Decision

Changes to guidance on deemed contracts

Publication date:	17 November 2026
Contact:	Paul Redmayne and Isabelle Haynes
Team:	Non-domestic Retail Policy
Email:	NonDomesticRetailPolicy@ofgem.gov.uk

This decision document updates the Authority's guidance on SLC 7.3 and 7.4 of the Electricity and Gas Standard Licence Conditions for Supply. Issued under SLC 7.14, this updated guidance replaces the previous version from the date of publication.

© Crown copyright 2026

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the Open Government Licence.

Without prejudice to the generality of the terms of the Open Government Licence, the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to psi@nationalarchives.gsi.gov.uk.

Contents

1. Introduction 4
Summary of changes 4
Context and related publications 5
Decision-making stages 5
2. Consultation findings 6
Q1. Do you agree with our proposals on situations when we will generally view a deemed contract to exist depending on a customer's ability to consume energy? 6
Q2. Do you agree with our proposal around the reasonable recovery of bad debt? 8
Q3. Do you agree with our proposed text that reminds suppliers of their obligations around customer transfer blocking and delayed switching? 9
Q4. Do you agree with our proposal around the circumstances in which suppliers should ask for security deposits? 12
Q5. Are there any potential implications for domestic customers that the proposed guidance on deemed contract rates may impact on? 14
Q6. Do you have any further comments on our proposals for the deemed contract guidance? 14
Send us your feedback 16

1. Introduction

In July 2026 we sought views on changes to Ofgem's guidance on deemed contracts under standard licence condition (SLC) 7.3 and SLC 7.4. The proposals were intended to provide greater clarity on Ofgem's interpretation of existing licence obligations. These proposals covered the areas of when a deemed contract exists, the recovery of bad debt, customer transfer blocking, delayed switching and security deposits. We received 20 responses from suppliers, trade bodies, third-party intermediaries (TPIs) and consumer representatives.

Respondents broadly supported the objective of improving clarity and consistency. However, views differed on whether some proposals clarified existing obligations or appeared to introduce new regulatory expectations. Key themes included questioning the basis of some of the proposed changes, supplier cost recovery, customer protections, operational implementation and the role of guidance within the wider regulatory framework.

Following consultation, we have decided not to proceed with the proposed 'ability to consume' test. We have clarified our expectations on the reasonable recovery of bad debt and suppliers' obligations around customer transfer blocking and delayed switching and revised our position on when security deposits may be appropriate for deemed contract customers.

This revised guidance will become live on the publication of this decision document, which is Thursday 17 November 2026. It replaces Ofgem's previous guidance on deemed contracts and consolidates our guidance on SLC 7.3 and SLC 7.4 in one document.

Summary of changes

1.1 We have decided not to proceed with the proposed 'ability to consume' test. As a result, the existing guidance on when a deemed contract is likely to arise will remain unchanged.

1.2 We have clarified that suppliers may recover reasonable bad debt costs through deemed rates where these costs are supported by evidence. Being on a deemed rate does not, in itself, mean that a customer presents a higher bad debt risk. Any differences in bad debt allowances must be evidence-based and applied consistently.

1.3 We have retained the proposed text on customer transfer blocking and delayed switching. This clarifies that suppliers cannot object to a non-domestic customer switching because of deemed contract debt or use a billing dispute to prevent a switch.

1.4 We have revised the guidance on security deposits. It now states that requiring a security deposit from a deemed rate customer would generally be inappropriate,

while recognising that a deposit may be justified in some circumstances. Suppliers must be able to demonstrate why a security deposit is appropriate.

1.5 Together, these changes clarify our expectations under SLC 7.3 and SLC 7.4 while allowing suppliers to respond to different customer circumstances. The revised guidance supports consistent, evidence-based decisions and the delivery of good consumer outcomes.

Context and related publications

Primary Legislation

Deemed contracts

- Electricity Act 1989, Schedule 6, paragraph 3.
- Gas Act 1986, Schedule 2B, paragraph 8.

Standard Licence Conditions (SLCs)

- SLC 7.3
- SLC 7.4

Guidance documents

Deemed contracts

- Ofgem, Guidance on deemed contract relationship (2009).
- Ofgem, Guidance on Deemed Contracts (November 2023).
- Changes to Guidance on Deemed Contracts consultation (June 2026)

This Guidance (2026 November) will supersede previous deemed contract guidance.

