Citizens Advice response to Ofgem's call for input on affordability and debt in the domestic retail market

About us

We can all face problems that seem complicated or intimidating. At Citizens Advice we believe no one should have to face these problems without good quality, independent advice. We give people the knowledge and the confidence they need to find their way forward - whoever they are, and whatever their problem.

We provide support in approximately 2,500 locations across England and Wales with over 18,000 volunteers and 8,650 staff.

Through our advocacy work we aim to improve the policies and practices that affect people's lives. No one else sees so many people with so many different kinds of problems, and that gives us a unique insight into the challenges people are facing today.

As the statutory consumer watchdog for the energy and post industries we have an important role to play in shining a spotlight on the problems consumers encounter, providing solutions to these problems and ensuring their voices are heard when important decisions are made about the future of these essential markets.

Executive summary

Citizens Advice welcomes Ofgem's decision to seek input from a wide variety of stakeholders, and to work with those stakeholders and government on the continued and growing problem of affordability and debt. It's important to note that these problems are in their nature urgent, and also likely to be enduring in the coming years. The evidence demonstrates that for many households the affordability crisis in energy (and beyond) will continue in the medium and longer term. Therefore, solutions will need to be delivered at pace but also designed to address these problems in a sustainable way.

Recent projections suggest that energy wholesale prices will remain above pre-crisis levels up to 2030[1]. In addition, enduring trends beyond energy and the strain on household finances over recent years mean that more people don't have the budgets to cover their essential costs[2]. Planned investments for net zero will also create upward pressure on bills while market reforms may create new distributional impacts. Without action, this could worsen outcomes for low income households and prevent people from engaging with the future market.

It is essential that long-term targeted bill support is put in place to support people going forward. We think the best way to achieve this would be through a tiered Warm Home Discount, with expanded eligibility and differential support based on energy need[3]. Achieving this will require action by the Government. However, Ofgem will have an important role to play in supporting the development, delivery and monitoring of this scheme. We're sceptical that changes at the margins - like reallocating costs from standing charges to unit rates - can significantly improve affordability, and may have unintended consequences for some low income households.[4]

We see Ofgem having a greater role to play in addressing the growing problem of energy debt. People in debt are unlikely to be able to engage with a current and future energy market, and may face worse price outcomes. We oppose Ofgem's proposal to remove the ban on acquisition only tariffs, which will reduce access for people in debt to the best deals with their current supplier.

Ofgem should also take steps to limit the risks of debt building up in the first place, which can be triggered or exacerbated by billing issues. It should ensure it takes all possible steps to ensure consumers enjoy the benefits of smart meters, including improving supplier performance at fixing meter issues and reducing the length of time that people with smart meters can be back billed to 6 months. It should also continue to require more proactive engagement by suppliers with people who are at risk of falling behind on their bills.

The build-up of debt across the system has affected different suppliers in different ways, which could impact market competition and innovation, and lead

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[1] Cornwall Insight (2023) New forecast warns power prices to remain elevated until late 2030s
[2] Citizens Advice (2024) The National Red Index: how to turn the tide on falling living standards
[3] Citizens Advice (2024) Shock Proof
[4] Citizens Advice (2024) Why standing charges are fairer than you might think

to higher prices for disengaged customers.[5] We support Ofgem exploring changes in ways that debt costs are allocated to ensure they're fairly shared. This could lead to more stringent price protection for default products, and also enable more specialisation by suppliers in future.[6] However, there should be strict safeguards in place to ensure that responsible and efficient debt prevention and management practices are being followed.

New rules to control the forced installation of prepayment meters are welcome, and necessary to protect vulnerable consumers from serious harm, but this can create new risks for consumers if suppliers choose to aggressively pursue debts via other means. In our report 'The Debt Protection Gap' we identified examples of good practice alongside identified areas that need addressing[7].

This includes changes to limit the use of court action and enforcement where they put vulnerable consumers at risk of significant harm. Ofgem should also take steps to ensure repayment plans are consistently reflective of people's ability to pay.

