

National Energy Action response to the Call for Input on Affordability and Debt

About National Energy Action

National Energy Action¹ works across England, Wales, and Northern Ireland to ensure that everyone in the UK² can afford to live in a warm, safe and healthy home. To achieve this, we aim to improve access to energy and debt advice, provide training, support energy efficiency policies, work on local projects, and coordinate other related services which can help change lives.



Summary of our response

In April 2024, the energy price cap fell to £1,690 for the typical dual-fuel household that pays by direct debit. Ofgem recently decided to change the level of consumption that it uses to calculate what a 'typical' household might pay. Under the previous calculation, the price cap would be announced as £1,769. This is 56% higher than the price cap prior to the beginning of the energy crisis, which was £1,138 for the typical dual-fuel household that pays by direct debit. We estimate that the new price cap level leaves about 6 million UK households in fuel poverty, based on a definition of needing to spend 10% or more of income on energy costs.

All the targeted support that was introduced to directly reduce energy bills has now ended. Cost-of-living payments totalling £900 for households receiving means-tested benefits and £150 for those in receipt of disability benefits have also now ended. This cut to income is not offset by the slight reduction in energy bills. National Energy Action carries out regular quarterly polling. At the end of March, National Energy Action commissioned new YouGov polling³ which found that 34% of GB adults say they have found it difficult to afford paying their energy bills over the last three months. Additionally:

- 59% of GB adults say they had rationed their heating, turning their thermostat down lower than they wanted. 16% say they had done so every day, with those in debt to their energy supplier more than twice as likely to say this than those in credit.
- 49% of GB adults say they had gone to bed to stay warm. 19% say that they had done so most days. Those in debt to their energy supplier were more than three times as likely to say this than those in credit.
- 15% of GB adults say they had used an improvised heater at home. Those in debt to their energy supplier were more than twice as likely to say this than those in credit.

It is therefore not a surprise to see that Ofgem confirmed that debt levels are continuing to rise and now sit at a record high of around £3.1bn. In the Call for Input document, Ofgem confirms that the average level of debt has increased by around 50% in the past 12 months. The number of households in debt has increased by around 20%. This indicates that not only are more households falling into debt, but for those already in debt the affordability pressures are much greater. Furthermore, about two-thirds of the overall debt figure consists of arrears. This is defined as debt without a repayment arrangement. The remaining third consists of debt where a repayment arrangement is in place. This further highlights the challenge of debt: that it will continue to grow if affordable repayment arrangements are not set.

In response, National Energy Action welcomes the opportunity to input into this process and calls on Ofgem to consider solutions it has the power to create, in addition to working with the UK Government to create enduring solutions to debt and affordability challenges.

Summary of problems and recommendations

Problem	Brief explanation	Recommendations
High prices mean that debt and affordability are more than just regulatory issues – they're policy issues, too.	<p>Prices are 49% higher than they were prior to the beginning of the energy crisis. National Energy Action estimates there are 6 million fuel poor households in the UK, as of April 2024. Many households have a negative budget, meaning that they fall further into debt every month in order to pay for essential products and services.</p> <p>A 'help to repay' scheme would help to significantly reduce the burden of debt on many households. This would benefit energy suppliers' financial resilience, the mental and physical wellbeing of indebted households, and for all households more generally in the form of reduced bills.</p>	<p>UK Government should introduce deeper and broader price support for low-income and vulnerable households.</p> <p>Ofgem should consider how it could deliver debt relief policy solutions in the absence of government funding in the first instance.</p>
Ofgem policy currently focuses on servicing debt, not reducing it.	Suppliers collect between £1bn and £1.5bn through price cap allowances to service debt. The majority of this funding goes towards servicing debt. It is unclear how much of this is directly allocated to reducing debt costs.	Ofgem should mandate the use of (some of the) debt allowances to write off debt.
The structure of the price cap facilitates the creation of additional debt	Households that pay when they receive a bill (standard credit) are most likely to be in debt, when compared to direct debit households. Though they face higher costs, the bulk of the debt-related costs that suppliers collect to service debt is allocated to them.	Ofgem should reduce the standard credit premium by redistributing debt-related costs with direct debit households.
Early identification of financially vulnerable customers is poor	Early engagement with those who are falling behind on bills can prevent problem debt. Without the means to identify these customers, suppliers cannot properly protect them.	Ofgem and suppliers should work to introduce a flag for financial vulnerability in the Priority Services Register.
Prepayment meters offer a blunt solution to problem debt, with inadequate consumer outcomes.	Especially in the case of traditional prepayment, there is a barrier of disengagement between households and energy suppliers. Suppliers are unable to know when a household is frequently self-disconnecting, or whether it is happening for long durations. Equally, households are less likely to contact their energy supplier to ask for support.	UK Government should accelerate the smart meter rollout. This should prioritise the replacement of traditional prepayment systems.

<p>High standing charges facilitate build-up of debt during self-disconnections.</p>	<p>For prepayment households, standing charges accrue on the meter even while the supply might be disconnected. This means that households can accrue debt for as long as they cannot afford to top up.</p>	<p>UK Government should reduce standing charges for prepayment customers. This carries considerably less risk than reducing standing charges for all customers, since prepayment is not a suitable payment method for high-usage, financially vulnerable households.</p>
<p>Billing processes can create sudden and harmful impacts on consumers, sometimes erroneously.</p>	<p>Disconnected smart meters, inaccessible traditional meters and vulnerability in a household can lead to extended periods of estimated billing which do not reflect actual consumption. The longer it takes to identify actual consumption, the greater the likelihood of shock bills and erroneous debt. Sudden emergence of debt can cause physical and mental harm to consumers, in addition to generating consumer distrust in the market.</p>	<p>UK Government and Ofgem should better outline expectations for suppliers to maintain and repair smart meter connections, potentially through the introduction of a smart meter GSoP.</p> <p>Ofgem should evaluate whether backbilling rules are fit for purpose in the new context of high prices and a market which has more smart meters than ever before.</p>
<p>Engagement with suppliers on matters of debt and affordability can be inconsistent.</p>	<p>Consumers experience different outcomes when contacting suppliers over similar issues. Stakeholders we work with highlight that outcomes can often depend on 'luck' in terms of the ability of supplier agents to identify vulnerability, establish affordable repayment arrangements where there is debt, and to communicate what, if any, additional support is available to the consumer.</p>	<p>Ofgem should mandate that suppliers improve accessibility to translation services, especially during debt collection processes. Too much responsibility is placed on vulnerable consumers to source third party support as a result of not being able to access that support from their supplier.</p> <p>Suppliers should review debt pathway processes with the aim of improving consistency in experience for vulnerable consumers.</p>

