

# Risky Business?

How the energy debt protection gap is putting the pressure on small businesses



## Executive summary

The cost of living crisis has hit microbusiness energy customers hard, leaving many struggling with rising energy debts.

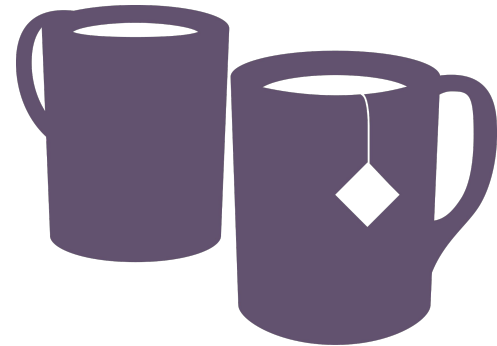
However, these customers don't have many protections that focus on debt and disconnection practices, allowing space for poor practices.

We have analysed our own case data alongside information from energy suppliers to show how some of the nation's smallest businesses can be pushed to a financial brink by unfair debt collection practices.




This report highlights 3 main ways that the current lack of rules impact consumers. We have also put forward recommendations for how Ofgem and energy suppliers can help keep viable traders open for business.

### What is a microbusiness?

A microbusiness has fewer than 10 employees and turns over less than £1.8 million. The energy regulator Ofgem also uses energy use to categorise businesses. Citizens Advice is currently the official consumer body for microbusiness energy consumers in England and Wales, so our analysis is based only on data from these smallest businesses. Throughout the report, microbusiness consumers are also referred to as non-domestic consumers, businesses and small businesses.



There are three main gaps in current debt protections that are cause for concern. This table shows how a lack of rules impacts businesses who come to us for help:

Protection Gap	Impact
<p><b>1. Inconsistent billing can cause debt to rack up:</b> Under current rules, suppliers don't have to bill business customers monthly, meaning some businesses only receive a bill or statement of account twice a year. Infrequent bills can cause debt to rack up without the business knowing.</p> 	<p>Over 3 in 5 people who contacted us about a debt issue also reported a billing issue, often receiving large, confusing catch-up bills after months of no contact.</p>
<p><b>2. Debt and disconnection practices aren't covered by the fairness principle:</b> Under a rule called <i>Supply Licence Condition 0A (SLCOA)</i>, suppliers are obliged to treat their business customers fairly. However, debt and disconnection practices are not covered by SLCOA. We're concerned that some suppliers don't treat their customers with the fairness we would expect. For example, suppliers don't have to offer a repayment plan to a customer in debt, or give consideration to what a customer can sustainably pay.</p> 	<p>Almost half of the cases we saw concerning people contacting us in need of a repayment plan for their debt had tried to arrange a repayment plan, but had this rejected by their supplier. Suppliers often ask for large upfront payments instead of a repayment plan, which can put viable businesses at risk.</p>
<p><b>3. Debt collection agencies can't be held to account:</b> Unlike in the domestic market, SLCOA also doesn't extend to any third parties that suppliers might work with - including <i>debt collection agencies (DCAs)</i>. This means that suppliers can't be held accountable if DCAs break the rules, or treat businesses unfairly. It also means that suppliers can lack oversight of their own debt collection processes.</p> 	<p>For example, around half of the suppliers we surveyed weren't able to confirm disconnection or reconnection fee amounts, despite our case data showing that customers being charged one. Outsourcing debt collection activity also means that suppliers have less oversight of the process as a whole.</p>

## Illustrative Debt Journey: Michael\*

Michael owns a small corner shop. He pays his energy bills via direct debit, and he receives a bill from his supplier once every 6 months. This journey shows how a lack of debt protections can have real-life impacts on businesses.

1

### Michael sets up a direct debit with his supplier based on estimated usage.

However, he is not sent a bill or statement of account for the next six months.

2

### Michael begins to accrue debt.

Because Michael is paying by direct debit and he hasn't had any contact from his supplier, he doesn't realise that he's accruing debt until he receives a large catch up bill.

3

### Because he wasn't aware of the debt building, Michael did not reach out

to his supplier to arrange an affordable repayment plan.

5

### Instead, Michael's supplier asks him to pay 50% of his debt up-front.

In cases we examined where a customer was asked to make an upfront repayment, 71% of clients were asked to pay 50% or more of their debt before a repayment plan could be agreed.

4

### Once aware of the debt, Michael asks his supplier if he can set up a repayment plan, but this request is denied.

In cases we examined where a customer was in need of a repayment plan, we found that 49% of clients who tried to arrange a plan had their offer of the plan rejected.

6

**Michael cannot afford this.** His supplier moves forward with the disconnection process, and passes Michael to a third-party debt collection agency.

7

### Michael receives just 24 hours' notice that he will be disconnected.

In cases we examined where clients were disconnected from their energy supply, 23% told us they did not receive statutory notice period (7 days) from their energy supplier before disconnection was carried out.

## Conclusion

Michael has been disconnected from his energy supply, and he is now unable to run his business. As a result, Michael has no income, but he still owes his supplier money.

\*Michael's story is an illustrative debt journey based upon common themes we see in micro business contacts to Citizens Advice.

Many suppliers treat their customers in debt fairly. However, poor practice is still too common, creating inconsistent and stressful experiences for customers. We want to see Ofgem take the following steps to ensure customers get consistently good service, improving consumer trust and making sure the non-domestic market is fit for the future:

**Ofgem should introduce new rules that will ensure small businesses get regular energy bills. This will help consumers keep on top of their usage and stop debt racking up.**



Ofgem should introduce new rules requiring suppliers to provide bills to businesses at least quarterly, and to provide final bills within 6 weeks. Energy suppliers should help ensure that customers have enough information to keep on top of their energy bills.

**Ofgem should expand current rules on treating customers fairly. This will ensure that customers in debt are given a fair chance at getting back in the black.**



Ofgem should amend SLC0A to include debt and disconnection in the Designated Activities. This will introduce an obligation on suppliers to treat consumers in debt fairly. New guidance should be introduced setting out expectations on how this SLC should be followed. Based on existing good practice expectations, this guidance will encourage suppliers to treat consumers fairly by considering reasonable repayment plans, and pausing any collection activity during an active dispute.

**Ofgem should change current rules to make sure that debt collection agencies are treating customers fairly.**



Ofgem should amend SLC0A to require suppliers to take responsibility for the third parties they work with. (These third parties are known as Representatives in regulations). This will ensure that suppliers and the companies they work with are held to account if rules are not followed and customers are treated unfairly.

# Methodology

The rest of this report dives into the debt protection gaps in more detail, using our data to show how current regulations are failing microbusiness consumers.

The table below details the research methodology used in preparing this report.

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## Analysis of Citizens Advice data

We analysed data from the Citizens Advice Consumer Service to identify trends in the types of debt cases we see amongst non-domestic customers. The data we refer to throughout this report was a randomised sample of 300 debt cases which came through our Consumer Service between July 2023 - December 2023. In some cases statistics refer to a sub-sample of the 300 cases, though all sub-samples have a minimum base of 100.

We have also used Citizens Advice case studies within this report to further illustrate the types of problems our clients encounter.

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## Analysis of Qualitative Request for Information data from energy suppliers

In May 2023, we sent out a qualitative request for information to non-domestic energy suppliers. We requested information about energy suppliers' policies for debt and disconnection, preventing customers falling into debt, security deposits, exit fees, and disconnection/reconnection fees. These statistics reflect supplier policies and processes at this time.

We asked whether suppliers had policies to govern these functions, and asked for suppliers to provide us with detail about these policies. We received responses from 20 suppliers.

## Protection Gap 1:

### Poor communication and inconsistent billing can cause debt to rack up.

#### Existing regulations do not promote regular contact:



Ofgem rules currently state that energy suppliers must contact their customers at least twice a year with a statement of account - including any money owed.<sup>1</sup> In practice, this means that consumers often go **at least six months without hearing from their supplier**. If a customer isn't sending regular meter reads and their existing payments aren't covering their usage, then debt can quickly accrue.



**This suggests that communication between consumers and their suppliers is not always effective.**


Sometimes this poor communication can lead to an undetected build up of debt. In the most extreme cases, consumers may not be aware of the fact that they are in debt until their supplier has attempted to disconnect their energy supply.


#### Confusing and inaccurate bills can also make consumers less likely to engage with their supplier:




Billing cases made up 29% of microbusiness contacts to our Consumer Service in 2023. Many of these cases are about genuine errors on bills, but this confusion is often exacerbated by how difficult the bill is to understand. Current rules require suppliers to treat customers fairly in relation to billing, but previous research for Ofgem and Citizens Advice found consumers can have poor experiences when reaching out to their supplier for support, or simply aren't aware that this support is available to them.<sup>2</sup>

In the information we requested from suppliers, we found many instances where existing policies and processes were not conducive to keeping consumers informed about their energy usage, or whether they were in debt or not. For example:


 **20% of suppliers surveyed** didn't have proactive measures in place for getting in touch with customers about their debt.

 **25% of suppliers surveyed** only used one method of contact when contacting customers about debt or disconnection. This can result in situations where a customer is unaware of their debt build-up until they are disconnected, as a result of changed or inaccurate contact information.

We also looked at our own advice cases relating to debt and disconnection, and found a strong connection between billing and debt accrual:

 **Over 3 in 5 people (64%)** who contacted us about an issue related debt reported experiencing a billing issue.

 **1 in 10 people (8%)** who contacted us about debt also had an issue with large catch-up bills.

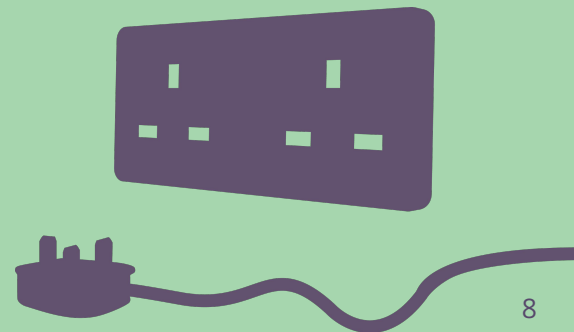
 **Nearly 1 in 4 people (23%)** who came to us about being disconnected told us they didn't receive adequate warning.

## Alex's story

Alex runs a small hospitality business. The energy supply to his business has been disconnected. He wasn't aware that he was in debt with his supplier, but Alex's supplier has now told him that he owes them £2,000.

His supplier informed him that they sent correspondence in relation to the debt, but Alex hasn't received any. He also didn't receive any notification that he would be disconnected from his energy supply.

Alex's supplier is refusing to reconnect him until he pays the full balance of his debt upfront, which Alex can't afford to do. He's offered to pay in instalments, but this has been rejected.





## Businesses moving into new premises can face additional challenges:

Poor communication and inconsistent billing practices can result in issues when a new business is trying to complete a change of tenancy with their new supplier.

Our case notes show that new business tenants often receive bills addressed to a previous tenant and struggle to update contact details with their supplier - even when they have successfully completed the change of tenancy process.

This problem is especially acute when the previous tenant had built up debt with the supplier, as the new tenant may be chased for debt which isn't their responsibility.

It also took most people a significant amount of time to resolve this issue, even where they had completed the change of tenancy process. In the most serious cases, new businesses were disconnected from their energy supply for failure to pay back debt which **didn't belong to them**.



Nearly **1 in 3 people (31%)** who reported a billing issue told us they were being chased by their energy supplier for debt which belonged to a previous tenant.

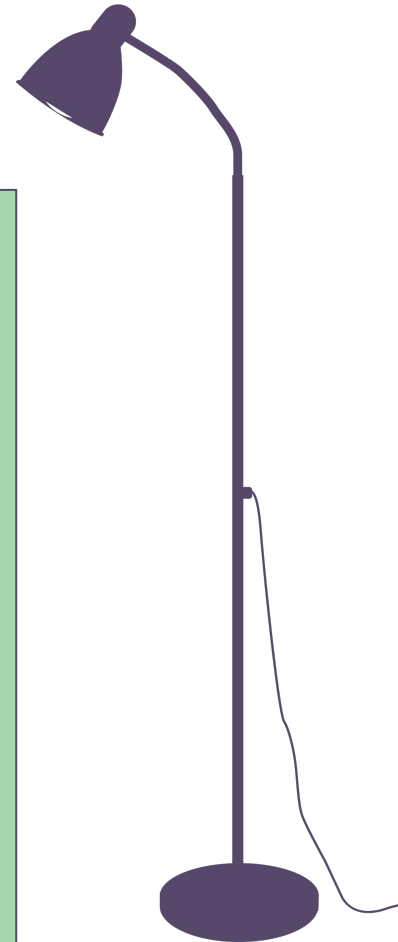
### Leila's story:

Leila is a manager for a local charity shop, and has recently started to rent a new unit. She contacted her energy supplier, as she wanted to pay what she owed and switch to another supplier.

The supplier has blocked Leila from switching due to debt on the account from a previous tenant.

Leila has provided the supplier with all the documentation they asked for, including a tenancy agreement, meter readings, and copies of her ID and landlord's ID. However, the supplier still won't authorise her switch until a payment has been made.

Leila is worried that she will be disconnected, and is also having to pay higher prices than she planned to, due to the length of time this problem is taking to resolve.



# Poor communication and inconsistent billing - Closing the Protection Gap:

We want to see Ofgem introduce new rules that will ensure the smallest businesses get regular energy bills. This will help consumers keep on top of their usage and stop debt racking up. These changes could be brought about by amending existing licence conditions or by introducing new ones. Regardless of how the changes are brought about, we'd like to see the following outcomes for microbusiness consumers:

## **Suppliers should provide bills to non-domestic customers at least quarterly.**

We recommend that Ofgem introduce protections obliging suppliers to provide bills to all non-domestic consumers at least quarterly, and monthly to anyone who requests it.

## **Suppliers should provide final bills within 6 weeks.**

We recommend that Ofgem introduce protections obliging suppliers to provide final bills to non-domestic customers within 6 weeks. This mirrors the timeline seen elsewhere in industry, such as the Energy Switch Guarantee.

## **Small businesses should be covered by backbilling protections.**

Microbusiness consumers are protected by back billing protections, meaning that a supplier can't charge them for unbilled energy usage from over 12 months ago. Small business consumers don't have this protection, meaning that they can be hit with a bill for over a year's worth of energy even if their supplier hasn't sent them a bill previously. We recommend that Ofgem and DESNZ work together to expand the coverage of back billing protections to apply to small businesses as well as micro businesses.

## **In cases where there's an ongoing dispute between a consumer and their supplier, suppliers should pause debt collection activity.**

This will prevent businesses being put at unnecessary financial risk.

## Protection Gap 2:

# Debt and disconnection practices aren't covered by the fairness principle.

Under a rule called Supply Licence Condition 0A (SLC0A), suppliers are obliged to treat their business customers fairly. However, debt and disconnection practices are not covered by SLC0A. This means that some suppliers don't treat their customers with the fairness they would expect. For example, suppliers don't have to offer a repayment plan to a customer in debt, or consider what a customer can realistically pay.

Considering a customer's ability to pay back debt can mean the difference between a business surviving and going under. In fact, Ofgem has previously recognised that good practice includes suppliers considering a customer's ability to pay, and that this could take the form of extended repayment plans.<sup>3</sup> They have also advised that suppliers should "not engage in scare or strong-arm tactics when dealing with customers in payment difficulties".<sup>4</sup>

However, many suppliers don't take this into account:



Nearly **half of people** who told us they tried to arrange a repayment plan with their supplier had their offer of the plan rejected (49%). This was often because a supplier was unsatisfied with the proposed monthly repayment, even with demonstrable proof that this was all a consumer could afford to repay.



Over **7 in 10 people** (71%) whose supplier asked them to make an upfront repayment were told they needed to pay **50% or more** of their debt upfront to avoid disconnection, or to be reconnected.




### Natasha's Story

Natasha owns a small gym, which she lives above. High energy prices and increased standing charges have caused Natasha to accumulate £4,500 worth of debt.

Natasha has tried to set up a repayment plan with her supplier, but her supplier said she would need to pay 50% of the debt upfront before they could arrange a repayment plan.

Her supplier has said that they'll change Natasha's credit meter to a prepayment meter in two days, and that 40% of top-ups will go towards paying her debt. Natasha has two young children with asthma, and has a disabled partner who needs medication kept in the fridge. Natasha can't afford this plan, but she can't afford to be disconnected.

Data from our RFI shows that:

-  20% of suppliers surveyed don't mention repayment plans in their debt collection pathways.
-  40% of suppliers surveyed don't make reference to 'affordability' in their debt collection pathways.
-  35% of suppliers surveyed require full, upfront debt repayment before they'll reconnect a customer.

When suppliers are unwilling to consider offering repayment plans or engage with consumers regarding affordability it can make it harder for them to sustainably repay what they owe.

Looking at cases related to debt and disconnection that came through our Consumer Service between July - December 2023, we found:



**33%** of the debt cases we examined related to consumers who required a repayment plan.



For nearly **1 in 2 people** who were in need of a repayment plan, the repayment plan offered by their supplier was unaffordable (48%).

It is clear that current good practice guidance isn't adequately protecting microbusinesses. With suppliers not obliged to consider affordability or required to have tried collecting debts through other means before disconnection, consumers risk losing their energy supply if they fall into debt.

**Non-domestic consumers need greater protections when facing payment difficulties.**

# Debt and disconnection practices aren't covered by the fairness principle - Closing the protection gap

**Ofgem should expand current rules on treating customers fairly by amending SLC0A to include debt and disconnection in the Designated Activities. This will ensure that customers in debt are given a fair chance at getting back in the black. Additional guidance - based on the expectations that Ofgem has already set out - should be introduced, setting out expectations on how this SLC should be followed. Following the introduction of new protections, we'd like to see the following outcomes.**

## **Suppliers should engage with customers to discuss repayment plans.**

We recommend that Ofgem should introduce protections for microbusiness customers which oblige suppliers directly to discuss repayment plans before proceeding with disconnection. This may include reviewing methods of contact to ensure they meet the needs of customers, particularly in circumstances where the supplier hasn't made successful contact with the customer.

## **Suppliers should accept reasonable offers of repayment.**

We recommend that Ofgem introduce protections requiring suppliers to accept reasonable offers of repayment before proceeding with disconnection. Disconnection should be a **last resort**. A prepayment meter could be considered as an alternative to disconnection. Allowing businesses to remain operational is likely to improve repayment rates for suppliers and reduce consumer detriment.

## **Suppliers should particularly consider repayment plans in instances where someone lives on the property.**

Some businesses like pubs can be dual-use, meaning that although the energy contract is non-domestic, someone also lives on the premises. This makes them especially vulnerable to harm when facing more extreme debt-collection measures, such as force-fitting a prepayment meter or disconnection.

## **The benefit of proactive policies - Aliah's story**

Aliah has a business, but last summer her energy bills increased dramatically. Aliah ended up accruing nearly £4000 worth of debt.

Aliah got in touch with her supplier to ask for help managing her debt. Aliah's supplier explained that she was on a deemed rate contract, and this is why her prices had increased so dramatically. Aliah's supplier helped her get onto a more suitable contract for her business.

In addition, Aliah's supplier helped her understand what she could reasonably afford to repay per month. With the help of her supplier, Aliah was able to set up a repayment plan to cover the debt which had accrued and begin paying it back.

# Protection Gap 3:

## Debt collection agencies can't be held to account.

Many non-domestic suppliers rely partially or wholly on third party actors to carry out the disconnection and reconnection process.

While it is often operationally necessary to use third parties during the disconnection process, analysis of data provided to us by suppliers through our Qualitative Request for Information indicated that some **suppliers did not have adequate knowledge of the actions carried out by these third parties on their behalf.**

Some of the activity carried out by third parties includes:

- Communication regarding the disconnection;
- The disconnection itself;
- The disconnection fees charged and the method by which fees are collected.


If suppliers don't have good oversight of their third party's actions, **then they can't be sure that statutory requirements or good practice is being followed.** Poor practice can also occur without the suppliers' knowledge.


Further, communication pathways between the consumer, third party, and the supplier are inadequate, meaning that complaints or disputes aren't properly addressed, and collection activity isn't paused when it should be.

### This lack of oversight and transparency on the part of suppliers puts vulnerable consumers at particular risk.

- In their response to our qualitative RFI, **55%** of suppliers confirmed that they had procedures for checking for vulnerabilities or domestic connection, and stated that disconnection would be halted in these circumstances.
- The remaining **45%** of suppliers didn't mention vulnerability as a consideration in their responses, nor what would happen in circumstances where this was identified.
- Looking at our Consumer Service data, we found that nearly **1 in 6 people** who experienced poor practice during a disconnection from their energy supply were vulnerable consumers (16%).
- We examined 300 cases that came through our Consumer Service related to debt and disconnection. Of these 300, 132 cases related to customers who had been disconnected from their energy supply.
- In **50%** of cases we examined where a consumer had been disconnected, there was evidence that a supplier did not carry out a check for vulnerability or person living on the premises.

We recognise the necessity of using third-party actors as part of the debt and disconnection process. Findings from our Qualitative RFI suggest that:

 **At least 70%** of suppliers surveyed rely on third-parties to carry out their disconnection processes.

 **At least 50%** of suppliers surveyed rely on third-parties to carry out their reconnection processes.

**However, the lack of oversight that suppliers have over the actions of third parties is concerning.** Our data has repeatedly shown that businesses can be hounded for debt that they do not owe or even wrongly disconnected by third parties. This is a particularly acute problem for vulnerable or disabled consumers, who may struggle more than non-disabled consumers to engage in complex complaints processes.

Our case notes also suggest that some third parties may not always follow statutory rules regarding disconnection. This means they might not give proper notice before a disconnection, or check for a domestic consumer on the property.

**Currently, the rules requiring suppliers to treat their consumers fairly do not extend to any third parties that non-domestic suppliers work with (their 'Representatives').** In addition, SLCOA does not cover debt and disconnection. There is no general requirement for suppliers to be responsible for the actions of their representatives - even where disconnection is involved. Expanding the scope of SLCOA would not provide sufficient protection for consumers.<sup>5</sup>

## Joel's Story

Joel took out a lease on a property in March, and was chased for debt belonging to a previous tenant. He paid £200 towards this, but has since been contacted by a debt collection agency who are asking for another £500 which isn't Joel's responsibility. They're asking for payment within one week, and are threatening disconnection if he does not pay.

He's tried to speak to the supplier about this, but they have said they can't discuss this with him as they have now passed the debt to a third party. The debt collectors haven't listened to him when he's said that the debt doesn't belong to him. Joel is a vulnerable microbusiness customer as a result of his disability.




# Debt collection agencies can't be held to account: Closing the protection gap

## **Ofgem must consider whether further consumer protections are needed to prevent harm by third parties.**

At the moment, there is no requirement on suppliers to make sure that the debt collection companies they work with are treating customers fairly. Ofgem should amend SLC0A to require suppliers to take responsibility for the third parties they work with. This will ensure that suppliers and the companies they work with are held to account if rules are not followed and customers are treated unfairly.

Our research additionally found that some suppliers lack proper oversight of their debt collection pathways and arrangement - especially where a third party Debt Collection Agency (DCA) was used. For example:

 45% of suppliers surveyed weren't able to confirm how much consumers were being charged for a disconnection fee, and 30% reported that they didn't have a policy for calculating these fees.




 50% of suppliers surveyed weren't able to confirm how much consumers were being charged for reconnection, and 30% of suppliers reported that they didn't have a policy for calculating reconnection fees.

While the debt owed by a consumer will vary, reconnections and disconnections tend to have fixed costs associated with them. Where suppliers don't have a policy for fees, this often means that they do not have oversight of what the DCA they work with charges. It's therefore much harder to identify whether these charges are reasonable or not.

**In addition to the new rules proposed above, energy suppliers must work to make sure they have full oversight of the third parties they work with, to ensure that customers are being treated fairly and that rules are being followed.**



# Closing the Non-Domestic Debt Protection Gap: Summary of recommendations

	Recommendations
<b>Billing and communication</b> 	<p>Ofgem should work to introduce new rules requiring suppliers to provide bills to businesses at least quarterly, and to provide final bills within 6 weeks. Energy suppliers should help ensure that customers have enough information to keep on top of their energy bills.</p>
<b>Repayment Plans</b> 	<p>Ofgem should amend SLC0A to include debt and disconnection in the Designated Activities. This will introduce an obligation on suppliers to treat consumers in debt fairly.</p> <p>New guidance should be introduced setting out expectations on how this SLC should be followed. Based on existing good practice expectations, this guidance will encourage suppliers to treat consumers fairly by considering reasonable repayment plans, and pausing any collection activity during an active dispute.</p>
<b>Third Parties</b> 	<p>Ofgem should amend SLC0A to require suppliers to take responsibility for the third parties they work with. Ofgem should also work with energy suppliers to ensure that they have sufficient oversight of their debt and disconnection processes.</p>

Smart meters can help consumers stay on top of their usage and resolve bill disputes faster. Despite this, smart meter rollout for small businesses has been slow, with past targets being missed.<sup>6</sup>

If suppliers improved smart meter take up, consumers would be able to keep an eye on their usage and flag issues with their supplier early, addressing the issue of inaccurate or estimated bills by providing suppliers with regular accurate meter readings without the need for manual reads.

More work is needed to ensure that smart meters consistently communicate and that suppliers make consistent use of remote reads.<sup>7</sup>

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5. Ofgem, Open letter: Good practice expectations for non-domestic suppliers on issues surrounding debt management and disconnection of customers, p. 5, p. 8.
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7. Citizens Advice (2024), Get Smarter: Ensuring people benefit from smart meters.

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