Security Deposits

- Ofgem, Best Practice Guide – Non-Domestic Security Deposits (July 2023).

Decision-making stages

Stage 1 Consultation open: 19 June 2026

Stage 2 Consultation closes. Deadline for responses: 16 July 2026

Stage 3 Consultation outcome (decision statement): 17 November 2026

2. Consultation findings

This section summarises the feedback received to the consultation and Ofgem's responses. Questions 5 and 6 are displayed in a different format as the feedback received does not directly comment on changes to the guidance.

Questions

Q1. Do you agree with our proposals on situations when we will generally view a deemed contract to exist depending on a customer's ability to consume energy? Please provide your reasons.
Q2. Do you agree with our proposal around the reasonable recovery of bad debt? Please provide your reasons.
Q3. Do you agree with our proposed text that reminds suppliers of their obligations around customer transfer blocking and delayed switching? Please provide your reasons.
Q4. Do you agree with our proposal around the circumstances in which suppliers should ask for security deposits? Please provide your reasons.
Q5. Are there any potential implications for domestic customers that the proposed guidance on deemed contract rates may impact on?
Q6. Do you have any further comments on our proposals for the deemed contract guidance?

Q1. Do you agree with our proposals on situations when we will generally view a deemed contract to exist depending on a customer's ability to consume energy?

2.1 We proposed that, for a deemed contract to exist, the customer must have the ability to consume energy, which would require a supply to be available. Where there was no meter, or the meter was disconnected, a deemed contract would therefore be unlikely to exist. However, where a customer could take a supply, a deemed contract could arise even if they chose not to consume energy, and they could still be charged a deemed standing charge.

2.2 There was broad support in providing greater clarity on when a deemed contract exists, but significant disagreement over whether the proposed "ability to consume" test reflects a clarification of existing law or a substantive change in interpretation.

2.3 Much of the debate centred on whether a connected supply should itself create contractual liability, how supplier cost recovery should be balanced against customer fairness, and how the approach would operate in complex scenarios such as de-energised supplies, change-of-tenancy disputes and emerging connection types.

Summary of responses

Basis for the proposed interpretation

2.4 Most respondents raised issues relating to the basis of the proposed "ability to consume" test. Respondents were divided on whether the proposal represents a clarification of existing legislation or a substantive change in when a deemed contract arises. Respondents argued that the Gas Act 1986 and Electricity Act 1989 establish deemed contracts to be where energy is supplied otherwise than pursuant to a contract and questioned whether guidance can extend the statutory trigger beyond actual supply or consumption.

2.5 One supplier expressed concern that there could be an inconsistency between Ofgem's guidance and the Energy Ombudsman's approach to the implementation of the new guidance if the new ability to consume test was introduced.

Operation in practice

2.6 A common concern was that the draft guidance does not fully explain how the proposed test should apply when the meter status is unclear. Two suppliers highlighted uncertainty on whether the draft sufficiently distinguishes between how to regard capped gas meters and de-energised electricity meters.

2.7 One supplier argued that the proposed connected-meter test may not operate appropriately for battery energy storage system (BESS) sites, storage assets, embedded generation and demand-side response (DSR) and electric vehicle (EV) hub sites. They argued that a connected-meter approach could result in deemed standing charges accruing through auxiliary imports during commissioning before a site becomes operational or generates revenue.

Our response

Basis for the proposed interpretation

2.8 In light of the feedback received from respondents, Ofgem has decided not to proceed with including the "ability to consume" test. Instead, Ofgem has revised the existing guidance to ensure it remains consistent with the statutory framework and reflects the current position on when a deemed contract arises. Therefore, the concerns raised regarding differing interpretations between Ofgem and the Energy Ombudsman should not arise.

2.9 This guidance addresses deemed contract arrangements for energy supply customers only. It is not intended to address the specific circumstances of generation, storage or flexibility assets.

Q2. Do you agree with our proposal around the reasonable recovery of bad debt?

2.10 We proposed to clarify how suppliers could reasonably recover bad debt costs through deemed rates. These costs could be reflected in deemed rates where suppliers could justify and evidence them as reasonable. We also proposed that suppliers should take a comparative approach to how they recovered these costs from contracted customers.

