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6 February 2025

**RECCo response to: Resetting the energy debt landscape: the case for a debt relief scheme**

We welcome the opportunity to respond to this consultation. Our non-confidential response represents the views of the Retail Energy Code Company Ltd (RECCo) and is based on our role as managing the Retail Energy Code (REC) which governs the Retail Energy Market.

RECCo is a not-for-profit, corporate vehicle ensuring the proper, effective, and efficient implementation and ongoing management of the REC arrangements. We seek to promote trust, innovation and competition, whilst maintaining focus on positive consumer outcomes. Through the REC, the services we manage, and the programmes we run, we are dedicated to building a more effective and efficient energy market for the future. We are committed to ensuring that RECCo is an “*intelligent customer*”, ensuring efficacy and value-for-money of the services we procure and manage on behalf of REC Parties, including those which constitute the REC Code Manager.

In relation to the consultation, our key points are as follows:

- Ofgem should balance speed with effectiveness to ensure the scheme is well-targeted for long-term impact. Among the trade-offs discussed, including the use of data sources, we prefer an approach that considers each household’s specific circumstances and needs, rather than a one-size-fits-all method. We are particularly concerned that the proposed scheme would not sufficiently distinguish between debts arising from behavioural issues rather than strictly affordability.
- Ofgem should further clarify how it will prevent the moral hazard of consumers (and indeed suppliers) from expecting future bailouts. The intention of simply limiting the scheme to certain debts does not appear to be enough, as even if the policy is clearly communicated to consumers to ensure its purpose and limitations are fully understood (itself highly uncertain), the precedent is established, raising the expectation of future debt again being waived.
- Whilst it would be necessary to limit the scale of any intervention, rather than it be applicable to the estimated £3.82 billion of energy consumer debt, we are concerned that limiting relief to debt accumulated during the energy price crisis would inadvertently exclude consumers whose debts accrued before or after this period but due to circumstances that would otherwise make them equally or more deserving of support.
- While historic debt relief can help those in immediate distress, focusing on forward-looking affordability measures is a more sustainable and equitable solution, reducing long-term financial risk for both consumers and suppliers.

Yours sincerely,

**Jon Dixon**

**Director, Strategy and Development**

## Appendix: RECCo response to consultation questions

### Q1. Do you agree with our case for change?

We welcome Ofgem's focus on this issue. As the consultation notes, consumer debt and arrears have increased markedly since the energy price crisis. Absent of any policy or regulatory intervention, this trend could be expected to continue, with much of the growth coming from those already in substantial arrears. We also recognise, and have set out in an earlier consultation response to Ofgem, some of the difficulties and trade-offs in depending on the debt allowance within the price cap as a means by which to cover suppliers' costs in this regard.<sup>1</sup> A one-off debt relief scheme, with the necessary safeguards to ensure that it is appropriately targeted and avoids double-charging consumers for debt costs already reflected in the price cap, could in our view be beneficial if aligned with other reforms that improve debt management in the longer term. For the reasons addressed in the consultation, it could also have a positive impact that is significantly in excess of its costs.

We are however concerned that, given Ofgem's desire to intervene soon, the consultation is heavily weighted towards the practicalities associated with the rapid delivery of the scheme and that it considers insufficiently its longer-term impacts, not least on consumer behaviour but also of suppliers. Ofgem does acknowledge the issue of moral hazard that arises from an intervention on this nature but implies that this concern is substantially mitigated by its commitment only to a time-limited scheme – namely focused on that debt accumulated during the energy price crisis – which does not set expectations for future debt relief.

Ofgem acknowledges that it cannot yet predict how this scheme will impact consumer behaviour, positively or negatively, as there are no clear precedents to learn from. We are not convinced that making the scheme time-limited will effectively address this uncertainty, especially since the consultation does not explain how Ofgem will ensure consumers—who are often disengaged—understand this aspect. Even if it did, introducing this scheme sets a precedent for future interventions, leading consumers to reasonably expect similar measures if market conditions require them.

Ofgem should clarify how it will ensure transparency about the scheme's focus on debt from the price crisis. It should also explore how consumer interactions during implementation can help prevent future debt accumulation. A key challenge is that many consumers with the largest arrears—who would have their debt automatically cleared—may simply see their debt removed from bills without deeper engagement. They often won't qualify for debt-matching programs or have strong relationships with their suppliers, making it harder to use the scheme as a way to improve long-term debt management.