Detail of our response

The structure of the price cap facilitates debt

As debt levels have risen drastically in a short period of time, Ofgem has had to fulfil its responsibility under the price cap to allow energy suppliers sufficient allowances within the cap to recover reasonable costs. There are, however, significant issues with the current approach:

- National Energy Action estimates that price cap allowances from April 2024 allow suppliers to collect a total of between £1bn and £1.5bn per year to mitigate the impact of rising debt levels. If suppliers are collecting up to 50p for every £1 of customer debt, it is crucial that the money collected is being used to directly reduce the debt burden for customers. National Energy Action does not have access to data for how this money is spent by suppliers but believes Ofgem should evaluate the purpose of these allowances. Ofgem should determine whether it would be suitable to mandate that a proportion of the allowances is spent on provision of direct support with the aim of reducing overall levels (for instance, through write-offs or repayment matching arrangements).

In the Call for Input document, it is highlighted that suppliers offer, in total, £54m of discretionary support. This amounts to around 4% of the value of allowances for debt.⁴ While discretionary support is not necessarily funded through allowances for debt-related costs, the comparison of these figures illustrates significant cause for concern in how much funding goes towards direct provision of support for those who are struggling. These costs are spread across households, but they are not distributed equitably.

- A cost-reflective approach to recovering debt-related costs has resulted in standard credit households paying the biggest proportion of debt related costs. As a result, standard credit users remain at a disadvantage, paying significantly more overall than direct debit or prepayment households. National Energy Action believes it is not sensible to place the burden of debt-related costs on households that are more likely to be in debt. Ofgem is considering an option for reform to reduce this payment premium, but until it is introduced, households who pay by standard credit will continue to face unfairly higher bills, driving up debt levels further.

Moving forward, National Energy Action believes that cost redistribution analysis must take into account three factors. The first is the impact that a redistribution of costs will have on a household's ability to maintain supply. This applies to prepayment households. The second factor is the impact that a cost redistribution will have on a household's confidence to consume a safe amount of energy for essential purposes. For instance, policy decisions resulting in higher standing charges for one customer cohort could result in increased pressure to adopt self-rationing behaviour. The third and final factor to consider is whether a cost redistribution will result in a net benefit for low-income households.

- Standing charges have a pernicious effect on prepayment households. For prepayment households, a higher standing charge means a greater barrier for getting back on supply when they disconnect. Standing charges accrue on prepayment meters as a debt that must be cleared before energy can be accessed again. A high standing charge also drives worse coping/self-rationing strategies. In addition, some of the most deprived areas of the country have higher standing charges, compared to more affluent areas due to the regional differences in how costs are recovered across Great Britain. **A redistribution of costs from standing charges to the unit**

rate for prepayment households could reduce self-disconnection, lower energy costs for low-income households, and reassure households when it comes to consuming safe and necessary amounts of energy to avoid physical and mental harm.

Non-financial options to improve the debt challenge

The early identification of financially vulnerable consumers must be improved. Early engagement with those who are falling behind on bills can prevent problem debt. Without the means to identify these customers, suppliers cannot properly protect them.

- **Among other measures, National Energy Action would like to see a flag for financial vulnerability introduced to the Priority Services Register.**

Especially in the case of traditional prepayment, there is a barrier of disengagement between households and energy suppliers. Suppliers are unable to know when a household is frequently self-disconnecting, or whether it is happening for long durations. Traditional prepayment households are also less likely to contact their energy supplier to ask for support. Acceleration of the smart meter rollout is one solution to this issue.

- **The programme should prioritise the replacement of traditional prepayment systems.** It should also be reformed to incentivise suppliers to maintain and repair smart meter connections where they are lost. Smart meters are an important tool for ensuring consistent and accurate billing, reducing the likelihood of shock bills after long periods of estimated bills. Currently, supplier performance on smart meter maintenance varies considerably. To ensure that the full benefit of smart meters are seen by consumers, suppliers must do more in this area. This may require Ofgem and government to more clearly outline expectations for what suppliers should be doing.

Suppliers also have a big role to play in helping consumers with affordability pressures. One area of concern is the availability and accessibility of translation services for households where English is not the primary language. National Energy Action and colleagues in other organisations are concerned that too much responsibility is placed on clients to make their own arrangements for contacting their supplier where additional assistance is required.

- **Ofgem should mandate that suppliers offer translation services, and outline expectations for making these services accessible.** This is especially important for engagement regarding debt and affordability.

Working with UK Government to implement market-wide debt and affordability mechanisms

This Call for Input demonstrates the extremity of the situation with regards to ongoing affordability pressures and still-rising debt levels in the market. It would be remiss not to mention that these forms of policy intervention are needed just as much now as they were in the peak of the energy crisis.

