

Energy UK Explains: Customer credit balances

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Key Points

- Direct Debits help to smooth payment amounts across the year so customers can pay the same each month, instead of paying more in winter and less in summer.
- This can result in either a **credit balance** building up on the account, where the customer has overpaid, or a **debit balance**, where money is owed to the supplier.
- Sometimes it is useful for customers to leave credit on the account so it is there for winter months.
- Direct Debits are set at a level that should leave the account in balance after a year, if a customer thinks their credit balance is too high they can request their credit back at any time, and suppliers must return it or explain why not.
- Suppliers can responsibly use customer credit balances for certain activities. Ofgem has rules around the levels of a customer credit that suppliers should hold onto, and rules around the way it can be used.
- As using this capital allows suppliers to reduce financing costs, all customers benefit from lower bills as a result of the efficient use of credit balances by suppliers.
- **It is not meaningful to compare Ofgem statistics on credit balances and debt** as they operate on different definitions, and unlike credit which is all returnable or useable to the customer, a significant proportion of debt is unrecoverable.

Direct Debits

Many customers choose to pay their energy bills via Direct Debits. Paying by Direct Debit spreads the cost of energy usage evenly over 12 equal monthly payments, rather than paying more over winter months and less in the summer. Typically, this results in building up credit over the warmer summer months when consumption is lower, and using the credit up over the winter months when consumption is higher.

To facilitate this, energy suppliers estimate how much energy a customer is likely to use over a year and set a single amount to be paid (usually) each month. These payments are then used to pay for the energy that is actually used.

Customers should provide monthly meter reads or have a smart meter to ensure that their supplier is able to estimate and set the most accurate Direct Debit possible. Information about a previous year's energy consumption can also be used as an indication of likely usage to help ensure that Direct Debit estimates are as accurate as possible.

Ofgem's rules require Direct Debits to be as accurately as possible based on the information available and, if requested by the customer, refunded promptly unless there are good reasons not to do so. Energy suppliers regularly review their customers' Direct Debit amounts to check the payments are set to the right level. Customers can also request a review if they think their Direct Debit or account balance is not right.

When reviewing a Direct Debit, suppliers consider several things – including:

- the balance that is on the customer account
- the tariff rates (unit rates and standing charge)
- the estimated annual usage (using information about previous consumption/usage in the property if they know it).

A customer's Direct Debit can then be increased or decreased based on the review. Alternatively, customers could be offered a return of credit. For example, if there is likely to be significant credit left

in 12 months' time a customer might be offered a lower Direct Debit or a partial refund of their balance.

If a refund request cannot be met, suppliers should explain why. They might also give customers advice about how much credit is advisable to leave in an account, based on previous usage and payment history, for example if winter is approaching it may be sensible to be in credit, to smooth out higher winter payments.

When customers leave a supplier, a final bill must be issued within 6 weeks of them leaving. If credit is left on a customer's account after a final bill has been sent, it must be automatically refunded to the customer within 10 working days. If this amount is not refunded within 10 working days, the supplier must compensate the account with £30.

Credit Balances Explained

Many customers build up credit when paying by Direct Debit. This could be due to using less energy over summer months, when the heating is switched off, or due to a more general change in consumption patterns, or infrequent meter readings.

As above, in some cases it can be beneficial for customers to have built up some credit on their account. Suppliers can responsibly use this credit as working capital, which allows them to be more economically efficient and in turn reduces the overall costs to serve their customers. Ofgem's Financial Responsibility Principles¹ ensures that this is only done in a careful and responsible way.

Suppliers are generally obligated not to be "overly reliant" on, or take risks with, customer credit. Due to natural annual fluctuations in the balance on customers' accounts, suppliers will hold significant levels of customers' credit at times. Ofgem has rules around the levels of a customer's credit that suppliers should hold onto, to ensure that suppliers are always financially resilient and have sustainable business models. In practice, this means Ofgem can ensure suppliers ringfence credit balances if they are concerned they are not holding adequate amounts of cash to refund to customers – this is known as the "Cash Coverage Trigger".

Ofgem also has rules outlining that suppliers should not collect more money than appropriate per customer.

Debit Balances Explained

If a customer is not paying enough towards the amount of energy that they use, then a debit balance will build up on the energy account. This is money owed to the energy supplier. Customers will typically owe money to a supplier for various reasons, and not all of it is considered "debt".

Ofgem's statistics on debt owed to suppliers only include money owed that is 90 days or more overdue. A significant proportion of this will likely result in "bad debt" which is never repaid.. The cost of bad debt is then spread across all customers so that suppliers are able to recover the costs incurred. Ofgem defines how much can be recovered based on costs expected for a "notionally efficient supplier".

Further information is available from Citizens Advice

- [Advice if a customers direct debit has been increased](#)
- [Advice if a customer thinks they have been paying too much](#)
- [Advice if a customer wants to claim back a credit balance](#)

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¹ [Ofgem \(2023\), Strengthening Financial Resilience - Minimum Capital Requirement and Ringfencing CCBs by Direction](#)