



Rising energy prices: Protecting energy customers in debt

July 2022

Overview

The Government's package of financial support to help people cope with rising energy prices and wider cost of living pressures is welcome. It provides vital help to reduce the growing gap between people's incomes and their essential costs; and should help cushion the impact on households of this period of very high prices.

However, the sheer level of October's price cap increase means this support does not eliminate the full impact of rising prices, nor can it fully protect households from this.¹ There will still be many people for whom energy bills remain unaffordable, putting people at high risk of self-rationing or self-disconnecting.

For every individual who does find themselves in this situation, the impact on their physical and mental health can be highly damaging. That means there is still a vital role for Ofgem in ensuring people who fall into energy debt during this period are treated fairly.

Alongside this, it's important that the Government is considering whether its existing support package will meet the needs of people this winter, and should be ready to provide more financial support if needed.

What we need to see

We want Ofgem to publish guidance for suppliers to ensure people are adequately protected. It should cover the following scenarios:

- People who cannot afford to pay anything towards their arrears;
- Where it would not be safe and practicable to install a prepayment meter due to the customer's financial situation and personal circumstances;
- Where it is no longer safe and practicable to keep a smart meter in prepay mode because of the customer's behaviour and financial situation;
- How and when to provide additional support credit, over and above the rebate, to support customers on legacy prepay.

¹ See Resolution Foundation (May 2022) *Back on target: Analysis of the Government's cost of living support*.

We also want to see Ofgem ramp up compliance and enforcement work on key affordability conditions, particularly around self-disconnection and affordable repayments, and introduce voluntary commitments to protect consumers. We recognise that what we're calling for represents a significant intervention within the market and will come at a cost to suppliers. However, we believe that the clear health and safety risks as a result of this year's price rises justify this level of action from the regulator.²

Snapshot on energy debt

As large debt advice charities, we collectively help hundreds of thousands of people every year, giving us significant insight into the issues people are facing. Through our frontline services we are already seeing a significant rise in people seeking help with energy debt.

- Energy arrears are now **the most common type of debt** among callers to National Debtline. In the first quarter of 2022, 32% of callers to National Debtline had energy arrears – **up by ten percentage points compared to the same period in 2021** (22%).
- Energy debt overtook council tax in January 2021 as the **most common issue reported by Citizens Advice debt clients**. In the first three months of 2022, 1 in 4 (24%) of all debt clients needed advice on energy debt. The total number of people seeking energy debt advice in this period was **64% higher than the same period in 2019**.
- The proportion of StepChange clients behind on an energy bill has **increased from 14% in 2019 to 29% in 2021**, and the average amount of arrears has increased from £1,056 to £1,399.

Even with the support package announced in May, StepChange clients on Universal Credit will have an **average monthly budget deficit of £77**, factoring in the October energy price cap rise and the impact of high inflation.

- Over **1 in 5 (21%) callers to Business Debtline** – a dedicated service for self-employed people, run by the Money Advice Trust - have energy arrears.

Magda*, National Debtline client

Magda is in arrears to her supplier for £648 and is on a smart meter. She had previous debts with them and increased her direct debit to clear these arrears. Now, the supplier is saying she needs to pay a minimum of £40 per month, as she has fallen behind again. Her supplier said they cannot accept any less and they have passed Magda's debt over to a debt collection agency and threatened a prepayment meter despite her offering them £200 towards the arrears. Magda works part time and is a carer for her son who is on Disability Living Allowance. Magda has a mental health condition and is on Personal Independence Payment herself. The supplier is aware of the circumstances. **Name changed*

² Ofgem should explore industry options to cover additional costs incurred.

1. Supporting energy customers in debt

Even with support, many people's budgets will remain incredibly stretched during this period, meaning they may not have money to put towards arrears payments.

Indeed, people in this situation may also be struggling to afford their full ongoing usage payment and be building up further arrears. This has been reflected in the DWP's decision to pause deductions from benefits for ongoing energy usage as these payments would leave people "*without enough benefit award to meet other essential day-to-day needs*".³

Suppliers' focus should be on working with people to give them the best chance of covering ongoing usage, rather than pushing people towards unaffordable arrears repayments.