2.11 Respondents broadly supported suppliers' ability to recover bad-debt costs through deemed rates. However, they disagreed on what constitutes a reasonable level of recovery, how suppliers should evidence bad debt costs, and how Ofgem would assess compliance. Responses also raised wider questions about the distinction between deemed and contracted customer risk, supplier flexibility, customer protection and the application of the proposed comparative approach.

Summary of responses

Constituting bad debt

2.12 Several suppliers commented that deemed rate customers can create additional wholesale procurement, forecasting and hedging risk due to the absence of a negotiated contract. These respondents considered such costs to be legitimate components of deemed pricing. In contrast, one TPI stated that wider commercial risks should be considered separately from bad debt allowances and should not influence assessment of bad debt recovery.

2.13 One consumer body agreed that bad debt recovery should cover deemed rate debt only, without cross-subsidy from fixed term contract customers. Another supported what they felt was reasonable comparative bad debt recovery but wanted clearer limits. They felt that suppliers already price default risk into deemed rates and that further recovery can deepen arrears. They noted that Ofgem should define the term reasonable and require genuine engagement to move customers to suitable tariffs.

Reasonable bad debt recovery using a comparative approach

2.14 Around half of respondents commented on Ofgem's proposed comparative approach to bad debt recovery.

2.15 Many suppliers argued that customers on deemed rates may, in some circumstances, present different bad debt risks to contracted customers due to factors such as lower engagement, the absence of an agreed contract and fewer available debt recovery tools. These respondents cautioned against the guidance requiring identical bad debt allowances for deemed and contracted customers, arguing that suppliers should be able to reflect differences in underlying risk, where supported by evidence.

2.16 As part of this, respondents sought greater clarity on what constitutes a reasonable level of bad debt recovery and the evidence Ofgem would expect suppliers to provide in support of their approach.

Our response

Constituting bad debt

2.17 We recognise that deemed customers may result in additional wholesale procurement, forecasting and hedging costs. However, we consider these risks to be distinct from bad debt. Bad debt costs stem directly from a customer's failure to pay or from a supplier's activities to manage and recover that debt. Wider commercial risks are associated with supplying deemed customers but are not directly attributable to customer non-payment and may be reflected elsewhere in a supplier's pricing methodology. Suppliers should be able to demonstrate how any bad debt allowance has been calculated and why it remains proportionate to the underlying risk. This is reflected in changes to the guidance.

Reasonable bad debt recovery

2.18 We recognise that the appropriate level of bad debt recovery will depend on each supplier's circumstances and supporting evidence. We will therefore assess compliance on a case-by-case basis.

Reasonable bad debt recovery using comparative approach

2.19 We do not consider that deemed customers should be treated differently from contracted customers solely because they are on deemed contract. Suppliers should apply a consistent methodology when assessing bad debt costs across customer groups. We recognise that different customer groups may present different levels of bad debt risk in certain circumstances. However, being on a deemed rate does not, in itself, demonstrate that a customer presents a higher bad debt risk. Applying a consistent methodology does not require suppliers to reach identical bad debt allowances across customer groups. Instead, suppliers should ensure that any differences in bad debt allowances are supported by relevant evidence and applied in a consistent and objective manner. We recognise that the reasonable level of bad debt recovery will depend on each supplier's circumstances and supporting evidence. We will therefore assess compliance on a case-by-case basis.

Q3. Do you agree with our proposed text that reminds suppliers of their obligations around customer transfer blocking and delayed switching?

2.20 We proposed to clarify suppliers' obligations on customer transfer blocking and delayed switching. For non-domestic customers, suppliers could not object to a

switch because of deemed contract debt or use a billing dispute to prevent a switch. Where supplier delays resulted in a customer continuing to pay deemed rates, we expected suppliers to consider re-billing the account or reducing the rates paid.

2.21 Most respondents supported clarifying suppliers' obligations on transfer blocking and delayed switching, particularly that a non-domestic customer's transfer must not be blocked because of deemed-contract debt.