Similarly, while we note that fairness is among the stated design principles, we believe that further regard should be given to those consumers either in too little debt to benefit directly from the scheme or in no debt at all. Far from all consumers who have managed their energy bills over the period of the energy crisis and since will have done so comfortably; many will have struggled to make their payments while significantly reducing other types of non-essential expenditure or potentially falling into debt on other bills, for which they will experience no such relief.

Ofgem primarily discusses the impacts of the policy on these consumers (and other, non-eligible consumers) in financial terms: namely, the idea that debt matching through the scheme will "crowd in" money to repay debts that would otherwise not have been paid, thereby limiting future increases to the debt allowance in the price cap. However, in this instance, it seems important to consider how the policy might affect consumers' perceptions of regulatory intervention more generally, in order to ascertain its potential implications for future

<sup>1</sup> Retail Energy Code Company, [RECCo response to Ofgem's Additional debt-related costs allowance policy consultation](#) (November, 2023).

behaviour. Ofgem does in the consultation show regard for public perception, but it appears to lack at this stage meaningful evidence of energy consumers' attitudes towards different types of regulatory or policy intervention related to affordability. Such an evidence base would provide useful context for a scheme of this nature and could help to inform design choices, such as the balance between debt relief and debt matching.

One concern evident throughout the case for change and the consultation more generally is the tension between Ofgem's desire for a speedy intervention and one that is targeted appropriately. Both of these considerations are therefore reflected in the scheme's design principles. However, the overarching impression from the consultation is that Ofgem is keen to progress on a tight timeframe and to implement the scheme this summer or autumn at the latest.

We understand the rationale for this but are surprised that Ofgem does not appear to be seeking views on the issue of timing specifically. The consultation acknowledges several areas – the level of relief payments, the setting of eligibility criteria, the auditing process, determining the data sources for establishing eligibility – in which the scheme's overall effectiveness might be compromised in the service of a faster intervention. However, it is reasonable to question whether relegating the pursuit of longer-term outcomes in order to alleviate immediate pressures is the right approach.

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

As set out above, we accept that there may be a case for a one-off debt relief scheme but are concerned that the speed at which Ofgem is seeking to implement it will lead to unintended consequences to the detriment of the outcomes that it is seeking to achieve.

Given the significance of this intervention, we would also suggest that Ofgem updates its proposed Customer Vulnerability Strategy, so that the targeted outcomes there of the **supporting those struggling with bills** workstream better reflect the evident desire for an intervention that directly reduces debt levels. At present, the intended outcomes are only that customers receive accurate billing and proactive affordability and debt support; the proposed relief scheme appears to exceed the bounds of these outcomes.

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

We agree that **fairness and consistency** is an important design principle and underlines the importance of the proposed auditing process. Ofgem further says as part of this principle that "consumers in the same circumstances should have access to the same level of support"; this too is important but does then commit Ofgem to understanding consumers' "circumstances" as part of the eligibility criteria that it sets. Narrowly basing the affordability criteria on consumers' income would not provide a satisfactory basis on which to understand whether consumers are in "the same circumstances" (we discuss this further in response to Q23). While we appreciate that the principles must be balanced, such an approach would also appear strongly contrary to the **targeted** principle.

Aligned with the commitment to fairness and consistency, we believe that Ofgem should consider **transparency** an important principle for the scheme. In order to limit the potential for the perverse incentives highlighted elsewhere, Ofgem will need consumers – whether or not they are directly benefiting from relief – to understand the full extent of the proposed intervention and the way in which it is being targeted. Ofgem should demonstrate how it intends through its design of the scheme for consumers to recognise not only the benefits but the limits of this intervention.

We believe Ofgem should take a broader approach to addressing the **avoidance of perverse incentives** principle. Rather than focusing solely on eligibility criteria—such as ensuring the scheme is a **one-off intervention** targeted at those facing the most severe affordability challenges—Ofgem should also consider

how recipients of relief will be better positioned to manage future payments. This could be achieved through **debt-matching mechanisms** or the broader **debt standards reforms** outlined in Ofgem’s related consultation.

Consumer engagement in the relief process must reinforce this link, for example, by leveraging the role of **charities** in providing support and financial guidance.