While this consultation focuses on what Ofgem can do, National Energy Action feels it is important that the input provided by stakeholders is shared with government to ensure government is able to continuously assess the need for intervention. In the consultation document, Ofgem has highlighted that it may be prepared to make recommendations to government based on the responses received. National Energy Action feels this is an important opportunity for Ofgem to publish additional evidence which further highlights the severity of affordability pressures and the deepening challenge of recovering debt. Ofgem

should also continue work to identify potential policy support schemes that would tackle the debt crisis.

National Energy Action has been advocating for an enduring mechanism to provide affordable energy bills to struggling consumers for a long time. While energy affordability is exacerbated by the cost-of-living crisis and conditions of the wider UK economy, action is needed with specific regard to energy. The energy industry has seen price volatility on a scale much greater than other utilities. The consequences of inaction are continued physical and mental harm for fuel poor households. National Energy Action's preferred mechanism would be the introduction of a social tariff.

- **Ofgem and government must consider how to alleviate the enduring affordability pressures faced by vulnerable households.** Mechanisms for enduring price support should be consulted on at the earliest opportunity.

Because of record levels of debt in the market, there is a need for policy support to help consumers pay off their debt. Current policy focuses too much on allowing suppliers to recover the costs of debt, or servicing debt, but not enough on reducing overall debt levels. Despite costs of energy decreasing over recent months, debt may continue to build as a consequence of two and a half years of high prices. National Energy Action's preferred approach for tackling debt levels would be the introduction of a 'help to repay' scheme, in which the government would match contributions from households.

- **Ofgem and government must consider how to tackle record levels of energy debt.** Both Ofgem and government have the required powers to establish debt relief schemes aimed at reducing record debt levels and providing much needed support to households with unmanageable debt.

Q1: What are the key drivers of energy affordability challenges and how do we expect those to change in the future?

Affordability and the price cap

Around 85% of consumers are currently on default tariffs. Though the price cap was not intended to provide deep price support for consumers, it is clear that consumers rely on the price cap as a form of price support. The price cap has limited the pass-through of wholesale costs from energy suppliers during a period of heightened volatility in energy markets. Reliance on default tariffs is evidence that there is an absence of affordable alternative tariffs for consumers to adopt.

The current structure of the price cap facilitates additional debt in the market. As debt levels have risen drastically in a short period of time, Ofgem has had to fulfil its responsibility under the price cap to allow energy suppliers sufficient allowances within the cap to recover reasonable costs.

- National Energy Action estimates that price cap allowances from April 2024 allow suppliers to collect a total of between £1bn and £1.5bn per year to mitigate the impact of rising debt levels. Ofgem allocates a disproportionate amount of these costs to standard credit users, despite their lack of ability to afford it.
- If suppliers are collecting up to 50p for every £1 of customer debt, it is crucial that the money collected is being used to reduce the debt burden. National Energy Action does not have access to data for how this money is spent by suppliers but believes Ofgem should determine whether it would be suitable to mandate that a proportion of the allowances is spent on provision of direct support to reduce individuals' debt.

- In the Call for Input document, it is highlighted that suppliers offer, in total, £54m of discretionary support. This amounts to around 4% of the value of allowances for debt. While discretionary support is not necessarily funded through allowances for debt-related costs, the comparison of these figures illustrates significant cause for concern in how much funding goes towards direct provision of support for those who are struggling.
- If cap allowances are not being spent on relieving affordability pressures, they are contributing to them. The absence of alternative tariffs for consumers to use is therefore generating conditions for an enduring affordability challenge.

If wholesale costs continue to fall, the price cap level will also likely fall. The market may therefore begin to provide more cost-effective tariffs for consumers, reducing the overall costs associated with so many consumers being on the price cap. However, for those who continue to rely on default tariffs, there are considerable problems that need addressing.

- Recent policy changes mean that prepayment households have seen their overall costs reduced through a reduction in standing charges to ensure they are in line with standing charges paid by direct debit households. The result of this is that prepayment is now the cheapest payment method under the price cap. Ofgem estimates that the redistribution of costs that made this possible will provide £112 million of benefit for low-income consumers, in addition to preventing around £12 million of debt in the market.⁵
- Even with the reduction in standing charges, more than 20% of the average annual cost for typical prepayment households comes from standing charges. This proportion is broadly similar for all households regardless of payment method, but it is for prepayment households that the effects of high standing charges are most pernicious. High standing charges mean more frequent and longer periods of self-disconnection for prepayment households, which creates considerable concern regarding the safety and wellbeing of consumers. For prepayment households, standing charges also accrue as debt on the meter during periods of disconnection. This creates standing charge debt which needs to be cleared before energy can be accessed again. One opportunity for reform may be to restructure the price cap to allow for prepayment users to pay lower standing charges. This would require a redistribution of costs to the unit rate, though National Energy Action believes that this would provide lower overall costs for these households.
- Ofgem should also continue to look at how debt related costs are distributed among payment types. As already identified, standard credit households face a significant payment premium because of the higher levels of affordability pressures they face. A cost-reflective approach to the recovery of costs through the price cap does not work favourably for low-income consumers. National Energy Action believes it is counter-intuitive that households who are less likely to be able to afford their energy costs face the additional burden of paying for the costs of servicing debt. Ofgem's analysis indicates that a redistribution of debt-related costs between standard credit and direct debit households will bring around a further £100m of benefit for low-income consumers. We would like to see this proposal implemented at the earliest opportunity.⁶

External factors influencing debt and affordability in the energy market will continue to impact on the perceived role of the current default tariff cap. The cap is viewed by many who use it as a protective measure for low-income households. Since the cap has been developed using a cost-reflective approach to recovering costs faced by the notionally efficient supplier, costs are not recovered in the most progressive way. Ofgem has played an important role in determining how costs are recovered through the price cap by suppliers.

- This highlights the importance of introducing deeper price support through new or existing schemes. Without deeper price support, a wider deviation from the cost-reflective approach to cost recovery is needed for the cap to continue alleviating affordability pressures. Without alleviation from affordability pressures, more households are likely to fall into debt, and those already in debt are likely to fall into deeper debt. The result will be a greater level of costs that suppliers need to recover across all customers.