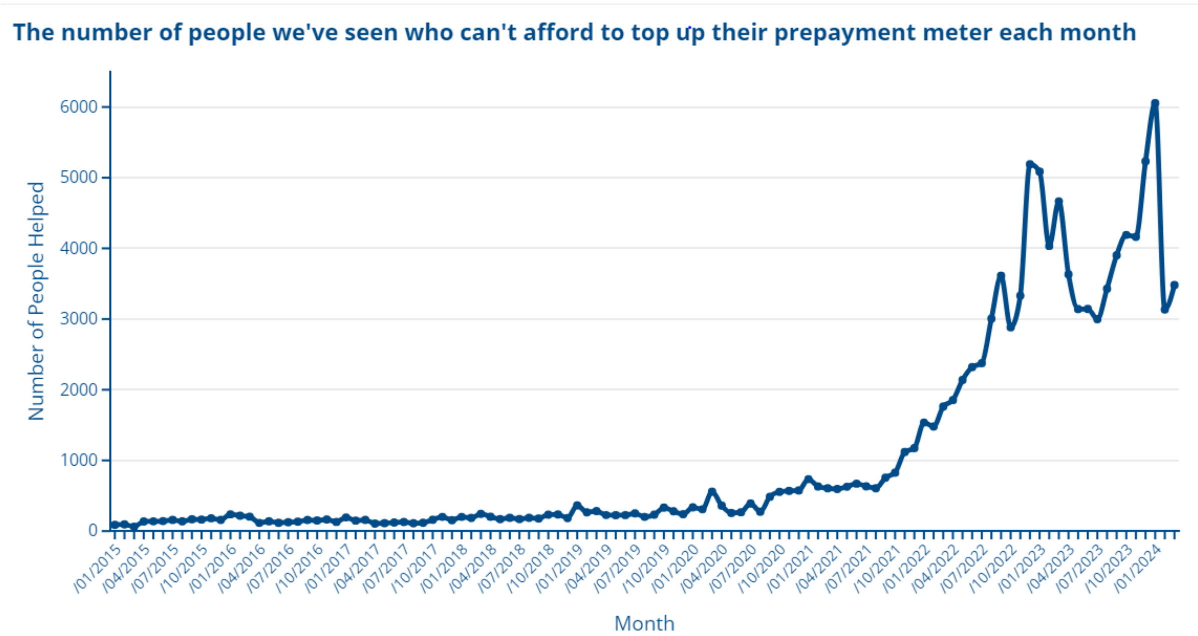
In other areas Ofgem should work with the government to improve support for people in debt. Independent debt advice can take a holistic approach to people's financial situation and develop sustainable solutions with them. However, there is currently insufficient capacity for these services to manage the increased demand, a significant proportion of which has been driven by rising energy bills. It's vital that additional funding is provided to help these services meet demand. There may also be scope to improve other ways for people at risk of debt to pay, such as third party deductions from benefits, which can support consumers when used appropriately.[8]

Below we consider the areas raised in the call for input in more detail. We would also be happy to discuss any of the points raised in this response.

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

[5] See Citizens Advice response to Ofgem's call for input on price protection
[6] Citizens Advice (2023) Ripping off the band-aids
[7] Citizens Advice (2024) The debt protection gap
[8] Citizens Advice (2021) Taking too much?

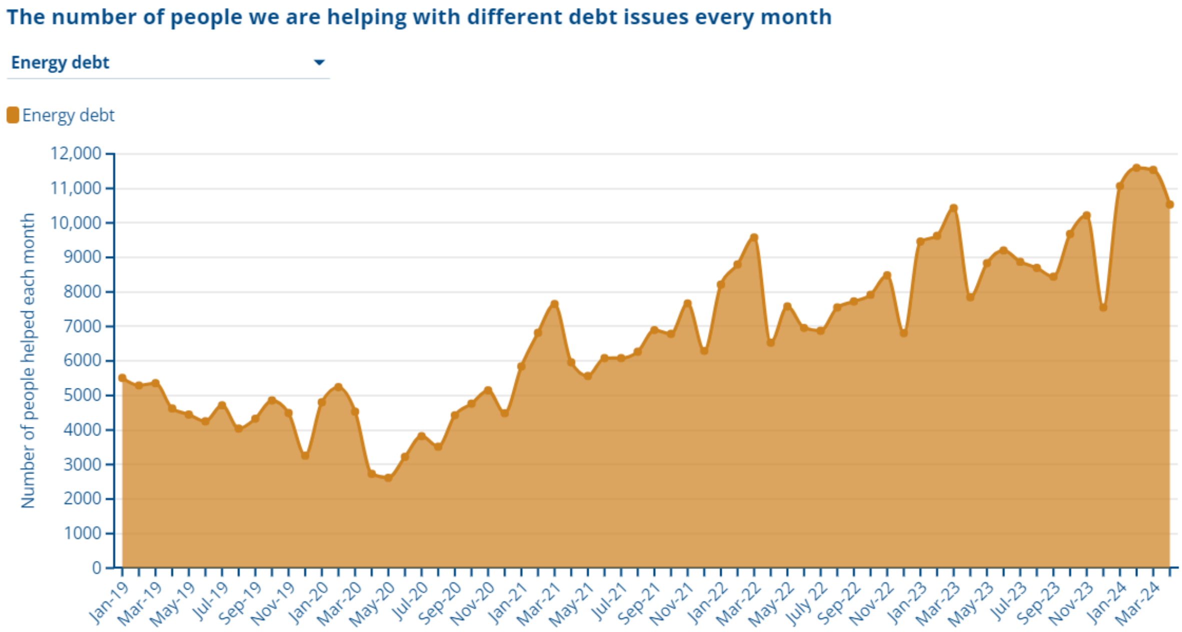
The call for input accurately identifies many of the key drivers of the affordability challenges facing energy consumers. Energy prices started to rise in late 2021, and escalated rapidly with Russia's invasion of Ukraine in early 2023. Policy interventions, such as the Energy Price Guarantee (EPG) and Energy Bill Support Scheme (EBSS), kept average annual bills at around £2,000. However, this still represented a more than 60% increase compared to winter 2021. Although average prices began to fall from late 2023, the removal of government support schemes meant that the affordability crisis continued for average households. And while prices have recently fallen even further, they are still over 30% higher than in Winter 2021. This energy price rise has fed directly into the affordability crisis. The graph below shows the number of people Citizens Advice see every month who can't afford to top up their prepayment meter.[9]