Furthermore, if eligibility criteria for debt relief can be defined with sufficient precision to allocate over £1 billion, then there is no credible argument that data limitations prevent the establishment of more enduring affordability measures, such as a social tariff. If the data is robust enough for targeted debt relief, it should also be adequate for designing sustainable bill support mechanisms.

This proposal aligns more closely with social policy than the typical remit of a competition authority. Under normal circumstances, such an initiative would be better funded through general taxation, rather than imposing a further regressive burden on consumers who will ultimately subsidise the scheme.

Given the lack of scrutiny that would typically accompany public expenditure, an additional **principle of accountability** should be introduced to ensure transparency and fairness for consumers funding the scheme. This should be an explicit aim of whatever audit option is chosen.

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

We believe that the stated objectives are appropriate.

#### 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?

No response.

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

We agree that if the scheme were to be implemented then it would be sensible to set a time limit so as to encourage prompt action from suppliers. It is important to bear in mind however that Consumer Groups and Charities (CGCs) will also need the capacity to deliver their responsibilities within the established timeframe. Ofgem should engage with them in order to determine that the proposed window, between summer/autumn 2025 and spring 2026, is appropriate.

Indeed, more generally, Ofgem will need to have regard to the challenges that are likely to arise in managing the referrals process, as part of the application route, in a timely way. We appreciate that, in informing customers of their potential eligibility for the scheme, Ofgem will notify them of its time limits; however, the challenges in efficiently delivering schemes that require action on the part of the customer are well understood. This is true even of those that are directly offering financial benefit, as evidenced by the difficulties encountered during 2022-23 in the delivery of the prepayment voucher scheme.<sup>2</sup> Ofgem will be aware that vulnerable customers can, for various reasons, find it difficult to communicate their needs to external organisations. They might also be hesitant to engage with a scheme being promoted by their energy suppliers, given that trust in the sector remains low.<sup>3</sup> It would be disappointing if it became apparent, after the closure of the debt relief scheme, that a substantial proportion of those customers contacted by their suppliers

<sup>2</sup> We are unaware of any substantial studies, undertaken by Ofgem or other parties, into the challenges experienced in the delivery of the prepayment voucher scheme. It is addressed only fleetingly in Ofgem’s [Final Project Closure Report](#) (May, 2024), p13. That scheme may however offer valuable learnings for the delivery of debt relief under the application route of this scheme.

<sup>3</sup> Ofgem, [Consumer impacts of market conditions survey: wave 5](#) (September, 2024).

had not instigated the assessment process with a CGC, or that they had done so but been told that it was too late.

In principle, a process based on direct data sharing between suppliers and CGCs would, in our view, be preferable. We recognise that the CGCs might still require the consumer's consent in order to instigate the assessment process, but this would likely be less onerous than if the supplier sought to engage the consumer in the first instance.

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

Our view is that for the scheme to meet its long-term objectives it will need to take into account the circumstances of individual customers. A scheme based on a flat rate of payment risks providing to some consumers more support than they need, while also leaving a significant proportion of eligible customers with substantial debts; thus, it would provide at best only a short-term alleviation of the latter's repayment pressures and in turn undermine the prospects of the scheme serving to "reset" the existing market situation. The impact of a flat-rate approach would be felt more widely, but least by many of those most in need. A tailored approach will increase the administrative complexity of the scheme, but in facilitating a deeper intervention where necessary is more likely to have the desired long-term effect on debt levels in the sector.

**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)?**

On balance, we believe that it would be preferable for Ofgem to administer and suppliers to deliver the scheme, as proposed. As well as this being the expedient option, it is more likely to provide opportunities to enhance relationships between suppliers and customers in the longer term than if responsibility for the disbursement of relief is given to a third party. The third-party option would likely offer certain advantages – for example, it might create greater confidence in the consistency of relief across suppliers – but it would necessitate the establishment of systems and processes that are likely to both delay delivery and add to its costs.

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

Our view is that the approach adopted to auditing should prioritise the appropriate use of customer funding for the scheme. We therefore favour an approach that allows for a detailed assessment of supplier claims before relief is provided.

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

No response.

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

No response.

**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?**

No response.