The Department for Energy, Security and Net Zero (DESNZ) was due to consult on long-term arrangements for price protection in the energy market, including through the potential reintroduction of a social tariff, last summer. DESNZ should recommit to consulting on the introduction of a social tariff, or other form of deeper price support for low-income consumers. The introduction of a social tariff could de-risk the process of reform for default tariffs, by ensuring that many of the households who currently rely on the energy price cap receive protection through another mechanism. **Ofgem should play a role in pushing government and politicians to consult on a social tariff**, or alternative form of deep price protection.

Affordability and energy suppliers

Energy supplier conduct is also a significant driver of affordability challenges. There are three areas where better supplier performance could lead to greater outcomes for consumers with regard to affordability.

The first concerns smart meters. Smart meters are useful technology for consumers and offer greater visibility over consumption levels and how that converts into cost. These tools are important for consumers to have access to. This means they can make informed decisions about the energy they consume, what tariff is right for them and enables them to receive automatic bills and reduce the likelihood of consumption being estimated by their supplier. Additionally, the introduction of Market-wide Half-Hourly Settlement could impact households differently based on whether or not they have a smart meter, and if it is fully operational. This could result in the creation of additional affordability pressures for households without a fully operational meter.

- The smart meter rollout is not a factor that is fully in the control of households. It is therefore important that Ofgem and DESNZ continue to drive the replacement of traditional meters with smart meters so that households can access the benefits that smart meters offer. It is important that once installed, meters are working as they should. Ofgem should work with DESNZ to ensure that this is reflected both in the policy underpinning the rollout, and the way in which suppliers are obligated to deliver it.

The second is with regard to billing. Whether a smart meter is installed or not, all households are subject to the risk of poor billing experiences leading to unexpected affordability challenges.

- An unconnected smart meter, inaccessible traditional meter, and/or vulnerabilities in the household are all examples of conditions which can prevent regular and accurate billing from suppliers if the right mitigations are not in place.
- System migrations, technical and software issues in addition to human error from customer service staff can also generate affordability pressures. It is important that Ofgem continues to drive improvements in billing standards.

- **Ofgem should review backbilling requirements.** Since more households now have smart meters than ever before, suppliers should have greater responsibility regarding issuing bills in a timely manner and correcting billing errors when they arise. There are lots of smart meters that aren't giving readings, which means long periods of estimated bills and the potential for big bill shocks. Often, customers are not aware that their smart meter is no longer providing automatic meter readings. This issue is more important now than before. The past few years have seen higher energy prices for domestic consumers than ever before, meaning that billing errors made over that period will result in higher than anticipated costs for the supplier and the consumer. Ofgem should consider whether to reduce the backbilling requirements from 12 months to, for instance, nine months.

The third area concerns how suppliers interact with consumers who may be experiencing affordability pressures. This includes general customer service approaches, which impact the ability of consumers to self-identify their vulnerability.

National Energy Action holds regional forums with fuel poverty stakeholders every six months. At our most recent round of forums in April 2024, stakeholders identified several areas of concern regarding supplier conduct which underpin our response to this question.

- Stakeholders highlighted the inability of some clients to access translation services in cases where English is not the first language of the consumer. To fulfil their duties to consumers, suppliers should be offering easy access to translation services for households who cannot comfortably communicate in English. The alternative places too much responsibility on vulnerable consumers to source third-party support for their engagement with their supplier.
- Many stakeholders also highlighted the inconsistency of experience when dealing with energy suppliers, versus organisations in other industries such as water companies. The most frequently mentioned problem was an inconsistency in ability to establish affordable repayment arrangements. The debt pathway in the energy sector can often be influenced by 'luck' in that different organisations and different advisers within the same organisation accepts varying levels of evidence for what a client can and cannot afford. Third party stakeholders, including National Energy Action, are concerned about this inconsistency.

The lived experience of energy affordability pressures

In addition to input from stakeholders during National Energy Action's regional fuel poverty forums, much experience underpinning our response to this Call for Input comes from our clients' experiences. Below are a set of case studies recorded by National Energy Action's research team, with adviser testimony included. These cases illustrate examples of how our advisers help distressed clients to navigate stressful circumstances. In all cases, there are examples of the real consequences that affordability and debt issues can have on the physical and mental health of households.

The cases highlight an unfair reliance on third parties to resolve client issues and demonstrates some areas of concern where suppliers are failing to identify and protect vulnerable consumers. In all cases, preventable physical and mental harm was experienced by the clients.

National Energy Action also recently commissioned polling, conducted by YouGov. The polling found that 34% of GB adults say they have found it difficult to afford their energy bills over the last three months.⁷ Our polling found, over the last three months:

- 59% of GB adults say they had rationed their heating, turning their thermostat down lower than they wanted. 16% say they had done so every day, with those in debt to their energy supplier more than twice as likely to say this than those in credit.
- 49% of GB adults say they had gone to bed to stay warm. 19% say that they had done so most days. Those in debt to their energy supplier were more than three times as likely to say this than those in credit.
- 15% of GB adults say they had used an improvised heater at home. Those in debt to their energy supplier were more than twice times as likely to say this than those in credit.

Case Study 1

Alice is a pensioner who lives in a social housing property. After moving into her property two years ago, Alice noticed that every time she topped up her prepayment meter, the amount that appeared on her meter was incorrect. Alice had a strong feeling something was wrong and decided to speak to her energy supplier.

“I knew nothing about the debt, I just kept saying that I don’t seem to be getting my money’s worth of what I am putting in....they weren’t very nice to me, the way they were speaking to me.”