Alongside this acute increase in energy prices, people have been experiencing pressures in their budgets more broadly. Soaring inflation across the board has left millions of households unable to pay for their essential bills. The result is that half the people who come to Citizens Advice for help are in a negative budget - where even after expert advice, they have more going out than coming in. Citizens Advice analysis shows that nearly 5 million people are in a negative budget and building up debt to get by. A further 2.35 million are living on empty - only escaping a negative budget by cutting their essential spending back to

[9] More information about this graph and our other cost of living data trends can be found through our website [here](#).

unsafe levels.[10] This has been a key driver of energy debts, with February 2024 a record month for the numbers of people Citizens Advice helped with this problem[11].



While wholesale energy prices have been the main driver of the affordability crisis, it's important to understand that longer term and systemic problems have exacerbated the problem. The UK's 28.6 million homes are among the least energy efficient in Europe - we estimate that approximately 31 million people live in poorly insulated properties[12], often facing higher energy bills and cold and draughty conditions[13]. Existing schemes aimed at addressing energy affordability are not as effective as they should be. The main scheme - Warm Home Discount - has never been set according to an assessment of consumer needs, and it is clearly insufficient to address the need. Over time, the level of support offered through the WHD has fallen behind both energy costs and wider inflation. In 2014 it was worth 12.5% of the average bill, but now only makes up just under 8%. In recent research, we found that if it had risen in line with average energy costs it would now be worth £240, rather than £150.[14] While the new WHD system targets those with higher energy costs more efficiently, this is not provided to a wide enough group of low income consumers.

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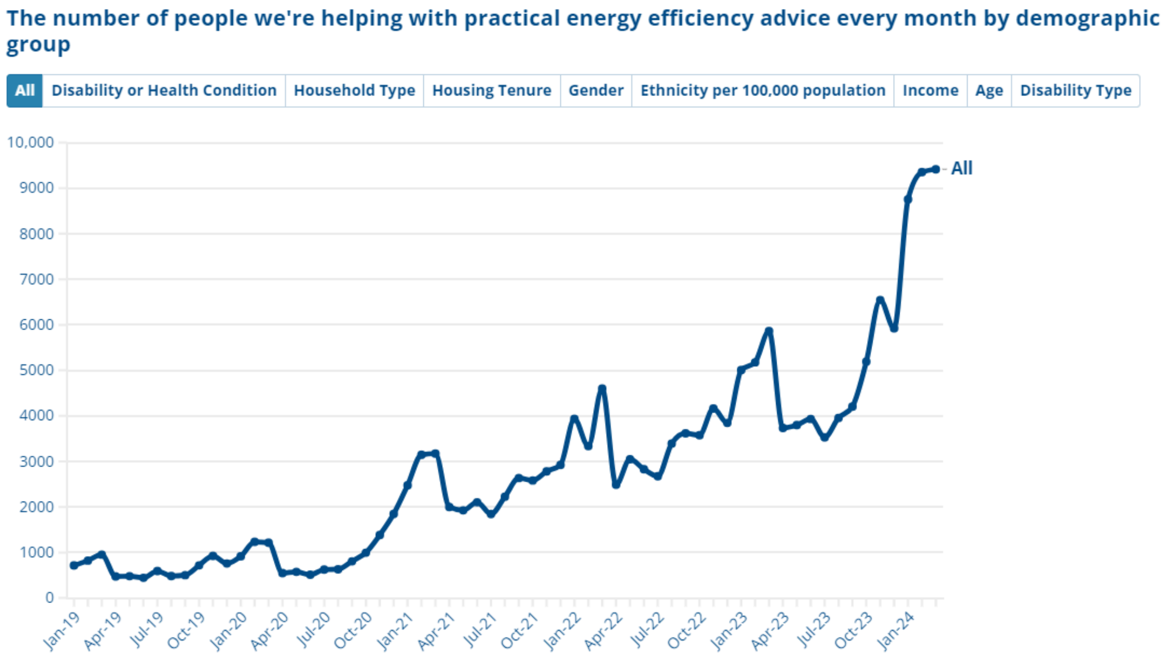
[10] Citizens Advice (2024) The National Red Index: how to turn the tide on falling living standards
[11] Up-to-date data can be found at our website here.
[12] People who live in a house with an EPC rating of D or lower.
[13] Citizens Advice (2023) Home advantage: Unlocking the benefits of energy efficiency
[14] Citizens Advice (2024) shock proof



As you note in the call for input, total energy debt and arrears has increased by about 50% from roughly £2bn to £3bn in the last 12 months[15]. In February 2024, Citizens Advice helped record numbers of people with energy debt, while the average level of energy debt (£1,809) is the highest on record.[16] While action was necessary to address the increase in debt, the decision to increase the bad debt allowance in the price cap has added a further £28 to an average customer's annual bill.