**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?**

Part of Ofgem's concern with an approach to funding through a new allocation in the price cap appears to be the need to establish a reconciliation mechanism; the consultation explains that establishing these is administratively complex and will extend the timeframe for delivery. We would note that, while they are indeed complex to implement, reconciliation mechanisms can be (and have been in the recent past) established within relatively short timescales in order to support the delivery of major policy and regulatory schemes and have operated effectively. For example, RECCo developed and implemented the reconciliation

mechanism for the prepayment levelisation scheme within six months of being assigned the role, so that it was operational on schedule in April 2024. We had experience in such a role having had responsibility for the reconciliation mechanism that supported the Market Stabilisation Charge, implemented in April 2022 after a similarly short window for development.

**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?**

No response.

**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?**

No response.

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

Yes. If a debt relief scheme is introduced, we believe the **debt-matching component should be maximized**. As noted in the consultation, this approach can **lower overall costs** and has been successfully used in other regulated sectors, showing long-term benefits for consumer debt management. Additionally, even consumers who don't need debt matching recognize its value in helping those struggling with payments.

Research by the Consumer Council for Water has indicated that, in that sector, it is seen as encouraging good habits and facilitating a more sustainable solution to indebtedness.<sup>4</sup> Research conducted by a water company has suggested that consumers prefer debt-matching to writing off arrears as an approach to supporting affordability.<sup>5</sup>

**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?**

In terms of establishing an appropriate ratio for matching payments, it might again be useful to consider practices adopted in the water industry, where the approach is better established. For example, the fuel poverty charity National Energy Action has cited as best practice the debt-matching scheme that was offered by United Utilities in response to Covid-19: this matched payments £1 to £1 in the first six months, after which the company increased its contribution to £2 and then wrote off any remaining debt after two years.<sup>6</sup>

**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?**

We are concerned that this proposal shifts financial risk from suppliers, who have the tools and responsibility to manage it, to network operators, who do not. While networks traditionally had more revenue certainty, this distinction has weakened with the default tariff cap. Despite their regulated asset base, networks may not secure financing more efficiently than some energy retailers, which may have higher market capitalisation or lower debt gearing.

When Ofgem similarly sought to introduce supplier relief during COVID-19, (e.g., UNC726<sup>7</sup>) it ensured that the scale of the scheme did not threaten network stability. However, this current proposal appears larger in scale and based on a rather subjective timeframe rather than a clear assessment of networks financial resilience.

<sup>4</sup> Consumer Council For Water, [Water bill affordability: Customer views on financial support options for low income households](#) (2021), p33. One point to note is that consumers generally understand debt matching, where offered, to be a one-off intervention: that it would not be offered if those consumers supported by it went back into debt.

<sup>5</sup> Severn Trent, [Business Plan 2025-30, Annex 3b: Affordability](#) (October, 2023), p27.

<sup>6</sup> National Energy Action, [Response to CCW's Water Affordability Review Call for Evidence](#) (Accessed January 2025), p3.

<sup>7</sup> UNC726: "COVID-19 Liquidity relief scheme for Shippers"



Starting relief this winter, before networks can recover costs, would further increase this risk of this proposal transferring risk with unintended ripple effects.

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

As above, we do not consider that recovery the cost of the debt relief scheme is appropriate but recognise that the impacts will differ according to the period over which they are amortised. We consider that an alternative approach may instead be to stagger the provision of the relief, focusing initially on the oldest debt and providing suppliers with some certainty of further relief if that can satisfy Ofgem that they have taken all reasonable steps to recover debts in context of their age profile – i.e. not allow premature relief to precipitate the bad debt problem by removing the incentive to reasonably pursue payment.

**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.**

In terms of Arm 1, we agree that it is worth establishing a minimum level of indebtedness as part of the eligibility criteria, and with Ofgem's rationale that this will allow support to be more effectively targeted towards those consumers with unmanageable levels of debt. But if this is an important objective then it should be reflected in Ofgem's development of other parts of the scheme too; as stated in our response to Q7, for example, the scheme is only likely to prove a meaningful intervention for those with unmanageable levels of debt if rates are tailored rather than flat. This is not to say that more modest cases of indebtedness should be excluded entirely from the scheme, as they will often still be indicative of consumers in severe financial strain. The criteria for the minimum level of indebtedness should be designed as a proportion of the consumer's consumption cost rather than at a fixed level.

In terms of Arm 2, we believe that the proposed period of debt accumulation is reasonable. As stated elsewhere, we are however curious as to how Ofgem intends to establish clearly in consumers' minds the relationship between the eligible period of debt accumulation and the one-off nature of the intervention.