Unbeknown to Alice, £5 was being taken from her meter every week to pay off the previous tenant’s debt, totaling £625 over the two-year period. Over the two years, Alice had also accrued £4,000 of energy debt. Alice was struggling to afford essentials and relied on food banks, and the occasional £20 food voucher from different charities. Last Christmas, Alice received a coat and a new pair of boots for the winter from her family.

“They would give me the odd voucher. That is the way I was sort of carrying on with life.”

After watching Martin Lewis on television, Alice decided to speak to her energy supplier again after finding out that energy suppliers must change debt meters that have been inherited. Alice was told by her energy supplier that it was too expensive to change her meter and that she would have to keep it the way it was.

Alice’s difficulty with her energy debt began to have a profound impact on her physical and mental health. To conserve energy use, Alice would only put the living room light on and, if she woke up during night, would use the torch on her phone to move around her home.

“I was totally depressed. My hair was falling out, I had to go to the doctors for stuff for my hair. I was just in a bit of a suite of panic, and that’s when I said I will have to leave here because the rent went up and I was fighting for my last week of my pension. I was just scraping through the last week.”

After years of accruing debt, Alice decided to get in touch with National Energy Action. Margaret, an adviser, asked Alice to take some meter readings and acted on her behalf with her energy supplier. For the past six months, Margaret has been working with the energy supplier to find a solution.

“She gave me a life at the end of the tunnel because she just wouldn’t give up and they were fobbing her off as well, she had a lot of problems with them saying this and that and she just really stuck to her guns and fought for me. When you have got someone on your side like that, because there is a lot of people like myself that just haven’t really got anyone to turn to and they fob us off. Whereas they were sort of trying to fob Margaret off, but she just wasn’t having it.”

After months of negotiations, Alice’s energy supplier has now agreed to clear Alice’s debt, provide a refund for the money that was taken off to pay for the previous tenant’s debt and an additional £25 for the inconvenience caused. They have also recently replaced Alice’s old meter.

“It is like a big weight has been lifted off my shoulders, finally. And I’m not as stressed.”

However, Alice’s experiences with her energy debt, the cost of living, and the fact that she has lost out on hundreds of pounds worth of income (by being above the pension credit threshold by just £2.50) have meant that she has come to the difficult decision to leave her home. Alice’s housing provider has offered Alice a priority move, and she is currently waiting for a property to become available.

“At the minute, I am still waiting to move, next year the rent can go back, the rent dropped a bit this year but because of the repairs that get done in the building, the rent could jump up again. I am not sort of safe here with the money I am getting.”

Alice believes she ***“must not just be myself, there must be thousands and thousands of single pensioners on their own, living like that, and a lot of people won’t put their heating on.... that’s the way pensioners today are living.”***

Case Study 2

Client: Not really, no, because of the fact that I'd lost my job, and my husband was unable to work due to his medical condition. He tried to work part-time, but he's unable to do that now. So, we were literally- he was moaning, and this is what social services were a bit worried- he was moaning that I wasn't turning the heating on, and it was like neglect. But I said, "We can't afford it." So, we got into a big debt with [Previous Energy Supplier], £1,800 debt that we could not pay for the heating, but we had to put the heating on to keep him warm.

In the end, they didn't support us at all. They weren't listening to the fact that we were on no income, we went through StepChange, Citizens Advice, done a budget, they weren't- they just wanted to pursue it legally. In the end, you guys got involved and applied a grant, so that debt has now been wiped off, I believe, I was told by National Energy Action.

Interviewer: Okay, yeah. When I phoned you the first time, that was the last thing you were waiting on, wasn't it?

Client: Yeah, that's right. Yeah. Yeah, she did ring me and she said, "We've applied it, so you should hear no more." I've had no confirmation from them. What she's done with my new provider is put some money on the account with my new provider as well, to keep us in good steps going forward. My new provider ... have been brilliant. They had touched base with me and said, "Look, the support is there. We've reduced your tariff, but once the money that's been applied has been swallowed, we will talk again." "So, you know, we won't abandon you." So, that's really good news. So, that's been done. That's the final piece of the puzzle that we needed the help with.

Case Study 3

Our adviser met this client at local community centre. She was struggling with numerous issues in her life that mostly centred around her poor physical and mental health. She was unable to work because she was caring for her mother, which meant her income was quite low.

For several months, she had been receiving bills for her gas that seemed impossibly high. Our adviser went through her gas account and saw that her supplier was requesting a payment of over £6500, based on estimated readings. Her meter was in the basement of a block of flats, and she was afraid to go down there for a number of reasons, particularly because it was full of large items that made it very difficult to negotiate a path to it. There were also several meters in there and she didn't feel that she could confidently identify which one was hers.

The bill was so high that she decided to ignore calls from her supplier and not open any letters they would send to her. She was resisting putting her heating on due to the high bills, which meant that her flat was becoming damp and mouldy.

Our adviser went to the property to take meter readings and saw that her meter was displaying a reading that was 10,000 units less than her supplier had been estimating. Looking over her past bills, the worst example was when they estimated that she had used around £1900 of gas in a single month. Meter readings were sent to her supplier, but they insisted on a further reading a month later to prove that they had been incorrectly billing her. A further visit and read of meter showed that she had used three units in a month. This was sent to her supplier and the bill was eventually corrected.

The outcome of this was that the arrears that had previously been £6,702 had now been reduced to £257. The client was assisted in paying this off, (which she was very happy to do) and then a direct debit was set up for monthly payments that she was confident she could manage. Our adviser was then able to arrange for her to have a smart meter installed, which meant she did not have to go into her basement for her readings and could monitor them from the comfort of her flat.

Quote from adviser:

"I was absolutely delighted with this outcome, as I felt sure from the day I met the client that something was amiss with her bills. The relief and joy felt by myself and the client was massive and made a huge difference to her mental health."