This April, average energy bills fell from £238 to £1,690, with current predictions from Cornwall Insight that they will fall by around £100 from July and will remain around this level into early 2025[17]. While this is welcome news, average annual energy bills will still be around 30% higher than winter 2021. Medium and longer-term projections from Cornwall Insight show that we can expect prices to remain well above pre-crisis levels up to 2030.[18]

Even if energy prices fell back to winter 2021 levels, it doesn't follow that people's ability to pay for their energy would also return to pre-crisis levels. The strain on household finances caused by the last 2 and a half years means that

[15] Ofgem (2024) Affordability and debt in the domestic retail market - call for input
[16] Up-to-date data can be found at our website here.
[17] Cornwall Insight (2024) Predictions and insights into the default tariff cap
[18] Cornwall Insight (2023) New forecast warns power prices to remain elevated until late 2030s

people have fewer savings to fall back on. This is demonstrated by the 5 million people in the UK currently in a negative budget. Evidence from our national red index research demonstrates that beyond energy prices, key drivers of strained finances are: real-term benefit cuts, stagnating wages, and high housing costs.[19]

Additionally, alongside volatile gas prices going forward, infrastructure investment in the coming years is likely to put upward pressure on energy bills. Also, while Marketwide Half Hourly Settlement (MHHS) will make energy more affordable for some consumers, there is a risk that others face higher prices[20]. Possible changes in how policy levies on energy bills are collected could incentivise take up of heat pumps, but also lead to higher costs for people who use gas heating. Further reforms to encourage more time of use pricing, and more location-based pricing are also being considered[21].

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

More will need to be done going forward to tackle the crisis of affordability. We accept that the scale of the problem is beyond Ofgem's powers to address, with the ultimate responsibility lying with the government. In January of this year, in our Shock Proof report, we put forward evidence that existing bill support schemes were falling far short of what's needed to support people going forward. Expanded targeted support is the best way to achieve this in a cost-effective way, and it should be designed to be responsive to volatile energy prices.

In 'Shock Proof', we proposed that the best way to achieve this would be through a tiered Warm Home Discount, with expanded eligibility and differential support based on energy need[22]. This could provide support of up to a third of a typical bill (recently estimated at around £600[23]) to low income households with the highest energy costs. It would be more tailored to needs and avoids steep

[19] Citizens Advice (2024) The National Red Index: how to turn the tide on falling living standards
[20] Citizens Advice (2024) Don't settle for second best
[21] Citizens Advice (2023) It's all about location - Will changing the way we price electricity deliver for consumers?
[22] Citizens Advice (2024) shock proof
[23] Citizens Advice (2024) shock proof

thresholds for eligibility by providing a lower level of support to those on low incomes with lower energy costs.

Given that our proposal is designed to be responsive to changing energy prices, the overall cost of the scheme will change according to energy prices as well. When we first proposed the scheme back in January, we estimated the total cost of delivering a tiered WHD scheme at around £1.9 billion[24]. While this is a substantial cost, it is worth considering that the cost of inaction is greater. As Ofgem figures show, in the last 12 months alone, debt and arrears have increased by around 50% to £3bn[25]. It is also worth noting that the total estimated cost of the Energy Price Guarantee (EPG) and Energy Bill Support Scheme (EBSS) is now estimated to by £35 billion[26]. Putting in place targeted bill support that is responsive to fluctuating energy prices will be more cost-effective and provide greater support in the long-run.

Addressing the affordability crisis will also be an essential enabler of the net zero transition. Without action, consumers with debt could be prevented from switching and engaging with new innovative tariffs and services. Additionally, installing new technologies, like heat pumps and solar panels, will require upfront investment from consumers. While billions of pounds have been invested into market reforms designed to unlock domestic flexibility needed to support the transition to net zero, this won't work without action to ensure people can access these services[27]. Providing long-term targeted bill support to people who need it the most would ensure that people have the ability to engage with the market, taking up innovative services and making necessary investment in new technologies.

As discussed, providing a long-term sustainable solution to the energy affordability challenge sits with the Government, not Ofgem. That said, Ofgem will have a significant role to play in supportive expertise and monitoring supplier compliance with any scheme. In our opinion, Ofgem has a greater role to play in addressing the growing problem of energy debt, and we address this in greater detail later in our response.

[24] Citizens Advice (2024) shock proof
[25] Ofgem (2024) Affordability and debt in the domestic retail market - call for input
[26] Office for Budget Responsibility (2023) The cost of the Government's energy support policies
[27] Citizens Advice (2024) Don't settle for second best

In the absence of further targeted bill support, there are measures that Ofgem can (and should) take to ensure that suppliers are doing all they can to support customers. This is particularly true in the case of customers in vulnerable circumstances. We know that accurate billing is an essential way for suppliers to catch affordability issues early, and good customer service is an essential way to help consumers to catch affordability problems early, and set up affordable repayment plans. Therefore, it is concerning that under the new methodology for our customer service star rating, the majority of suppliers scored less than 3 out of 5 stars[28]. While Ofgem has already put in place measures to compel suppliers to improve their customer service, more needs to be done to support customers going forward.

In theory, smart meters provide an improvement to the billing process, including an end to estimated bills. This should protect consumers by preventing them from receiving large catch-up bills which could leave consumers in arrears which are extremely difficult to repay. Too many smart meters aren't working correctly, which means they might not be sending billing information, which the consumer may not be aware of. New guaranteed standards of performance would be one way of addressing this problem in the longer term. In the short term, Ofgem should also change the amount of time that suppliers can back-bill customers from a year to 6 months. The previous threshold was designed at a time when most customers had traditional-style meters, so reducing the threshold would incentivise suppliers to ensure smart meters are functioning properly if they stop working, and to proactively inform people if they need to provide manual meter readings in the interim[29].

In the longer term, more work will need to be done to improve service standards and protection, which will be essential if people at risk are to be supported. One way that this could be done is through an upgrade of energy retail regulation based on the Financial Conduct Authorities' (FCA) new Consumer Duty, to deliver higher service standards and protections[30]. This would put the onus on firms to focus on real world consumer outcomes - including requirements for fair pricing - which will be particularly necessary as we move to a more complex, digitised energy system.

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[28] Citizens advice (2024) Compare energy suppliers' customer service
[29] Based on forthcoming research by Citizens Advice
[30] Citizens Advice (2022), Raising the bar

With rising energy bills correctly at the forefront of Ofgem's considerations, reforming standing charges is one area that is being looked at to bring down costs. However, as we've argued, reducing standing charges would achieve relatively low savings for consumers. Additionally, some vulnerable and low income consumers would face even higher costs than they do today[31]. Instead Ofgem should ensure that costs are reduced by ensuring that network profits are fair, that supplier operating costs are efficient, and by reducing the risk of supplier failure in the future.

Q3 - What factors should be considered when redistributing costs?

The primary consideration on affordability and debt concerns should remain on those consumers who are struggling to afford their energy, and to help those who have fallen into debt. However, the build-up of debt across the system has also led to broader financial impacts on consumers, which is unsustainable in an environment where so many are already struggling to pay for the essentials. We also recognise that the additional strain caused by a build-up of bad debt in the system could impact competition and increase the chance of supplier failure, which would ultimately lead to greater costs to consumers.

We acknowledge that socialisation of debt through the price cap has been necessary to address rising debt levels within the energy system. However, as the call for input acknowledges, addressing bad debt in this way is imperfect. Therefore we support Ofgem's decision to review whether this is the best option going forward. One particular problem of socialisation this way is that costs are not evenly distributed among consumers nor among different energy suppliers who have different customer bases.

This means that active consumers who switch away to suppliers with fewer customers in debt will pay a lower share of debt costs which were built up during the energy crisis. As consumers in debt can be blocked from switching away they may face increasing costs if the price cap continues to rise, which they have no way to reduce. Ofgem's proposal to remove the Ban on Acquisition Tariffs (BAT) could make this even more acute, by limiting their access to better

[31] Citizens Advice (2024) Why standing charges are fairer than you might think

deals with their existing supplier. We will respond in more detail to Ofgem's consultation on removing the BAT.

One possible alternative would be to administer the fund through a levy via a central body. This could be paid by suppliers monthly based on customer numbers at a particular point in time, or based on consumption level data. The amount would be set by Ofgem for a set period of time, with a set advanced notice period. Suppliers would then be paid by the central body to suppliers in order to account for bad debt. There is also the potential to adjust how the amount should vary based on the different customer or payment types that make up a supplier's customer base. As with socialisation through the debt cap, this would be based on the costs an efficient supplier would be expected to bear.

The advantage of the above approach is that it would theoretically distribute costs and funds more accurately based on different customer bases, and ensure that all consumers contribute towards the cost of debt. This would also enable the price cap to be set more stringently, providing a wider benefit to all consumers on default products.

However, as with the current price cap model, a crucial question is how to decide what constitutes efficient costs. In our response to Ofgem's consultation on additional debt related costs earlier this year, we raised a number of concerns about the methodology used to estimate efficient costs, and suggested several changes that Ofgem could make to avoid the risk of suppliers being unfairly compensated[32]. One potential solution would be to make access to the fund dependent on suppliers being able to demonstrate that they are meeting certain key debt management criteria, although the efficacy of this approach would depend on the details.

This type of approach could also be a building block to enable more specialisation by suppliers, by enabling Ofgem to reform the Universal Service Obligation while ensuring firms continue to pay a fair share of the social cost of energy debt and can compete on a level playing field. We explored these issues

[32] Citizens Advice (2024) Citizens Advice response to the Ofgem consultation about an additional debt-related costs allowance in the default tariff cap

further in our report 'Ripping Off the Band-Aids'[33]. While this type of solution would help address the additional costs faced by suppliers and mitigate broader market impacts, they won't provide additional debt relief to consumers.

Some further options could help ensure that more support reaches consumers. One would be a debt pool which suppliers could bid into in order to provide debt relief for consumers, dependent on suppliers evidencing good debt management practices. Another would be a data matching scheme, where the government agrees to match consumer contributions towards debt. However, this would depend on additional funding from the government. Further consideration would also be needed on how any transition from the current approach could be managed, given the need for suppliers to continue to finance their bad debt costs. Given that the rapid escalation of energy debt is primarily caused by the affordability crisis, addressing the root causes of debt through a targeted bill support scheme would be a more effective use of government funding.

Additionally, there are administrative challenges related to seeking to write off debt for individual consumers and risks that approaches which write off energy debt may not lead to positive consumer outcomes if they don't account for people's wider financial needs. Therefore, in all circumstances better funding for independent debt advice is needed to support people with both energy debts and wider debts.

It's worth noting that debt-related costs allowed for in the price cap and actual debt practices are not directly linked. The price cap simply provides an incentive to minimise debt-related costs. Separate obligations ensure that debt practices are appropriate.

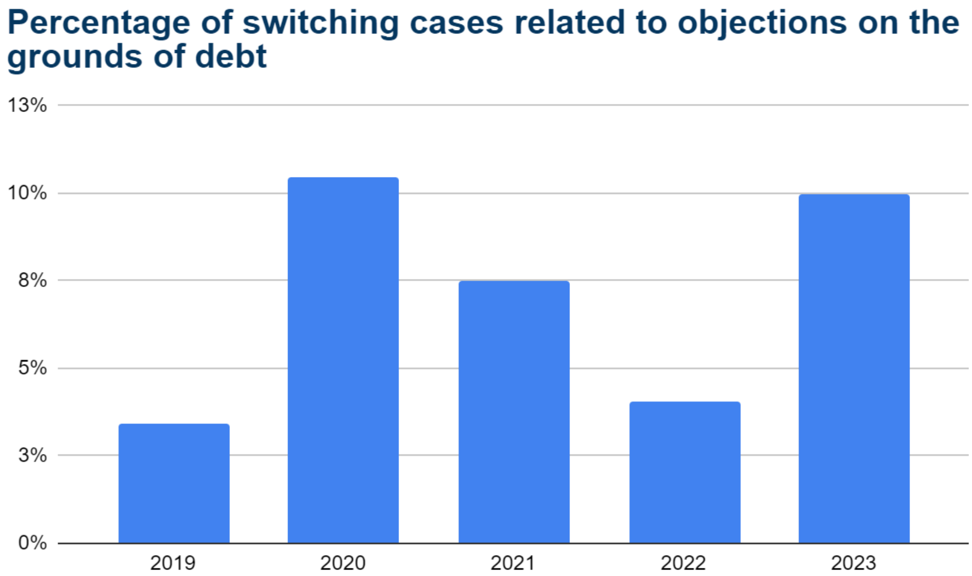
Q4: To what extent is debt a factor that puts suppliers off taking on new customers or offering certain types of services and tariffs to them?

Evidence from Citizens Advice consumer service demonstrates how debt can prevent the ability of consumers to engage in the energy market. Current rules mean that consumers with a credit meter may not be allowed to switch suppliers if they have been in debt for more than 28 days, and prepayment

[33] Citizens Advice (2023) Ripping off the band-aids

consumers may not be able to switch if they owe their supplier more than £500 for gas or electricity. Prepay customers who owe under £500 should be able to switch under the Debt Assignment Protocol, although the success rate for this is low.

We receive a steady stream of cases at Citizens Advice where consumers are blocked from switching. The graph below shows the percentage of Citizens Advice Consumer Service switching cases which related to supplier objections to switches due to debt, with these cases accounting for 10% of overall cases our advisors deal with relating to switching.



As the average number of people in energy debt and the average size of that debt continue to increase, we expect more and more people to be unable to engage in the market and switch suppliers. This is a problem not only for individual consumers, who are unable to access certain tariffs that are more affordable or suited to their needs, but also inhibits competition across the market. The divergence in outcomes between those with debt and those without may grow if wholesale prices fall further and more competitive offers come to market, and if Ofgem proceeds with its proposal to remove the BAT.

While suppliers may seek to prevent consumers in debt from switching away, some suppliers may also seek to limit how many consumers they take on who are financially 'risky'. This includes steps allowed in regulation, like requirements for security deposits or credit checks for certain products. We have previously raised concerns that suppliers are able to take other steps to reduce their exposure to certain types of customers they take on - for example, by not offering prepay services or making the sign up process for these customers more challenging than for other customers.[34]

Q5: With reference to the themes and indicators in our Competition Framework, to what extent is the affordability of energy and the build-up of legacy debt affecting competition and innovation (including new entry) in the domestic retail market?

As the call for input notes, consumer engagement and empowerment will be central to achieving net zero. Bad debt is likely to be uneven across suppliers as a result of different customer bases. This could make it difficult for certain suppliers to continue to compete, and could make the market less attractive to new entrants if they perceive certain consumers to be loss making. High levels of debt could also undermine net zero goals by preventing suppliers from innovating and investing.

Higher levels of debt will also inhibit individual consumers' ability to engage with net zero products and services. With reference to Ofgem's competition framework, this will affect consumer empowerment, namely their ability to react to offerings by shopping around to find the best deal. Individual consumers will be unable to engage with new tariffs, such as dynamic tariffs, if they are prevented from switching suppliers due to debt. Installing new technologies, such as heat pumps or solar panels, will require upfront investment from consumers. Consumers with energy debt may be financially unable to engage with these products or services, or lack the confidence to engage with them.

In our recent report 'Don't settle for second best'[35], we argued that while billions of pounds have been invested into market reforms designed to unlock domestic flexibility needed to support the transition to net zero, this won't work without action to make those services work better for people. Providing long-term targeted bill support to people who need it the most would ensure that people have the ability to engage with the market and take up ToU tariffs where they would benefit from doing so. Longer term, an upgrade of energy retail regulation based on the FCA's new Consumer Duty could deliver higher service

[34]Citizens Advice (2021) [Market Meltdown]
[35] Citizens Advice (2024) [Don't settle for second best]

standards and protections and put the onus on firms to focus on real world consumer outcomes. This could help people to overcome information asymmetries and force firms to make full use of all available data to understand consumer impacts.

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

This call for input highlights many of the examples of good practice and areas of concern regarding debt management addressed in our recent report, the Debt Protection Gap[36]. We see a wide variation in supplier performance related to debt collection practices, and a number of areas where practices can improve. It is vital that Ofgem's work seeks to close the performance gap between suppliers and drive up standards across the industry. To achieve this Ofgem should:

- Ensure all suppliers are following the licence conditions around offering customers affordable repayment plans.
- Issue guidance on the appropriate situations in which suppliers should use Debt Collection Agencies.
- Introduce rules to limit the use of court action and enforcement where they put consumers at risk of significant harm.

Ofgem and the Government should also consider the role of third party deductions (also known as Fuel Direct). We're aware that changes in the scheme have made it harder to operate, but previous Citizens Advice research showed it could have benefits for some consumers where used appropriately and with informed consent.[37]

Below we discuss three areas in the debt journey where suppliers can follow best practice to prevent debt build-up and to support customers in debt: following proactive strategies to support consumers at risk of falling in to debt; engaging consumers in debt and supporting them to set up affordable repayment plans; and following responsible debt collection and enforcement practices.

Debt Prevention

[36] Citizens Advice (2024) The debt protection gap
[37] Citizens Advice (2021) Taking too much?

Many people who come to Citizens Advice have fallen into energy debt because of inaccurate billing or shock bills. As energy prices have increased, the amount of money that suppliers bill for has also increased, reducing the effectiveness of current backbilling rules. We are particularly concerned about the impact of shock bills on people's ability to keep up with bills.

In cases where large shock bills occur, it is important that suppliers reach out to their customers when there are early warning signs they are struggling, rather than waiting for people to fall further into debt. It is clear that earlier intervention can prevent a customer's situation becoming worse. It can also foster a supportive relationship between customers and energy suppliers, meaning people are more likely to engage with their supplier if their financial difficulties continue. Triggers that suppliers should look out for include:

- If there is a variance in direct debit amounts or payment schedule
- If there's a history of occasional missed payments, or
- If based on usage patterns an account is about to fall into debt.

Many suppliers also have schemes where they proactively reach out to vulnerable customers to offer them support, including offering one off financial support, a debt write off, or a discount on their energy bill over the winter.

Debt Management

The most important part of managing debt appropriately is ensuring consumers have an affordable repayment plan in place with their supplier. Ofgem has clear rules that when agreeing a repayment plan the consumer's ability to pay must be taken into account. Despite this we see evidence that not all consumers are being offered affordable repayment plans. Recent research conducted for Ofgem and Citizens Advice has shown that, of the consumers who have spoken to their supplier because they've fallen behind on bills:

- 1 in 5 (20%) say that their supplier didn't resolve their issue.
- 1 in 7 (14%) said that the debt repayment plan offered to them didn't suit their needs.[38]

[38] Ofgem and Citizens Advice (2024) Energy Consumer Satisfaction Survey: August to September 2023

We also found that 1 in 10 (9%) consumers who have discussed their repayment plan with their supplier say they weren't asked how much they could afford to pay.[39]

Ofgem have recently strengthened the rules on offering affordable repayment plans by adding a requirement for suppliers to offer payment holidays where appropriate. This should further ensure that consumers are offered affordable payment plans but these rules will only improve outcomes for consumers if they are appropriately enforced. Ofgem needs to make sure that all suppliers are following the licence conditions around offering customers repayment plans according to their ability to pay. Ofgem may need to consider repeating a Market Compliance Review of suppliers' support for their customers in payment difficulty.

This Call for Input also highlights the way credit information can be used by suppliers. We are aware of issues where consumers with low credit scores are blocked from switching payment methods or are asked to pay a high security deposit. Where suppliers do use credit scores, it's imperative that this is done fairly, and that where a smart meter is installed a lower threshold is applied to reflect that they can manage risk better on an ongoing basis.

We are also aware that some suppliers use information from credit reference agencies to identify customers who may be more likely to encounter payment difficulties. These suppliers then use this information to proactively contact these customers and offer them additional support. We are supportive of suppliers using all available data to sensitively target communications and support to those customers who are more likely to fall behind on their bills

Debt Enforcement

We are concerned about the effect aggressive debt enforcement methods can have on consumers in vulnerable situations. This includes the use of Debt Collection Agencies (DCAs) against consumers in vulnerable situations and the use of court enforcement action, particularly where the debt journey escalates

[39] Ofgem and Citizens Advice (2024) Energy Consumer Satisfaction Survey: August to September 2023

quickly to this point or where court action is taken against consumers in vulnerable situations.

There is a wide variation in practice in how suppliers use DCAs, and at what point in the customer journey. We see many cases where a consumer has had contact from DCAs despite attempts to agree a payment plan with their supplier. These consumers may then feel forced into agreeing to an unsuitable payment plan due to contact from a DCA. Of the people who contact us about issues with a DCA:

- Over 1 in 5 (22%) are in a vulnerable situation, such as having a physical or mental health condition.
- Around 1 in 12 people (8%) said that contact from a DCA had a negative impact on their wellbeing or made them feel intimidated.
- 1 in 20 people (5%) said that contact from a DCA made them feel forced into agreeing to an unsuitable payment plan.[40]

We are aware that some suppliers follow good practice and do not use a DCA if they know the client is in a vulnerable situation. However some suppliers consider that using a DCA is an important way to engage with customers who aren't replying to communications. However given the potential detriment, careful consideration about how and when DCAs are used is needed.

To address these risks, Ofgem should issue guidance on the appropriate situations in which suppliers should use DCAs. This guidance should focus on highlighting examples where it may not be appropriate to use DCAs. For example this may be because the consumer is still engaging with the supplier to try and agree a repayment plan, or because the consumer is in a vulnerable circumstance, such as having a mental health problem, which could be made worse by contact from a DCA.

Energy debt is not covered by the Consumer Credit Act. This means DCAs that are employed to help collect energy debt do not have to be regulated by the FCA. Further guidance from Ofgem on how suppliers should use DCAs would help close the protection gap consumers face in this area.

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[40] Citizens Advice (2024) [The debt protection gap]

We are also concerned about the use of court action to recover energy debt. Though the overall numbers are still relatively low, since the start of 2023 we have seen an increase in the number of people coming to us for help because their energy supplier is pursuing court action against them for their energy debt. We are concerned about this trend as sometimes court action is used against consumers in vulnerable situations who have difficulty engaging with their energy supplier.[41]

Court action can lead to significant further detriment for consumers who are already in vulnerable circumstances. Additional fees can be added to their debt. Consumers may find it difficult to understand and respond to the court forms they receive as part of the CCJ process, and because of its formal, legal nature, court action can significantly increase the stress and anxiety associated with debt.

We are concerned about the relatively few consumer protections that exist around the use of court enforcement. The rules around involuntary prepayment installations give clear categories of when a supplier should not install a prepayment meter and where they should make sure extra care is taken. No similar rules exist for the use of court enforcement, despite the high detriment that these types of cases can cause. There have been industry commitments that address some of our concerns, however these commitments do not cover all of the energy suppliers in the retail market.

Due to the high level of detriment involved in these cases, we recommend that Ofgem introduce rules on the acceptable use of court action and high court enforcement. These rules should:

- Set out the groups of people who a supplier should not use court action against. This should include consumers who would have difficulty engaging in a court process such as people with a severe physical or mental health condition, like dementia or a terminal illness, as well as where the supplier is aware the consumer doesn't have the means to repay their debt.
- Increase requirements to make proactive communication attempts with consumers ahead of court action.

[41] Citizens Advice (2024) The debt protection gap

- Require that suppliers' policies on using court enforcement have board level sign off. This would make the Energy UK Winter Debt Commitments permanent and mandatory for all suppliers, ensuring better oversight on how this type of debt recovery is being used across the industry.
- Ensure that there is senior level sign off when suppliers use enforcement via HCEOs.
- Ensure that where suppliers do use high court enforcement that they only use firms accredited by the Enforcement Conduct Board.

Ofgem should also improve monitoring of how energy suppliers use court action to recover debt. This could be achieved through adding additional reporting requirements to the existing Social Obligations Reporting.

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?

We encourage Ofgem to learn lessons on what works from other countries and sectors. However, it's also important to recognise that different contexts are likely to significantly alter which options are appropriate, including key aspects of market design like universal service obligations (or lack thereof), ability to switch providers, wider profitability, benefit levels, etc.

The possibility of social tariffs as a tool to provide targeted support to people in need is something which Citizens Advice has been exploring across different markets, and there is evidence to suggest that this could have a powerful impact[42]. In energy, an extended and expanded tiered Warm Home Discount would be the best way to provide this support in the immediate to medium term. It's worth noting however, that additional funding would need to be found to provide this type of relief. We explore options like reallocating funding from Winter Fuel Payment or renewable levies in our report Shock Proof.

In the longer term, more work will need to be done to improve service standards and protection, which will be essential if people at risk are to be supported. One way that this could be done is through an upgrade of energy retail regulation based on the Financial Conduct Authorities' (FCA) new Consumer Duty, to deliver

[42] Citizens Advice (2023) Households are living on empty - can social tariffs reduce the pressure?

higher service standards and protections[43]. This would put the onus on firms to focus on real world consumer outcomes, which will be particularly necessary as we move to a more complex, digitised energy system.

Please feel free to contact me if you have any further questions about this response.

Regards
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[43] Citizens Advice (2022), Raising the bar