2.22 However, a significant proportion of suppliers used the consultation to raise broader concerns regarding the underlying policy framework. Many argued that the difference between domestic and non-domestic debt objection rules increases supplier credit risk, contributes to higher bad debt costs and may create incentives for customers to switch suppliers without settling outstanding debt. Ofgem acknowledges receipt of respondents' concerns about non-domestic objection rights, but notes that this is not only a deviation from scope of current guidance document but represent a departure from current regulatory framework and any changes in this area would have to follow the usual policy development and consultation routes.

Summary of responses

Application consistency

2.23 Several respondents said the issue is not the rules themselves, but how they are applied. Trade bodies and TPIs reported examples of suppliers incorrectly objecting to transfers or delaying switches despite existing obligations.

Credit risk and incentivisation for poor consumer behaviour

2.24 Multiple respondents argued that allowing customers to switch away without settling deemed-contract debt increases supplier exposure to bad debt and may ultimately increase costs for other customers.

2.25 Several respondents argued that some customers may have reduced incentives to engage with suppliers or settle debts where there is no risk of transfer objection.

Our response

Application consistency

2.26 Suppliers are required to comply with the relevant licence obligations, including those relating to transfer blocking and delayed switching under SLC 14 and SLC 14A. This guidance provides further clarity on our expectations in this area. Where Ofgem identifies evidence of non-compliance, whether through monitoring activities, complaints or other information received, we may consider appropriate compliance or enforcement action.

Credit risk and incentivisation of poor consumer

2.27 Ofgem acknowledges respondents' concerns regarding supplier credit risk, bad debt exposure and the different circumstances that may give rise to debt or disputes. However, the purpose of this guidance is to clarify suppliers' existing obligations relating to transfer blocking and delayed switching, rather than to reconsider the underlying policy framework.

Q4. Do you agree with our proposal around the circumstances in which suppliers should ask for security deposits?

2.28 We proposed to clarify when suppliers could require security deposits from deemed rate customers. We considered that these would generally be inconsistent with SLC 0/0A and SLC 7.3, particularly where this could result in double recovery of bad debt or non-payment risk.

2.29 Responses revealed broad support for the principle that security deposits should not routinely be required for customers on deemed contracts but disagreed on the extent to which Ofgem should restrict their use. While some respondents agreed with Ofgem's view that requiring a deposit where bad-debt risk has already been recovered through deemed contract can amount to double recovery others argued strongly that deposits and bad-debt pricing address different forms of risk and should remain available as legitimate tools for managing credit risk.

Summary of responses

Consistency with current regulatory approach

2.30 Respondents broadly agreed that requiring deposits where bad-debt risk has already been incorporated into deemed contract risks creating unfair outcomes and may be inconsistent with the "not unduly onerous" principles underpinning the deemed-contract framework.

2.31 Some respondents questioned whether Ofgem had sufficiently justified the position that security deposits would, "in most cases", be inconsistent with SLC 0, SLC 0A and SLC 7.3. One supplier questioned whether provisions relating to customer communications, refunds and supplier behaviour are best placed within deemed-contract guidance rather than existing security deposit best practice guide.

Whether security deposits create double recovery of risk

2.32 Around half of respondents discussed whether requiring a security deposit alongside bad-debt allowances in deemed contract represents double recovery.

2.33 For those in agreement, some respondents argued that deposits should therefore be exceptional and only used where the supplier can demonstrate that the relevant risk has not already been priced into the deemed-rate cost stack.

2.34 Other respondents disagreed, arguing that bad-debt allowances operate at a portfolio level while security deposits address the risks posed by individual customers. These respondents considered the mechanisms to serve different functions and therefore not necessarily constitute double recovery.

Fair attribution of risk

2.35 One trade body expressed strong concerns about businesses being categorised as high risk based on sector characteristics. It argued that hospitality businesses had previously been categorised as high risk during periods of market disruption and that suppliers should not target sectors through broad risk classifications.

2.36 One TPI raised issues on suppliers relying on previous occupier debt or disconnection history when assessing risk. It argued that a new occupier should not inherit risk assumptions arising from the behaviour of a former legal entity and that any deposit should be based solely on the circumstances of the current customer. A trade body raised similar concerns through a case study where a customer was required to pay a deposit because of previous occupier debt.

