

Ofgem consultation on improving debt standards in the domestic retail market - Energy UK's response

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About Energy UK

Energy UK is the trade association for the energy industry with over 100 members - from established FTSE 100 companies right through to new, growing suppliers, generators and service providers across energy, transport, heat and technology. Our members deliver nearly 80% of the UK's power generation and over 95% of the energy supply for 28 million UK homes as well as businesses.

The sector invests £13 billion annually and delivers nearly £30 billion in gross value - on top of the nearly £100 billion in economic activity through its supply chain and interaction with other sectors. The energy industry is key to delivering growth and plans to invest £100 billion over the course of this decade in new energy sources.

The energy sector supports 700,000 jobs in every corner of the country. Energy UK plays a key role in ensuring we attract and retain a diverse workforce. In addition to our Young Energy Professionals Forum, we are a founding member of TIDE, an industry-wide taskforce to tackle Inclusion and Diversity across energy.

Introduction

Energy UK welcomes the opportunity to respond to Ofgem's consultation on ways to improve debt standards in the domestic retail market. Energy UK supports high standards of support for customers in energy debt, fuel poverty or experiencing vulnerability, and appreciates the broad scope of this consultation which considers improvements across the debt pathway. However, we are concerned by the lack of focus on systematic debt accrual trends as part of an approach to debt prevention.

Rising customer debt is a major concern for industry, now approaching a record £4 billion.¹ Suppliers again pledged to help customers struggling with their bills this winter, committing over £500 million, comprised of temporary support that will need to be repaid, enhanced debt-write off schemes and hardship funds, as well as

¹ [Ofgem Debt and Arrears Indicators](#)

working with charities and debt support agencies to provide additional expert help to customers in need.²

13 suppliers (covering more than 95% of homes) are also signatories of Energy UK's Vulnerability Commitment, working to continually improve support provided to vulnerable households. However, more is needed from Government and Ofgem to provide support for customers, and to prevent debt accumulation in the first place.

More broadly, it is pleasing to see that satisfaction with supplier support for those struggling financially continues to improve, and financial pressures are easing for some customers.³

However, Energy UK has several concerns with the proposed policy options discussed in the consultation paper.

Principally:

- The increasing complexity and duplication of energy policies is unlikely to best serve customers or suppliers;
- There lacks a direct link between the customer detriment and how the proposed options will deliver an improved outcome for customers; and
- It remains unclear how various Ofgem workstreams underway are informing each other.

Regarding the specific proposals, Energy UK is particularly concerned with suggested changes to require that suppliers must accept relevant information from credible third parties, given the associated risk. We are also concerned about Ofgem again revisiting the idea of dedicated phonelines for third party representatives, because of the difficulties in operationalising this and the associated costs.

Energy UK would also like to emphasise the valuable role that the Vulnerability Commitment plays in supporting suppliers to go above and beyond their licence conditions. Energy UK would welcome Ofgem's input in shaping the future of the commitment, which could include a focus on improving debt support standards for customers.

² [Energy UK \(2024\) Winter Commitments](#)

³ [Ofgem \(2024\) Customer Satisfaction Survey](#)

These issues and the specific consultation priorities are further discussed in the following response.

For further information or to discuss our response in more detail please contact Isabella Darin, Policy Manager at isabella.darin@energy-uk.org.uk.

Energy UK Response

The increasing complexity and duplication of energy policies is unlikely to best serve suppliers or customers

While Ofgem has signalled an intent to move towards principles-based regulation, which could reduce regulatory burden on suppliers, in practice, licence obligations continue to grow in number and complexity.⁴ This is evident in the consultation paper itself. It identifies how, for many of the immediate priorities, there are already multiple rules, industry codes, or non-binding guidance that suppliers must comply with or consider.

Energy UK is concerned that introducing additional prescriptive supplier licence conditions and guidelines without rationalisation and clarity of the license undermines the value of a consumer debt outcome. It may also make current supplier obligations more unwieldy. Members emphasise the importance of flexibility and innovation when delivering debt solutions to customers given the individuality of each customer's circumstances, which often require bespoke solutions.

Energy UK recommends that Ofgem carefully review all energy debt policies that suppliers must comply with, to ensure that they are necessary if a consumer debt outcome is introduced. Further, Ofgem should review the duplication that exists in existing obligations and identify any gaps that are resulting in poor customer experiences.

To allow suppliers to make decisions that place customer experience at the heart of their business model (described as a way to raise debt standards in Ofgem's Debt Strategy), suppliers need to have confidence in existing and upcoming regulations and have clarity on their risk exposure.⁵ A lack of apparent confidence from Ofgem in a principle-based approach (signified by the inclusion of a range of prescriptive interventions), will not encourage commercial innovation that could best develop support for different customer types.