**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.**

We make the following observations on the cited options:

- Given the challenges with each potential data source, we believe that allowing qualification through multiple routes on Arm 3 will be essential.
- We regard income-only data as an insufficient basis on which to establish eligibility for this scheme for reasons that we have outlined further in response to Q23: above all, that it would fail to account for the individual circumstances that can impact on affordability for a household. Nor would such an approach necessarily be simple to implement given the potential for variations in income that might temporarily push an individual either side of the threshold. It would at least be vital, if Ofgem pursued an income-based approach to the primary criteria, to ensure that other factors were taken into account for Arm 3 of the application route.
- We are not placed to comment on some of the practical challenges and costs to suppliers of using data from credit reference agencies but would be concerned about the sufficiency of the coverage it would provide in isolation. If this data were used then we would favour an approach based on indebtedness scores, which would extend the assessment beyond purely a measurement of income.

**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.**

We support the proposed application route as it is important to recognise the limits of automation in targeting the scheme. This application-based approach should provide a highly valuable opportunity for consumers in hardship to engage directly with charities that can meaningfully help them to improve their debt management more generally. However, we also recognise the resource constraints under which the charities are operating and that this will have implications for their capacity to support the scheme. This will need fully to be understood by Ofgem before the parameters of the application route are set.

If, as stated, the application process is to serve as an appeals route for consumers who met Arms 1 and 2 but not Arm 3 of the primary eligibility criteria, we see little purpose in varying the eligibility requirements for Arm 1 of the appeals route, irrespective of the additional administrative complexity that such a variation would create for suppliers.

**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.**

We believe that a simple, income-based approach to eligibility for Arm 3 would not be satisfactory; it would fail to account for a wide range of factors that affect households' financial situations, such as the size of the household and the level of their essential expenditure. The benefit of this approach is essentially administrative, which given the overall objectives of the scheme would seem insufficient in itself. An approach based on a set ratio of essential outgoings versus income is likely to provide a more accurate reflection of a consumer's capacity to repay debt and allow the CGCs to identify situations in which essential costs might be particularly high. This might include, for example, a situation in which a member of the household has healthcare needs that significantly increase the household's expenditure. Under this approach, Ofgem would need to establish clear guidance for the charities on outgoings that constitute "essential expenditure" in order to ensure consistency throughout the scheme.

**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 believe that the proposals for closed accounts are appropriate, though recognise that certain scenarios – in particular, where the minimum required level of debt for a consumer has been met across two suppliers – present administrative and potentially legal challenges that will need to be addressed.

**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?**

No response.

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

We recognise the merit, as has been proposed by National Energy Action, in making suppliers' access to the scheme conditional on aligning their debt management processes with the relevant standard licence conditions and then requiring those who do not meet the conditions to fund the write-off themselves. It is important that access to this scheme does not disincentivise suppliers in seeking to improve their debt management processes. But Ofgem would need to consider whether the process of demonstrating compliance with such a requirement would be feasible within the desired timeframe for delivering the debt relief scheme. Such an approach might also have broader adverse consequences. For example, it could place significant financial strain on any non-compliant smaller suppliers, who might then seek to offset such an imposition in



ways that are otherwise to the detriment of their customers. Further, it might undermine Ofgem's desire to see these suppliers innovate and excel in debt management, instead causing them to focus narrowly on compliance with SLCs.

Similarly, while recognising the importance of the smart meter roll-out to the future energy market, we would have concerns about requiring eligible customers to have one installed in order to access debt relief.

Notwithstanding the technical constraints at many premises, such a design choice would risk excluding from the scheme many of the most vulnerable and indebted customers, who might have sincere and well-founded reservations about the installation of smart meters in their homes. We know from research, conducted by RECCo alongside the Money and Mental Health Policy Institute in November 2023, that many vulnerable customers find the IHDs a source of considerable anxiety and we believe more generally that policy-makers would benefit from a better understanding of the ways in which current smart meter customers engage with the technology. This might, for example, result in improvements to the design of the IHD or the approach to engaging the customer during the installation process.

The lack of urgency with which suppliers often approach the resolution of technical issues with smart meters is a further concern and progress should be made on this ahead of any requirement for consumers to have the technology installed. It would nevertheless be reasonable to use the opportunity of delivering the debt relief scheme to offer the installation of a smart meter to eligible customers and to educate them on its benefits.

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

No response.