Our response

Consistency with current regulatory approach

2.37 We acknowledge respondents' concerns about the proposed "in most cases" wording. We have therefore amended the guidance by replacing "in most cases" with "generally". The guidance now states that it would generally be inappropriate for suppliers to require a security deposit from a customer on a deemed rate. This is because we recognise that there may be circumstances where a security deposit is justified. The revised wording provides suppliers with greater flexibility to exercise their judgement in providing good consumer outcomes that are also in line with the relevant licence conditions, without prescribing an exhaustive list of exceptions.

2.38 In relation to provisions for customer communications when requiring security deposits, we consider that the provisions at paragraphs 2.70 to 2.71 of the guidance are appropriately placed, as they serve as a reminder of the existing security deposit best practice guide.

Whether security deposits create double recovery of risk

2.39 Security deposits and bad debt allowances may serve different purposes, with bad debt allowances typically applied across a supplier's portfolio and security deposits used to manage risks associated with individual customers. We have therefore removed the reference to "double charging" from the guidance. A security deposit is a refundable payment, so it is not necessarily appropriate to characterise the use of both mechanisms as double recovery in all cases. However, we will consider supplier's behaviour on a case by case basis and expect the supplier to be able to demonstrate why the security deposit is appropriate.

Fair attribution of risk

2.40 We recognise the concerns raised regarding suppliers' approaches to credit-risk assessments, including the use of sector-based risk indicators and information relating to previous occupiers. However, we do not consider it appropriate to intervene in, or prescribe, suppliers' commercial credit-risk methodologies through this guidance. Suppliers remain responsible for making credit-risk decisions and assessing individual customer circumstances, subject to their regulatory obligations.

Q5. Are there any potential implications for domestic customers that the proposed guidance on deemed contract rates may impact on?

2.41 We posed this question in order to understand any unintended consequences or risks to domestic consumers since the SLCs 7.3 and 7.4 cover both markets. Most respondents noted that existing price-cap protections mean the proposed guidance does not currently materially alter domestic deemed-rate pricing. Many suppliers, particularly non-domestic only, chose not to comment on domestic implications.

2.42 Where concerns were raised, they focused less on deemed-rate pricing and more on consumer awareness, tenancy processes and future regulatory changes. Respondents highlighted risks associated with customers unknowingly entering deemed contracts, difficulties identifying suppliers during home moves, delayed account setup and uncertainty around standing-charge liability where no energy is consumed. They also highlighted the need to preserve existing domestic protections relating to transfer objections, deposits, disputed amounts and fair treatment.

2.43 The strongest forward-looking concern was how domestic deemed contract would be assessed if the price cap were removed or significantly reformed. Some respondents called for future consultation, clear transition arrangements and continued protection of existing safeguards if domestic deemed-rate regulation becomes more reliant on SLC 7.3 and SLC 7.4 in the future. These issues are outside the scope of the guidance amendments. However, we have noted the feedback provided by respondents.

Q6. Do you have any further comments on our proposals for the deemed contract guidance?

2.44 Most respondents welcomed Ofgem's efforts to provide greater clarity on the application of deemed contracts. However, many respondents raised broader concerns regarding the use of guidance as a regulatory tool. A recurring theme across responses was the view that guidance should remain principles-based and outcomes-focused, rather than introducing detailed expectations that some respondents considered would be more appropriately implemented through

licence modification and statutory consultation processes. Several suppliers also emphasised the importance of ensuring that any final guidance remains consistent with Ofgem's wider Consumer Outcomes and licence simplification initiatives.

2.45 Ofgem's intention is that guidance will support, rather than replace, supplier judgement by setting out considerations, examples and good practice that may help suppliers deliver positive consumer outcomes. Guidance is not intended to prescribe a single approach or limit innovation. Suppliers remain responsible for determining how best to achieve the required outcomes in a way that is proportionate to their business models and customer needs whilst acting in compliance with the SLCs.

2.46 Respondents highlighted wider market issues that can contribute to customer detriment, debt accumulation and customers remaining on deemed contracts, including infrequent billing, delays in change-of-tenancy processes, difficulties identifying occupiers and limited customer awareness. These issues cannot be appropriately addressed through this guidance, but some are being considered through wider Ofgem work on consumer protections, including consumer outcomes work.

Send us your feedback

We are keen to receive your feedback about this guidance. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this guidance?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk