns about losing customers during a CGC application route are grounded in our experience with referring customers to others. In a recent trial, we referred 30 customers with whom we had good engagement to a charity for debt advice and just 8 went on to engage with that charity. This is a small trial but demonstrates the risk and potential magnitude of missing support by taking options away. **We do not want to be put in a position where we have to tell customers they cannot get support by continuing to engage with us despite us having the means to verify eligibility by sending them a link to an income and expenditure assessment.**

For simplicity we would suggest applying the same eligibility criteria to both the automatic and application routes. However, we do consider that customers should be completing an income and expenditure assessment in order to be eligible for debt write-off, and that this could be done through the supplier or a CGC using a Standard Financial Statement or Common Financial Tool.

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?

In principle we do not object to including closed customer accounts in the scheme as long as eligibility is the same **and most importantly that there is still a requirement for the customer to engage in order to get support**. We would however welcome further analysis from Ofgem on how much this would affect the size of the scheme, as our understanding is that these accounts are not included in industry debt figures.

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?

We are open to the removal of affordability criteria for the debt matching element of the scheme, **as long as paired with conditions on engagement** as set out in our answer to Q21 and Q26.

We would not support removing affordability criteria for the debt write-off element. Removing affordability criteria for debt write-off would risk writing off the debts of the “won’t pay” cohort of customers which would not be acceptable given this scheme will ultimately be paid for by other customers. Demonstrating an affordability issue through the customer completing an income and expenditure assessment could also be a key means of getting the customer back engaged with the supplier, something even more important for debt write-off.

Indices of multiple deprivation are not suitable for determining affordability at a household level. Customers would rightly find it unfair to be excluded from accessing support just because of the location in which they live.

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

No comment to make at this stage



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Appendix 1 - Octopus Energy's 'you pay, we pay' scheme

[Content redacted]