

Energy UK response to Ofgem's Tackling energy debt when moving home consultation

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About Energy UK

Energy UK is the trade association for the energy industry, representing companies investing billions of pounds to secure our country's current and future energy needs.

From growing start-ups to major electricity generators, grid and infrastructure developers, and energy suppliers, our members are driving change across power, heat, transport, and flexibility.

We provide a collective voice for the sector working with governments, regulators, charities and other organisations to provide crucial insight that shapes policy, offers solutions and promotes best practice.

Our broad view across the whole system supports evidence-based positions which are not tied to particular technologies, and are focused on delivering strategic benefits for people, businesses and the economy.

We champion initiatives such as our Vulnerability Commitment, which pushes suppliers to go beyond regulation to support customers with additional needs, and TIDE, the industry's drive for greater inclusion and diversity. Through our Young Energy Professionals Forum, we support the development of future leaders. We are equally committed to our team and are proud to be recognised as a 'Gold' Investors in People employer.

Introduction

Energy UK fully supports this approach to creating a permissive regulatory basis for change of tenancy. We think it will enable better customer experiences and lower socialised debt costs. We think this should be achieved through avoiding deemed contracts where possible through greater use of both SMETS1 and SMETS2 smart prepay meters in homes and for non-domestic suppliers that choose to offer prepayment. It should not be a requirement. It should also be supported by greater scope for flexible payment methods, which we are pleased that Ofgem is also exploring.

It is important to reflect that the risks noted in the trial are already managed by suppliers where prepayment meters are currently installed, which should limit the learnings and change needed as part of trial.

Alongside this trial, we think further efforts are needed to facilitate the supplier role in supporting customers, particularly in preventing the accrual and enabling repayment of debt. This includes modernising supplier access to customer circumstance data to support targeted interventions, as well as creating further scope for investment and innovation in retail through moving towards more targeted and tailored consumer protections. For example, a cross-sector priority service register (PSR), where a customers' PSR status can be simply passed to incumbent suppliers in new properties would enable a higher default level of support.

Through proposals in this consultation, it will be helpful for a supplier and customer to avoid the hassle and cost of deemed standard credit contracts, yet a named customer on standard credit arrangement still presents an unnecessarily poor customer experience and additional system cost. 57% of standard credit customers do not realise this carries a significant premium that is created primarily by the socialised debt costs created by other customers utilising this payment method²⁸. These standard credit customers are also more likely than the average customer to be vulnerable. This situation cannot be positively impacting their views of energy suppliers. While overall satisfaction with energy suppliers has increased, vulnerable customers are less likely to be satisfied²⁹.

We think that the standard credit should be used increasingly sparingly for those with operational smart meters. In particular, when a customer does not provide a direct debit and is not vulnerable, a default strategy could be for a customer to roll onto prepayment or consider the use of alternative flexible payment methods. As a result, **we think Ofgem should be bolder in the scope of this work to prevent debt accrual by reducing the expectation of standard credit provision.**

Supplier obligations to provide standard credit and complex guidance for suppliers in identifying combinations of further additional needs limits scope for use of smart prepay unnecessarily. It is sensible to allow suppliers discretion to offer standard credit arrangements where customers who are vulnerable, have additional needs or have particularly strong preference. **We recommend that Ofgem should ensure that guidance to suppliers ensures that suppliers can confidently take strategies to minimise standard credit use.**

Ofgem recently stated: *“our intention is to enable suppliers to control access to credit and reduce the risk of households falling into unmanageable debt”*. Yet guidance from Ofgem also states *“We made clear that we consider there to be a high threshold before suppliers can properly determine that issuing ASC is not in the ‘best interest’ of a customer in a vulnerable situation.”* There are almost seven million electricity customers on the Priority Service Register (PSR), based on data captured largely from those who actively engage with their supplier and is not a robust capture of all

vulnerable customers. Clarity on a customers' vulnerability clearly plays an important and complex role in shaping a customers' 'best interests' for a credit offer and consideration of debt risk. **Further work is needed from Ofgem to clarify supplier expectations and ensure there is due consideration for the scope for efficient operationalisation of these assessments.**

This trial is a step in the right direction but there needs to be a broader change of approach to support and debt.

We want to see Government and the regulator clarify and target interventions in the market to enable less generalist obligations and distortive catch-all consumer protection policies, such as deemed contracts and an obligation to offer standard credit arrangements for smart meter customers. To bring down bills and deliver the energy transition, price signals and efficient consumption, alongside targeted support are needed. Price and service protections insulating all consumers from the costs they could avoid (in other words not creating a default polluter pays approach) will drive unnecessary system costs and complexity, with poor customer journeys.

Q1: Please provide evidence or data with respect to levels of debt or arrears in the sector relating to change of tenancy. Where relevant please include information associated with unnamed accounts such as the number of unnamed accounts, average length of unnamed accounts, average debt and the overall debt associated with these accounts.

Q2: Please provide evidence or data you may have about a customer's experience when moving into a new property and setting up their energy account. This may include any common issues such as billing issues or queries that may be experienced in this time, the average duration for a new householder to set up an account, and whether enhanced processes exist for the identification of vulnerable consumers.

On a 1-year timeline, which isn't the same for all, the largest 5 suppliers accrued £740 million of debt resulting from change of tenancy and £1.17bn of debt resulting from closed accounts. The debt resulting from closed accounts includes all switches and changes of tenancy some of which will be relevant here and will be driven by limited options from energy suppliers to recover costs.

Q3: Do you have views or preferences regarding the approach we take to enabling the proposed changes to the supplier home moves process? For example, should the approach be set out in SLCs and / or associated guidance or could it be covered through industry rules or elsewhere?

We think that a common standard needs to be achieved in these situations. However, what works well for customers may change over time as awareness and engagement

changes. As a result, we think minimal prescription to build confidence in new arrangements will be helpful via guidance but that the emphasis should be on over time moving to a broader principle-based customer outcomes achieved by a supplier.

That said, Ofgem should ensure there is clarity on the interaction between the new process and the existing involuntary switching rules. This clarification would avoid regulatory ambiguity and reduce the risk that a change of tenancy prepayment process for unnamed occupiers is inadvertently treated as involuntary prepayment in response to debt.

Q4: Do you prefer a outcomes-based approach or something more prescriptive for consumer protections in Change of Tenancy?

As set out in Q3.

Q5: Do you have any views on the above suggestions for consumer protections or have any alternatives that should be considered?

We do not support the introduction of additional consumer protections beyond those necessary to minimise the risk of disconnection at change of tenancy. Proportionate safeguards, such as appropriate credit settings or non-disconnection period to allow communications to reach the property, are sufficient to protect customers.

Additional measures outlined in the call for input, such as zero standing charge tariffs are not necessary and would add complexity without improving outcomes.

A cross sector PSR where PSR status can be simply passed to incumbent suppliers in new properties would enable a higher default level of protection.