No customer should be asked to repay amounts they cannot afford

- Ofgem **must ensure that suppliers are following ability to pay rules**, using individual income and expenditure assessments to understand what, if anything, a customer can afford.
- Customers and suppliers need more clarity on how people who cannot afford to pay towards arrears during this period will be protected. **Ofgem should release guidance on what suppliers should do when an individual cannot afford to pay anything towards their arrears.** This should set out:
 - That collection in these instances must be paused, and that suppliers should focus on supporting the customer to pay what they can of their ongoing usage, including promoting further financial support that may be available to them (e.g. fuel vouchers), and considering payment holidays for customers with no income – as during the Covid pandemic. If an individual can afford to pay a token amount (£1 a month), the supplier could set this up and then the repayment level can be re-assessed when prices fall again.
 - That the same protections must apply to customers on prepayment meters too, with suppliers needing to set the prepayment meter to collect energy arrears at zero or a token amount (£1) each month.
- **As BEIS develops the Energy Bills Support Scheme, Ofgem should also set out how it considers this scheme overlaps with its ability to pay rules.** Where the rebate is applied to debt repayments which are subsequently found to be unaffordable, any overpayment of debt due to the rebate should be redirected to lower ongoing costs (including through providing additional credit back onto the meter for prepay customers).

³ Letter from Rt Hon Thérèse Coffey MP to Jonathan Brearley, *Fuel Direct: supplier contravention of licensing conditions*, 20 May 2022.

2. Preventing harmful debt collection

Ofgem must ensure that customers struggling to afford their energy bills and to repay arrears are not subject to collection or enforcement activities that will only make their situation worse.

No customer should be subject to inappropriate debt collection or enforcement activities

- Ofgem should ensure suppliers are complying with existing licence requirements that people should not be subject to inappropriate debt collection if they cannot afford to pay. To strengthen this, we would like to see guidance that suppliers need to **proactively establish ability to pay before they can proceed to collection and enforcement methods** such as: pursuing court action, issuing warrants to install prepayment meters, referring to debt collection agencies, issuing county court judgments, and instructing high court enforcement officers.
- This should include a new voluntary commitment for this winter **from suppliers not to use certain collection methods for specific groups**, such as people receiving benefits or on incomes below a certain level, in recognition that they will likely be struggling to pay and that such collection methods would be inappropriate for their circumstances.
- Ofgem should monitor suppliers' adherence to this commitment and engage where evidence of harmful debt collection practices arises.

3. Ensuring prepay customers are protected

While we hope government support will reduce the scale of hardship, there remains a high risk of significant levels of self-disconnection by people on prepay this year and into 2023. However, further action by Ofgem and suppliers could really help here.

No customer should be self-disconnecting due to debt repayments

To reduce the number of people at risk of self-disconnection due to debt payments:

- Ofgem should introduce new winter commitments recognising the challenges consumers will face, with a particular focus on prepay, including:
 - A **temporary moratorium on disconnections and forced installation of traditional prepayment meters for debt**. This should include a **temporary pre-action protocol** for installing prepayment meters, which would set out steps suppliers must follow before they can progress to doing so. This would include conducting an income and expenditure assessment and, if this shows the customer cannot afford to make debt repayments at this time, the supplier would instead have to pause collection activity.
 - A **commitment from suppliers to reassess the size of their additional support credit** measures ahead of winter in light of price rises, to make sure it still has a material effect for customers.

- A commitment from suppliers to **keep customer support lines open out of hours** for off-supply cases.
- Existing licence conditions already offer prepay customers some protection, and Ofgem should ensure suppliers are complying:
 - Ofgem should set out a clear statement to suppliers that they **should not be refusing to provide additional support credit solely on the basis that a customer has previously received this**, in instances where the customer has repaid that support. Even where support is still being repaid, Ofgem should make clear that decisions on further additional support credit should always be taken based on an individual's circumstances, in line with Ofgem's definition of vulnerability, and that suppliers should not have a blanket refusal policy. In these instances, suppliers should consider non-repayable support options.
 - Ofgem should **ensure suppliers are complying with current licence conditions on self-disconnection** (SLC 27.8A and 27A.1) and re-assessing what customers can afford to pay if there is any evidence of self-disconnection or self-rationing. This should include setting repayments to zero or a token amount, if needed, as well as providing any additional support.

Barry*, Citizens Advice client

Barry uses a prepayment meter to pay for his energy. He has multiple sclerosis and mental health issues, and is currently waiting to hear whether he will receive PIP payments. Barry has been struggling financially and sometimes going without food.

Over the winter, Barry was not using his gas heating, because he has an outstanding £100 debt on his meter and feels the amount taken from his top ups for debt repayment are too high. Currently, he is not topping up his gas meter, meaning he is accruing even more debt as he is not paying for the standing charges. This also means he has been reliant on using electric heaters over the winter, which are more expensive, and he has regularly needed to use the 'emergency credit' on his electricity meter.

**Case study taken from research conducted on behalf of Citizens Advice by Blue Marble Research. Name has been changed to protect the anonymity of the individual.*

We hope Ofgem will be proactive in delivering interventions to achieve the outcomes and protections set out here, and we look forward to working with Ofgem and suppliers to achieve this. For more information on our recommendations, please contact:

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