Upon the resolution of the case, the client sent this message, ***"it's a huge load off my mind especially after what I have been through the past month . It was a difficult time when the debt racked up during lockdown in a heatwave ? Anyway , thanks so much . I wish I could award you some kind of award and a pay rise 🙏 . You have earned a lot of karma tokens Im sure . Thank you soooo much 😊"***

Q2: What options should be explored to tackle energy affordability?

National Energy Action has been advocating for an enduring mechanism to provide affordable energy bills to struggling consumers for a long time. National Energy Action's preferred mechanism would be the introduction of a social tariff or the expansion of current energy rebates.

Because of record levels of debt in the market, there is also a need for policy support to help consumers pay off their debt. National Energy Action's preferred approach for this would be the introduction of a 'help to repay' scheme, in which the government would match contributions from households.

This Call for Input demonstrates the extremity of the situation with regards to ongoing affordability pressures and still-rising debt levels in the market. It would be remiss not to mention that these forms of policy intervention are needed just as much now as they were in the peak of the energy crisis.

While this consultation focuses on what Ofgem can do, National Energy Action feels it is also important that the input provided by stakeholders is shared with government to ensure government is able to continuously assess the need for intervention. In the consultation document, Ofgem has highlighted that it may be prepared to make recommendations to government based on the responses received. National Energy Action feels this is an important opportunity for Ofgem to publish additional evidence which further highlights the severity of affordability pressures and the deepening challenge of recovering debt.

Energy debt relief policy scheme

Ofgem has the powers to tackle record levels of debt. National Energy Action believes debt should be tackled through the introduction of an energy debt relief policy scheme. There are several routes for what such a scheme could look like and how it would be funded. Ofgem should explore establishing such a scheme without reliance on taxpayer funding in the first instance. While taxpayer funding could be preferential for keeping energy bills down, there are additional practical considerations for securing that funding which could delay or prevent the delivery of support. Below, National Energy Action has included some high-level considerations for the structure and delivery of such a scheme:

- A debt relief scheme would be most effective if it ensured direct financial support to write off the energy debt of individual energy consumers, rather than simply writing off debt from suppliers' financial accounts. Currently, debt allowances in the price cap are collected based on costs suppliers face for servicing debt. Suppliers are able to use this funding to write debt off their books, but it's unclear how such write-offs are passed onto the consumers for whom the debt is non-repayable.
- Direct financial support for debt could take the form of direct debt write-offs or debt repayment matching. Both could be funded either through a levy (including the existing price cap elements that are focused on debt), the Treasury, or a combination of both. It could be allocated through a central funding pool controlled by Ofgem, an independent third party, or government.
- Access to funding would need to be conditional. A central funding pot for debt relief should not replace pressure on energy suppliers to continuously improve debt management practices. Access could be granted following receipt of an application from authorised parties. Authorisation to submit applications should be dependent on a supplier's ability to demonstrate good practice with regard to debt management, with the standards for 'good practice' being determined by Ofgem. Authorisation could also be granted to charities and consumer groups who provide debt support to energy clients.

- To avoid any moral hazard, scheme eligibility should be time limited, determined based on debt built-up during the energy crisis in the first instance. This would remove any risk of deliberate non-payment by consumers who might view the scheme as an opportunity to receive a write-off. An element of eligibility could also be determined using the exemption criteria established as part of the recently established involuntary prepayment meter rules. Suppliers who are unable to involuntarily install a prepayment meter in a household because of those rules could apply for funding through the scheme to write off debt, if the customer was judged to be financially vulnerable (for example, through interrogating their ability to pay back debts).
- Regardless of the funding source for such a scheme, Ofgem could also use funds from the redress scheme to top-up the funding available for write-offs or debt matching.

Fuel Direct

There is also a major opportunity to reduce energy debt for struggling customers and simultaneously improve the operating conditions for energy suppliers. Under their supply licence conditions, electricity and gas suppliers are required to offer domestic customers in payment difficulty a range of options for repayment, including the option of paying via Fuel Direct. Fuel Direct is a budgeting scheme that lets money be deducted directly from a customer's social security benefits⁸ to pay off a debt or energy use to a supplier. A fixed amount is taken directly from the customer's weekly benefits by the Department of Work and Pensions (DWP) and paid to the supplier to help clear a debt. A very similar scheme, Water Direct, is operated by water companies. As with the energy sector, customers generally must be in debt and on benefits for an arrangement to be set up, although some water companies allow customers to continue to use the facility to pay for their utility costs after debts are repaid⁹. Currently, limits apply to the amount which companies are permitted to collect from benefits¹⁰ with five per cent of the standard allowance (plus an estimated amount for current consumption) being netted off for both energy and/or water costs.

The latest data on both schemes is not currently publicly available but by the end of 2019-20, 171,776 customers were paying water charges by Water Direct. This was down by 7% on the previous year. Comparable and up to date information is not currently available for the energy sector but there has been a sharp decline in the number of customers paying via Fuel Direct since a peak in 2011. The numbers of customers have reduced from around 39,000 electricity customers in 2011 to around 27,000 in 2015 and around 42,000 gas customers in 2011 to around 26,000 in 2015 (the last year records are publicly available). Very few customers are paying back debt with Fuel Direct compared to the numbers in debt to their supplier and how few customers appear to be paying back debts with both utilities using both Fuel and Water Direct. This is considered to be due to low awareness among front line staff of the scheme overall, how it operates and in some instances the complexity of making an application. This is, however, also due to the low level of weekly repayments which means debt is sustained over a much longer period. In addition to these historic issues, over the last year, the scheme (along with applications for other third-party deductions) has also been suspended or not actively promoted due to the coronavirus pandemic. This has placed a strain on DWP's Universal Credit Service Centre's administration processes as more than 1.4 million have applied for the benefit for the first time. As a result of this Call for Input, the opportunity to rejuvenate Fuel Direct alongside DWP should be explored.

