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Dear Dan,

### Re: Resetting the energy debt landscape: the case for a debt relief scheme

Utilita welcomes the efforts by Ofgem to tackle the issue of debt within the domestic energy market. Debt and arrears have grown significantly since 2022 and continue to rise. This is not sustainable. Ofgem recognise that additional work on affordability is required<sup>1</sup>. It would seem fairer to all customers if these affordability proposals came before a debt write off scheme.

Assuming this scheme goes ahead, Utilita has two key asks:

1. **Assess Affordability First** – Support must go to those who need it most. Individual customer debt should not be the primary eligibility factor. We should identify those who are genuinely unable to pay and provide them with additional support.
2. **Include Prepayment Debt** – Prepayment is the most effective debt management tool available to customers and Suppliers. These customers can still accrue debt. Additional Support Credits (ASC) allow these customers to accrue debt in a manner similar to Direct Debit or Standard Credit customers. Prepayment debt must be eligible for relief under this scheme. Any other approach is clear unequal treatment of the customers most challenged by affordability.

#### Assess Affordability First

The stated goal of this proposal is to target energy crisis debt. Ofgem's reason for targeting this debt is to avoid customer detriment.<sup>2</sup> Ofgem has not demonstrated that energy crisis debt causes a unique or disproportionate level of detriment. Whilst it is undeniable the crisis debt burden exposes a new cohort of customers to these issues; it is not explained why such customers are to be granted additional support. Some customers faced these challenges before the crisis, and it is hard to justify any intervention to alleviate detriment which is not aimed at reducing detriment for *all* customers.

Industry must first define the eligibility criteria to identify the group of customers who are eligible for additional support. The level of debt for these customers can then be assessed and a decision can be made as to whether to intervene. Income should be a key criterion, as should a customer's payment history.

Any other form of intervention sends the wrong signals to customers. Customers that acted responsibly would be being punished for doing so. Customers that prioritised payment of

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<sup>1</sup> 2.24 - p15

<sup>2</sup> "debt enforcement action alongside the ongoing harms associated with high levels of energy debt, such as self-rationing, self-disconnection which impacts the physical and emotional wellbeing of consumers, and the wider impacts on household expenditure" 2.16 - p.14

energy bills would have been better off leaving debts unpaid. It would have been better for these customers to have taken no action, consumed relatively more and subsequently had their debt written off.

### **Include Prepayment Debt**

The most significant action a customer can take in managing debt is the use of prepayment metering. These customers have acted responsibly to take control and avoid accrual of debt.

Customers on prepayment have taken the most impactful step in managing their debt levels, and ASCs are given to avoid customer detriment. It follows that all ASCs were issued to avoid the customer impacts which Ofgem also seek to target. If Ofgem is to progress with such a scheme, prepayment debt must be included.

It would be clear unfair and unequal treatment to prepayment customers if their debts are not considered eligible for write off.

Utilita provided over £60 million in ASCs during 2023 alone. We saw prepayment debt rise in a similar fashion to SC/DD (both number of customers in debt and level of debt per customer.) We include information on prepayment debt accrual in a confidential appendix.

### **Funding**

Any intervention must be fully funded, preferably through the proposed networking charging mechanism. Ofgem recognises that Suppliers have been unable to recover against the EBIT allowances in recent price caps and are proposing further reductions. This scheme must be fully funded from either new price cap allowances or entirely new sources.

From

George MacGregor

Head of Market Policy

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

Higher energy prices during the crisis will have led to higher levels of customer debt. There are many customers who face affordability challenges with debts they are unlikely to ever repay. It is reasonable to consider intervention to tackle this unique issue.

The challenge of such intervention is in identifying which customers are eligible for debt relief. Ofgem's stated goal is to reduce the overall total debt level. A customer's debt level cannot be the only data point used to assess eligibility. The first step should be to define customer eligibility criteria and assess what level of debt would be written off if these customers were targeted.

Prepayment is the most effective debt management tool available to customers and suppliers. These customers have acted responsibly in their efforts to manage debt. Whilst tackling some debt burden will help, the fundamental issue of affordability remains for many customers. This scheme tackles a unique, time bound affordability challenge. The customer detriment it aims to tackle will remain for many customers – and many who have made the switch to prepayment to prevent themselves from accruing debt. These customers must be considered for support.

Ofgem correctly identify the different levels of debt and debt management processes across suppliers. This is why determining customer eligibility is critical. Many customers make the switch to prepayment as it is the most effective means of managing debt levels. Expansion of existing financial support schemes seems fairer to these customers.

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

Intervention through debt relief should only occur if customer needs are put first. Ofgem's stated goal is one we support – reducing the abnormal debt accrued during the energy crisis.

Targeting an individual's debt level in isolation is not fair to other customers. Many customers act responsibly and take significant steps to manage their consumption and/or debt. In the interests of these customers, the scheme must put customer eligibility before individual debt levels.

There have always been a cohort of customers who face affordability challenges – that cohort was increased during the crisis – it is these customers that should be helped.

How to differentiate between those groups of customers is critical to case for intervention. It is particularly important given the ever-increasing calls for further general affordability support.

## Considerations and Objectives

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

#### Avoid Perverse Incentives

Provided the eligibility and duration of this scheme is clearly defined, we do not expect most consumers to be disincentivised from paying their bills.

This scheme does however set a precedent for future extraordinary circumstances. Any instances of higher prices in the future will be met with advice to consumers to not pay their bills, as write offs schemes are expected to follow. This means that even greater levels of debt will be accrued during future events and tackling such a problem will be even more challenging

#### Fairness and Consistency

This is the key principle for this scheme. To ensure fair handling across suppliers, measures and eligibility must be supplier agnostic and based upon universal data points.

#### Targeted

We agree with this principle. It should be met through the same eligibility criteria defined to ensure fairness and consistency.

#### Timely

We agree that any intervention should happen quickly, to sooner alleviate detrimental impacts on consumers.

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

An additional key objective should be that the scheme targets only customers who face genuine affordability challenges. Fair eligibility criteria are the most important element of this scheme. Customers' ability to accrue debt vary, and historic action to manage debt will have impacted their debt accrued during the crisis. It is not fair to these customers if debt write off is universal or ignores positive customer behaviours. There are already various schemes which assist customers who have the most difficulty in affordability, it is difficult to justify writing off the debts of customers outside of this group without guaranteeing similar support for this cohort.

## 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?**

The proposals here seem reasonable. Whilst the eligibility criteria and application process have not yet been defined, we do not envisage any model where the proposed timelines are not appropriate. If the scheme is required to take longer it has not been designed correctly.

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

We agree with the time limits. We should already be in a place to identify relevant customers; Suppliers will just need well defined eligibility criteria. It is critical that the criteria are based upon simple criteria which are already available to Suppliers. This will then allow suppliers to identify and submit customers within the Summer 2025 to Spring 2026 window.

Having a clearly defined window is critical to ensure timely intervention. It also goes some way to set customer expectations.

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

A flat level of support should be offered to all customers. Variable levels of support based on combinations of indebtedness and eligibility criteria would be too complex to administer in a fair and auditable manner.

If a customer meets the defined eligibility criteria, they should be applicable for support. The value of support should be that which clears the indebtedness accrued during the energy crisis, up to a maximum value.

The maximum value of support can be identified through Ofgem's exploration of the ranges of levels of debt following receipt of further debt data.

There will be outliers above this – the range of support should not be extended to meet these customers.

Those with less than the maximum debt should have their indebtedness returned to zero, they should not be credited balance.

**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)?**

Simpler delivery models result in clear accountability and responsibility for scheme delivery. As one of the objectives here is timeliness, supplier delivery is preferable.

Whilst not our preference, there may be decisions in scheme design which require the use of an independent administrator.

Independent administrators can bring consistency and accountability to a process. They can guarantee uniform application of eligibility assessments. This can offer assurance to customers that applications are being handled in a fair and consistent manner across the

industry, in keeping with the targeted principle. They may also be granted access to customer information which suppliers do not hold, allowing them to overlay debt data with other customer information to assess eligibility.

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

We agree that there is a need to assure the process. If the scheme is delivered through Suppliers (Delivery Option 1) we believe that a detailed assessment of funding claims with additional reconciliation would be required. This is the only way to ensure the process was run fairly and there is a mechanism to ensure no suppliers win or lose.

## 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?**

Assessing the cost neutrality of such a proposal is impossible in advance. Other price movements will make measuring the impacts of such a scheme challenging.

Increasing customer bills is ultimately the only way to fund such a scheme, unless it is provided for through general taxation.

Network charging will be the most stable mechanism for the management of funds. This will still require an associated increase to the passthrough elements of network costs 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?**

It is impossible to take any approach other than for Ofgem to estimate a percentage of debt which has already been accounted for. The additional debt written off for this scheme would be then added to existing price cap allowances. Ofgem must not be overly stringent in their calculations. This scheme is intended to be cost neutral, which we support. Any over collection can be reconciled and reimbursed to customers following completion of the scheme. Effective administration of a scheme requires Suppliers to have confidence that costs will be reimbursed.

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

Debt matching is an effective tool in managing the impact to customer bills. We welcome its consideration.

**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?**

Any supplier contributions to a debt matching scheme must still be provided for through a funding mechanism and associated price cap allowance.

**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?**

It seems inevitable that networks would have to finance claims in order for the scheme to be delivered promptly. Gathering funds through network charges (and Suppliers gathering associated funds through increased price cap allowances) seems slow.

Customers may react poorly to funds being collected in advance of any scheme providing write offs. This would make the already challenging customer perception of this proposal even more difficult.

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

This answer depends on the impact on customer bills, which depends on the overall cost of this scheme. It may be best to spread recovery over a longer period to limit the impact on bill size.



### 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.**

Correctly scoped criteria ensure equal handling across Suppliers and can set clear customer expectations. Application of the scheme must be consistent and transparent.

Whilst we recognise the scope of this proposal is to target energy crisis debt, it is hard to justify an approach which targets only these customers. Ofgem should assess how closely prescriptive criteria correlate with debt accrued. It is unfair to customers who did more to ration consumption or prioritised energy repayment to now write off debts of others who took no such action.

We agree that data sources should be those which are easily accessible by Suppliers.

### Proposed Eligibility Criteria

**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.**

Assessing affordability using data currently held by Suppliers would be imprecise and applied in a non-uniform manner. Affordability criteria must be set using existing defined standard, any new approach will too open to challenge and fairness.

There already exists such criteria under schemes such as WHD. It must be a combination of these eligibility criteria and levels of indebtedness which lead to a customer having debt written off.

**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.**

### Arm 1: Indebtedness or level of indebtedness

This should be assessed through three things:

1. Debt position entering crisis
2. Debt position at end of crisis
3. Current (set date) debt position

### Arm 2: the period of debt accumulation

Ofgem must be strict when applying a proposal such as this. Strong lines must be drawn lest the approach be open to criticism. As the proposal is to look at debt accrued during the crisis, the period of debt accumulation must be strictly gated to this period.

As the proposal here is to look at debt accrued during extraordinary circumstances, only debt accrued during this period can be targeted. Whilst there are likely to have been compounding impacts on debt accumulation, these are too hard to prove and will be influenced by payment methods and supplier management too significantly. This proposal must be strictly limited to the relevant period.

**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.**

Proposals such as these greatly increase the administrative burden of such a scheme.

This scheme is an Ofgem proposal and leaving some degree of customer eligibility to Suppliers will be understood by customers as Suppliers choosing who is eligible.

Whilst we welcome improved engagement with our customers, this proposal shifts responsibility from Ofgem to Suppliers.

**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?**

If the levels of debt within the eligible pool are lower than expected, then the scheme should be stopped. If these customers do not face affordability challenges, then they should not be granted extra support to write off their debts.

Affordability must be the primary criteria for this scheme.

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

Provided data is handled correctly there are no issues