There lacks a direct link between the customer detriment and how the proposed options will deliver an improved outcome for customers

⁴ [Energy UK \(2024\) Response to Innovation in Retail Consultation](#)

⁵ [Ofgem \(2024\) Debt Reset Announcement](#)

When considering standards across the customer debt journey, Energy UK recommends that Ofgem draw a clearer link between the customer outcome it wants to be achieved, and why the proposed options can best support this. For several of the immediate priorities discussed, it is not clear that each prescriptive element will most efficiently ensure customers receive “proactive, tailored, and consistent customer service that meets their needs and helps them sustainably manage their debt or arrears”⁶.

It is important that this thinking is robust, given that introducing more prescription imposes additional operational costs and administrative burden for suppliers that will be ultimately passed through to customer bills. Such measures should be carefully balanced against streamlined, outcomes-focused regulation, which can allow suppliers to focus on tailoring their services to customers’ needs and more flexibly respond to emerging debt issues.

To enable this and support targeted interventions, Energy UK has previously recommended that Ofgem actively monitor and assess energy affordability issues.⁷ This need has also been identified in Ofgem’s Consumer Confidence work, which commits to ensuring that Ofgem has a robust and proportionate monitoring framework, so that it has accurate, up-to-date data that can identify concerns early and support a culture of continuous improvement.⁸

For example, this framework could support understanding why there has been a 100% increase in the number of failed electricity debt repayment arrangements between £0.01 - £2.99 in a year (as identified in the consultation paper), and work with industry to undertake targeted interventions to address this efficiently.⁹ Another example of specific prevention routes includes looking more purposefully at change of tenancy arrangements.

It remains unclear how various Ofgem workstreams underway are informing each other

While the consultation paper acknowledges that in addition to the debt standards consultation, Ofgem is working in parallel on related work as part of the Consumer Confidence programme and Consumer Vulnerability Strategy, it is unclear how these

⁶ [Ofgem \(2024\) Debt Standards Consultation](#)

⁷ [Energy UK \(2024\) Response to Ofgem Consultation on Debt and Affordability](#)

⁸ [Ofgem \(2024\) Consumer Confidence](#)

⁹ [Ofgem \(2024\) Debt Standards Consultation](#)

workstreams (and others) are designed to complement each other. As such, there is a perceived risk that the policies developed will be duplicative, or conflict with one another in practice.

For example, it is not clear how the consumer debt outcome will function differently to the sub-outcome identified in the Consumer Vulnerability Strategy consultation paper “vulnerable customers who are struggling to pay their bills, or are indebted, should have proactive and consistent affordability and debt support, that is delivered with compassion and understanding.”¹⁰

There is also an opportunity to more closely align the consultations underway that are part of Ofgem’s wider ‘debt strategy’, to provide complementary avenues that address energy affordability and the propensity of debt accumulation for the most vulnerable customers. For example, prioritising work on targeted bill support and aligning this with any debt relief scheme that is developed.

As such, Energy UK recommends that Ofgem clearly unpack how these debt standards are distinct from other policy developments underway, or how they will complement each other.

Feedback on the immediate priorities

Consumer debt outcome

As discussed above, Energy UK is concerned that introducing a consumer debt outcome increases the complexity and duplicates the intent of existing regulations. Energy UK recommends that Ofgem carefully review all energy debt policies that suppliers must consider, to ensure that they are necessary if a consumer debt outcome is introduced, that all elements are complementary when understood together, and that there is a focus on facilitating improved monitoring.

For example, it is not clear how a consumer debt outcome which “set[s] an example of the types of things that suppliers could and should do to continuously improve how they are delivering good outcomes for consumers struggling with their bills,” as described in the consultation paper, would be tangibly different from Ofgem’s good practice guidelines.¹¹

¹⁰ [Ofgem \(2024\) Refreshing our Vulnerability Strategy](#)

¹¹ [Ofgem \(2022\) Good Practice for supporting customers in payment difficulty](#)

In the event of duplication between the consumer debt outcome and more prescriptive rules, Energy UK recommends that Ofgem commit to strategically streamlining these current regulations (where they go beyond strong minimum standards of service), to allow space for the consumer debt outcome to drive competitiveness, flexibility, and innovation, and ultimately enable better customer outcomes.

Further as discussed above, with respect to monitoring how well suppliers and the market are achieving the consumer debt outcome, this would require Ofgem to develop a robust and proportionate framework. Energy UK welcomes a broad range of metrics to be used initially, that capture customer experiences across the debt pathway. However, it is also important that these are robust data sets, to ensure they are representative of the customer experience.

Debt prevention

Ofgem should be focusing on avenues to support suppliers with the tangible delivery of the fundamental market necessity of effectively recovering outstanding debt and arrears. Energy UK notes that any debt prevention measures introduced would likely have the biggest long-term impact on customer debt accrual across the debt pathway, and that these could be broader than a review of billing practices.

As such, it may be valuable to prioritise these policy options when considering future reforms, because ultimately debt prevention is a better outcome for customers than debt mitigation.

Standardisation of ability to pay assessments

Energy UK understands the need to ensure that all customers are genuinely offered an affordable payment plan, and this was a key theme of the 2024 Vulnerability Commitment Good Practice Guide.¹² It is an ongoing challenge for suppliers to ensure that all customers who need it are aware of the available support, with one supplier highlighting that approximately 47% of its customers who are struggling to afford their bills had not struggled before.