Q3: What factors should be considered when redistributing costs?

First and foremost, any analysis of whether costs should be redistributed should prioritise consideration for the impact that a redistribution will have on households' ability to afford staying on supply. Prepayment households face the harshest consequences of affordability pressures. An inability to afford energy costs can result in immediate loss of access to energy, meaning that these households could face harm to their physical and mental well-being. While prepayment is a payment method that many households prefer, it is crucial to minimise the direct harm that can emerge from a lost energy supply. Cost redistribution is one tool for reducing affordability pressures on these households, but it must be balanced with other considerations.

One other important consideration for cost redistribution is the impact it might have on a households' perceived ability to consume enough energy for essential purposes. For instance, a redistribution of costs from direct debit households to standard credit households would create a greater gap between the costs of paying for energy between the two payment methods. This will impact households' perception of how much energy they can afford to use, and whether or not to adopt harmful self-rationing behaviours with regard to their energy consumption. Generally, National Energy Action believes that costs should be distributed equally among credit customers to avoid inadvertent pressure on some households to consume less.

The government's fuel poverty data indicates that standard credit and prepayment have a higher proportion of fuel poor households compared to direct debit. Generally, this indicates that lower-income households are more likely to use these payment methods than direct debit. However, direct debit is the payment method that has the highest number of fuel poor households. This makes a redistribution of costs challenging, as every redistribution will create additional affordability pressures for some fuel poor households, whilst reducing affordability pressures on others. Redistributing costs should therefore always aim to create a net benefit for low-income households. This means that redistribution should be underpinned by income-based distributional analysis.

For instance, recent policy changes mean that prepayment households have seen their overall costs reduced through a reduction in standing charges to ensure they are in line with standing charges paid by direct debit households. Ofgem estimates that the redistribution of costs that made this possible will provide £112 million of benefit for low-income consumers, in addition to preventing around £12 million of debt in the market. Given that customers are paying 50p/year to service every £1 of debt, this amounts to a benefit of £6m/year to the whole market. National Energy Action believes that this cost redistribution will provide much needed support for low-income households. Future redistribution of cost considerations should follow a similar approach to analysing the case for change.

Q6: What represents best practice in debt management by suppliers?

Debt recovery approaches often drive disengagement. There is an abundance of evidence that early engagement with households that are struggling to afford their energy costs can prevent bad debt. It is therefore critical that debt recovery approaches are continuously improved and are adaptable to the needs of the households they are targeting. Aggressive communications regarding debt are a particular issue in the current context of high energy prices. Five years ago, a larger proportion of those in debt may have fallen into what's often called the 'won't pay' category. In the context of high energy prices, most people in debt simply cannot afford to pay. If they can't afford it, no value can come from threatening letters. A much softer, proactive and supportive approach is needed.

The recently introduced consumer standards requirements have made improvements in this area. National Energy Action believes that while improvements have been made, there is still inconsistency in how households, and our advisers working on their behalf, experience

engagement with suppliers on debt recovery. We feel that Ofgem must continue to highlight good practice in this area, in addition to reviewing supplier processes where appropriate to ensure that improvements are being made.

It is not just in debt recovery practices that continuous improvement is needed. Our advisers have highlighted the ongoing problem of shock bills and other billing issues which place our clients into a position of financial hardship quite suddenly. Smart meters are an essential tool for offsetting the risks of disengagement. In that regard, the rollout of smart meters continues to be important for reducing the likelihood of billing errors, but it is also important that Ofgem ensures energy suppliers are repairing smart meter issues as they emerge. For instance, where a connection is lost between the smart meter in a household and the Data Communications Company (DCC), there is considerable risk of the household being issued estimated bills without being aware of it. This gives rise to the opportunity for a shock bill once the connection has been restored, which in some cases can take several months.

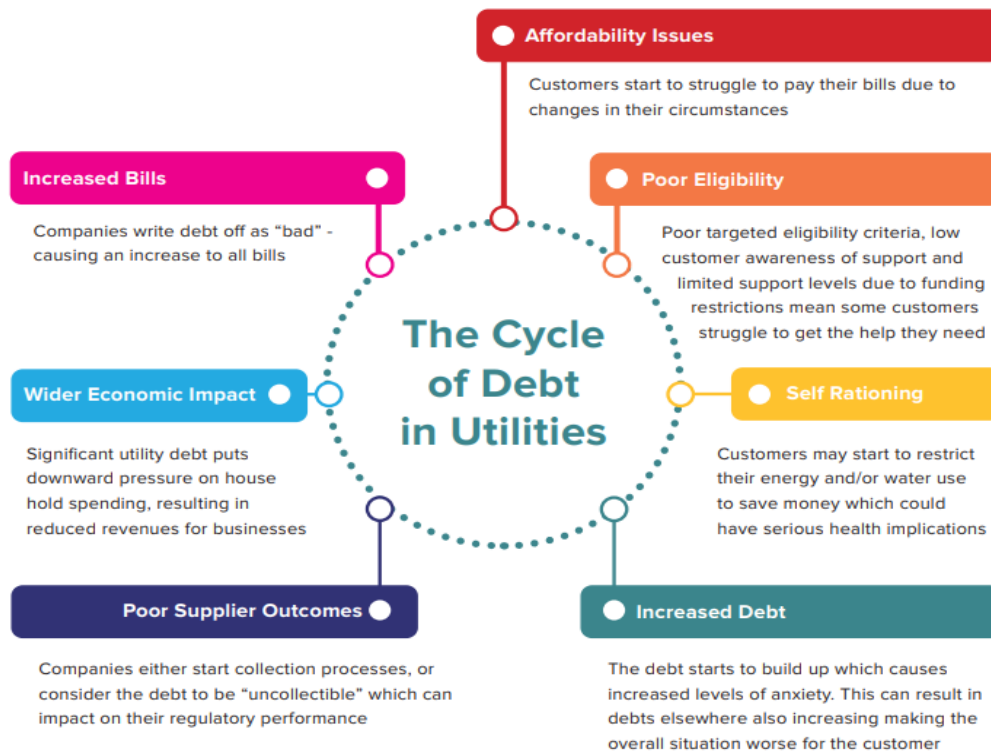
Finally, the threat of a forced prepayment meter installation has been shown to lead to disengagement. Now that new rules have been introduced around the installation of prepayment meters under involuntary circumstances, there is a risk that energy suppliers will adopt different processes for debt recovery with third party suppliers who are not covered by existing regulation on conduct. National Energy Action is keen to ensure that the conduct of all third parties with regards to debt enforcement is sufficiently regulated to ensure consistent experience for consumers who are in debt.

Ofgem has sought a voluntary agreement with energy suppliers at the same time as discussing the need for an additional debt-related allowance. This new agreement, signed by almost all energy suppliers (covering 95% of the market) contains only two new provisions to help with debt.¹¹ While these new provisions are important and welcome, they will not have a material impact on the level of debt in the market. National Energy Action recognises that it is largely out of Ofgem's remit to introduce policies that can reduce the overall level of debt, but it is important to recognise that this consultation cannot provide a solution to the record levels of debt. Ofgem must therefore consider what it is able to do, within its powers as the regulator, to tackle levels of debt in the market on an enduring basis.

Q7: What lessons can we learn from other sectors and countries on managing affordability and debt? And how should they be applied to the energy sector?

Considerable evidence of good practice with regard to debt recovery has emerged from the water sector.¹² National Energy Action feels that innovation, both in terms of debt recovery practices and in the offer of affordability support, is essential. In the water sector, 'restart schemes' are common practice. If you take part, you start a regular payment plan and the payments you make are matched by the water company. If you keep up with the payments, the rest of your debt may be written off. To our knowledge there is little evidence of this approach being taken in the energy sector. Ofgem has a role in ensuring that energy companies can learn from other sectors, such as water, in effectively reducing the debt on their books, in addition to ensuring that they remain financeable through the price cap.

The area in which innovation is needed most is with regard to the identification of vulnerable households. In the water sector, some suppliers are trialling the use of Credit Reference Agency data, with customer consent, to more accurately identify the circumstances of the customer. This allows for easier and more streamlined access to discretionary support (or in the case of the water sector, access to a social tariff). Through existing discretionary support schemes, some energy suppliers are also using smart meter data (especially for smart prepayment households) to proactively identify eligibility for support. One supplier told us that they offer standing charge discounts, non-repayable credits and energy advice to some households without them needing to contact their energy supplier to ask for it. We believe that this kind of practice should be commonplace in the industry.



Description of current good practices for money-matched repayment schemes and payment holiday schemes in the water sector

Debt matching schemes:

- Payment matching schemes encourage customers to keep up a payment plan tailored to their individual circumstances, with the promise to write-off any remaining debt at the end of an agreed period. This encourages healthier payment relationships with their customers.
- The plans often quoted as best practice are:
 - For the initial six-12 months, for every £1 the customer pays the company pays £1, too.
 - From six months (or 12 depending on the company) until the end of the agreed period (usually two years), for every £1 the customer pays the company pays £2.
 - At the end of the agreed period, providing the payment plan has been maintained, any remaining debt is written off.

Payment holidays:

- Customers can apply for payment holidays/breaks with their water company directly.
- Most companies take individual circumstances into account to tailor the arrangement made.
- Payments from the break are spread out across the year, so customers have an opportunity to catch up without experiencing further difficulty.
- At the point of application, if the customer's circumstances suggest a longer-term financial issue, they will be advised that other support services will be better for them as they would not be able to make up their payments in future months. This is also the case if the customer is already in arrears.
- Some companies (not all) may apply an income threshold.

The following table lists the water companies offering payment holidays and payment matching schemes according to the details of the business plans. Though, it is worth noting that other companies may offer these services yet did not explicitly reference them in their plans.

Payment Holidays	Payment Matching
Severn Trent	Anglian Water
Southern Water	Bristol Water
Thames Water	Dwr Cymru (Welsh Water)
United Utilities	Hafren Dyfrdwy
	Northumbrian Water
	Portsmouth Water
	Severn Trent
	South Staffs Water
	Southern Water

References and Notes

¹ For more information visit: www.nea.org.uk.

² National Energy Action also works alongside our sister charity Energy Action Scotland (EAS) to ensure we collectively have a UK-wide reach.

³ All polling information can be found at <https://www.nea.org.uk/news/april-2024-price-cap-debt/>

⁴ Figure is based on estimated aggregate debt allowances under the price cap

⁵ Ofgem, 2024, [Decision on adjusting standing charges for prepayment customers](#)

⁶ Ofgem, 2024, [Decision on adjusting standing charges for prepayment customers](#)

⁷ All polling information can be found at <https://www.nea.org.uk/news/april-2024-price-cap-debt/>

⁸ Arrears that can be recovered under the scheme include housing (for customer's current address) and for rent arrears; fuel costs (for customer's current provider); Council Tax or Community Charges; unpaid fines or compensation orders; water and sewerage charges (for customer's current provider); and child maintenance.

⁹ This is an approach that is supported by National Energy Action and could be standardised across sectors.

¹⁰ The limits on the amount which can be deducted from benefit and paid to creditors in respect of specific items are set out within the following regulations: para 8(4), para 9(6) and para 9(7), Sch 6, Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Claims and Payments) Regulations 2013 SI 2013/380.

¹¹ Energy UK, 2023, [The Winter 2023 Voluntary Debt Commitment](#)

¹² National Energy Action have previously provided evidence comparing practices in the water sector and the energy sector to Ofgem. Upon request, NEA would be happy to resubmit this evidence.