¹² [Energy UK \(2024\) Vulnerability Commitment Good Practice Report](#)

Suppliers are currently undertaking a variety of measures to support their understanding of customers' ability to pay, and Energy UK is concerned that standardising assessments may result in less tailored approaches for customers that best suit their needs. Suppliers' customer service specialists are not FCA regulated debt advisors, and requiring such a tool may necessitate teams to undertake additional training or qualifications, causing greater costs and consuming time.

There is also a risk that customers may be understandably wary to disclose information about sensitive and financial details, and there is a risk that such requests for more in-depth financial information from a customer make it more difficult for front-line workers to engage with customers and provide the necessary support.

Debt repayment offers from credible third parties

Broadly, members are concerned about the risk associated with introducing a requirement that suppliers must accept a repayment plan from a "credible" third party such as a Financial Conduct Authority (FCA) authorised debt adviser.

This would require these third-party actors to have a level of sensitivity and competency to propose robust and proportionate payment plans that would be difficult to monitor and enforce given that Ofgem's remit does not extend to them. Members are concerned that there is a diversity of actors within the third-party market, such that it would be difficult to ensure quality for customers. Given this issue, any definition of "credible" should be clearly limited.

Further, this change would materially impact suppliers' expected levels of support, and as such, a clearer understanding of why suppliers may be rejecting offers of repayment and the scale of this issue should be required, before such a prescription is considered.

The consultation paper does not consider how a redress process would operate for customers who have received incorrect advice about an offer of repayment from a third party, accepted by a supplier under the new obligations. Suppliers should not be held liable if compelled to accept such an offer. It is also unclear if each third party will have a consistent 'hierarchy' that they place on energy as a debt, which may result in inconsistent outcomes for customers.

The FCA rule referenced by Ofgem does not extend this far, only requiring that firms do not refuse to deal with a third party who is assisting a customer to develop a

repayment or debt management plan (as opposed to accepting a debt repayment offer outright). Energy UK suggests a clear rationale would be needed for this divergence.

Third party authorisation

Energy UK recognises the value of improving consistency of processes with respect to third party authorisation, to reduce the time and cost of engagement for suppliers and third parties, and to potentially enhance outcomes for customers.

As a first step, Energy UK would welcome this being a focus in the Vulnerability Commitment this year. This would support the sharing of best practice to ensure that suppliers have the appropriate processes and staff training in place, and to identify any barriers that are hindering suppliers in delivering an efficient process. Better understanding these barriers could demonstrate the need for a standardised authorised template or form, or more prescriptive rules.

Referrals

Modifying or introducing new licence conditions requiring suppliers to conduct a warm referral to a relevant consumer group and charity (CGC), is an undertaking that should not be underestimated, both for suppliers and CGCs. This level of prescription could increase the number of inappropriate or premature referrals if suppliers are concerned about complying with their licence obligations. It would also undoubtedly increase the caseload of CGCs, who may not have the capacity or processes to manage this without additional funding support.

There is also a risk that this impacts the current obligations for suppliers to conduct ability to pay assessments.

Energy UK welcomes engaging with Ofgem on the research project underway on improving debt advice referral pathways for energy consumers, and how this might inform the review of the Vulnerability Commitment.

Dedicated phonelines

Energy UK has worked collaboratively with suppliers and CGCs since the introduction of new rules in December 2023 (requiring suppliers to prioritise enquires from vulnerable customers and their representatives), to ensure that CGCs can access the

relevant teams within suppliers to build partnerships, and where practicable, have dedicated phonelines. As such, Energy UK supports the continuation of this principles-based approach, which encourages diverse and innovative routes to ensure customers (and their representatives) who most need support can receive this more efficiently.

Energy UK does not support further policy change at this stage, given the difficulties in operationalising this with independent parties and the associated costs. However, it acknowledges that it is sensible to assess compliance with the existing rules within the next 6 months, and for Ofgem to work with suppliers to better understand any barriers to improving practice. Energy UK would be happy to support this through the Vulnerability Commitment.

Feedback on the future reforms

As mentioned above, Energy UK recommends that Ofgem prioritises future reforms that can mitigate the accrual of customer debt, particularly as the immediate priorities discussed do not tangibly address this. This is crucial considering that debt prevention is a better outcome for customers than debt mitigation.

Energy UK recommends that Ofgem should consider improved data sharing processes and other relevant policies, including a social tariff (or equivalent) to enable suppliers to identify and automatically apply relevant grants and benefits to eligible customers' accounts.

Further, Energy UK notes that the Vulnerability Commitment demonstrates the value of voluntary initiatives in continuously improving standards, allowing suppliers to innovate and develop tailored processes and solutions that align with their customers' needs. Energy UK would welcome working with Ofgem to build upon this and support suppliers to test routes for innovation, such as the future reforms set out in the consultation paper.