STONEHAVEN

REBUILDING TRUST

HOW WE CAN TACKLE ENERGY DEBT THROUGH GREATER UNDERSTANDING

December 2024



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01 INTRODUCTION

Energy debt can be crippling. Modern life assumes you can heat your home, keep food safely in your fridge and have lights on after dark. If you can't afford that, then your health, both physical and mental, is at risk. In the wake of Russia's invasion of Ukraine, some customers fell into debt for the very first time. However, it is becoming more evident that the main factor for rising energy debt in recent years is that customers in debt before the crisis are now falling further into debt. It is very troubling to see individuals trapped in this cycle and their debts deepening. Unfortunately, our systems for tackling it are still painfully analogue.

Public education in managing bills and debt is low, and despite significant investment from suppliers to make billing and calculation more accessible, this process is still met by some people with confusion and frustration. Measures intended to help consumers can be met with cynicism even though they are specifically designed to help them. This makes it simultaneously harder for suppliers to differentiate between the vulnerable and those who simply refuse to pay their debts.

When consumers don't engage with their suppliers, it becomes far more challenging for the latter to understand the specific circumstances that lead to debt accruing and, therefore, to provide the right kind of support. This can create a cycle which risks those most in need of that support missing that opportunity and subsequently falling into greater financial difficulty – increasing the stress on their personal circumstances and risking them moving further from seeking the help available to them. Understanding the needs and circumstances of consumers is important, not only for those in need but to capture the unavoidable minority of those who will simply refuse to pay – despite having a clear financial ability to do so – where measures are still required to address the growing debt issues. Debt prevention and recovery is intended to support individuals, but unfortunately, a fundamental misunderstanding of the process is standing in the way of finding solutions for vulnerable customers and, on occasion, protecting others who may have the means to pay. The criticism of suppliers from stakeholders on a fairly regular basis can help to reinforce the instincts of some customers to avoid making contact when, in fact, taking that action and seeking help at the earliest opportunity is likely to have a positive impact on them by finding a more sustainable path and preventing debt from continuing to rise.

Moreover, existing tools to provide bill support are clunky and hard to target, making them unfit for purpose. For example, the priority service register was originally intended for network companies to prioritise consumers with medical equipment vital to life during power cuts. However, it has gradually been expanded to cover many different categories – now covering more than 30% of the population – but it is not an effective indicator of whether a consumer needs financial support. As such, suppliers currently lack the tools to establish their consumers' financial vulnerability and, therefore, are unable to provide support mechanisms in an efficient way, and to those who need it most.

The existing system does not enable suppliers to help their financially struggling consumers as

much as they would like to. We need to help them help us. Quite apart from the human misery of this present pass, Labour's plans for rapid power decarbonisation will likely require people to engage with their energy supplier as never before, and if they do not trust or understand the role of their suppliers if something goes wrong, they simply will not engage. We need to rebuild this relationship and help consumers understand the options available to them. This should include providing them with the level of support and advice that enables them to avoid getting into debt in the first place, and where they have fallen behind with their payments, to help rehabilitate them so they can move to a more sustainable future which is free from debt.

To do this, we see three key changes that are needed:

1. Data-driven understanding.

We propose that rather than having eligibility for support be a simple list of categories, we, instead, have a much more flexible system whereby an independent body calculates a 'score' for each household that specifies how and why they are vulnerable and, therefore, the extent to which certain measures can apply. No longer will those who have the ability to pay for their energy be exempt from paying off the energy debt they have incurred.

2. New tools and new investment.

With better data, new ways of helping people manage their energy consumption and spending are unlocked. Targeting energy efficiency measures, new consumer duties and new options for social tariffs all become possible. Paying for this can be managed and reconciled through a levy on all energy bills – similar to the already existing environmental and social policy levy – thus moving away from the traditional debt allowance in the price cap, which currently enables the most engaged customers to avoid contributing to the social cost of debt and leaves the burden on those with the least ability to shoulder it. This could be realised through levelisation and reconciliation processes, which Ofgem have already used in other areas, such as for bringing down the costs that are allocated to prepayment meter customers. Co-funding models can also be supported through this approach with Government topping up support to help ease the burden on energy bill payers.

3. A final resolution to the energy crisis.

We are still living with the long shadow of the 2022 energy crisis in the form of an escalating mountain of debt. With the additional information our new scoring recommendation unlocks, we can target a fair debt relief scheme to ensure that financially vulnerable customers with no real opportunity of getting themselves out of debt have a chance to get back on their feet. It will be important to design this carefully to ensure those who have the financial ability to pay off the debt are incentivised to do so, as well as make sure the cost of any debt relief scheme is recovered from all customers rather than just those who are on the price cap.

With these measures combined, we believe we can progress towards the goal of a new relationship between suppliers and their customers and help unlock the kind of market we'll need as we decarbonise. These proposals align with Ofgem's recent efforts, including its December 2024 debt strategy, which recognised the importance of the debt issue and the need for action. The report outlines a proposal to reset debt through a relief scheme designed for consumers who accumulated debt during the energy crisis. It also advocates for improved debt standards through the creation of a "debt guarantee," which would clarify the support consumers with payment difficulties can expect from their suppliers. Additionally, the Government has signalled its commitment to addressing the matter by announcing plans to introduce a consumer duty.

02 WHAT'S GONE WRONG?



The origin and evolution of consumer debt

In the energy retail market, as in any market, suppliers provide energy to their consumers and receive payment in return. When a consumer fails to pay their bill, this results in what is referred to as "consumer debt" within the energy retail market. The supplier bears this debt, as they incur financial losses due to the non-payment. However unlike in other markets, energy suppliers incur liabilities which go beyond factors that are in their control. Suppliers are effectively debt collectors for the whole industry, as they must continue to not only buy the energy needed to supply the consumer in debt from generators, but they must also continue to pay the network charges and the environmental and social policy costs on the customer's behalf.

In the energy market, Ofgem uses two definitions of debt in their regular reporting: first, they consider a consumer to be in debt if they have entered a repayment plan with their suppliers, and second, they consider a consumer to be in arrears if they owe a debt to their supplier but haven't entered a repayment arrangement with their suppliers. A consumer might be in arrears either because they have failed to engage with their suppliers – due to the stigma associated with experiencing financial difficulty, for example – or because they deliberately refuse to pay their bills. For clarity, we will be using the term "debt" to encompass both debt and arrears.

However, unlike any other market, the energy market is particularly susceptible to debt. First, unique to utilities such as energy and water is the fact that customers consume the product before they pay for it, and energy is being sold effectively on interest-free credit by default. Second, because energy belongs to the utility sector, which consists of companies providing basic everyday amenities under the Universal Service Obligation (USO), it creates an expectation that customers must have continued access to the product. As a result, it is subject to significant regulatory and political constraints that limit the ability of energy companies to recover the debt accumulated by consumers. For instance, every supplier is mandated to keep a priority service register (PSR) to offer additional support to consumers who fulfil certain criteria (e.g., disabled, pregnant, at state pension age, have mental health conditions). Additionally, politicians expect suppliers to keep customers on supply even if they have the ability to pay but actively choose not to pay their bills[1], thereby removing a significant penalty for failure to do so.

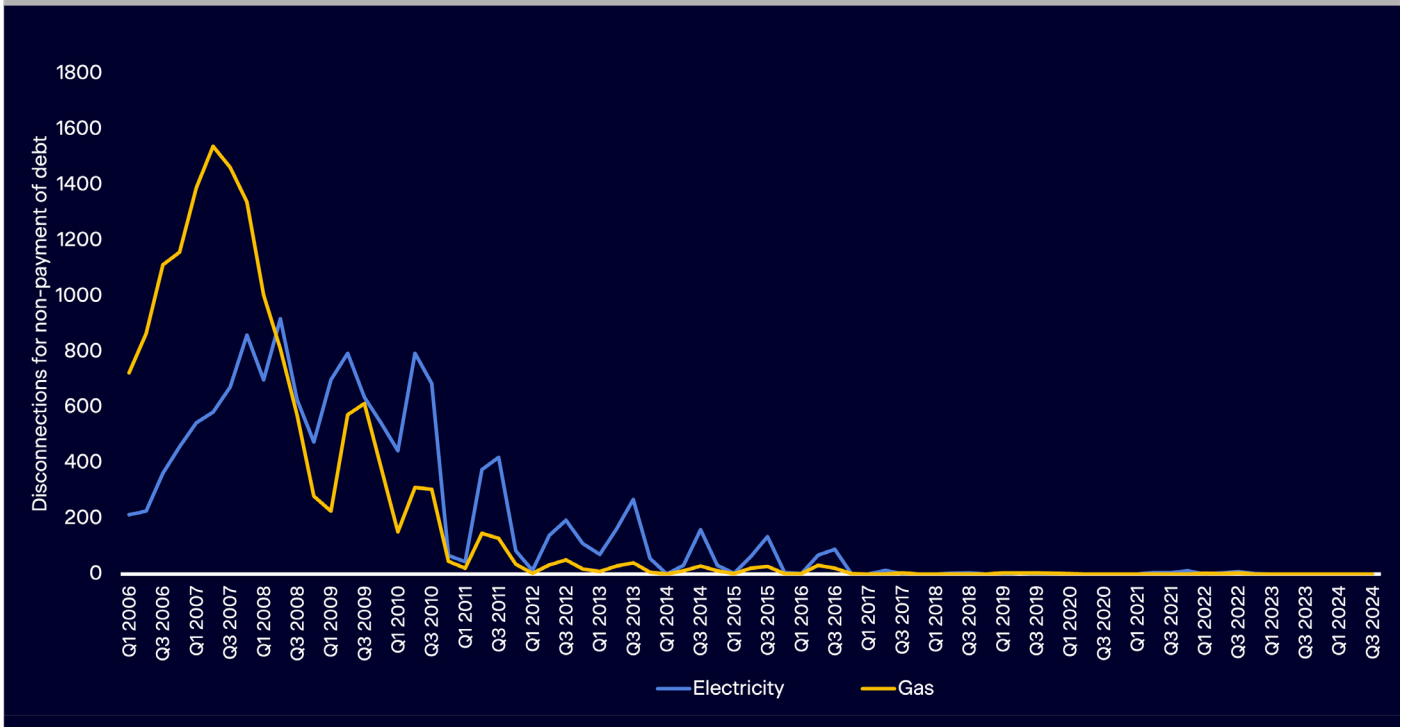
As a result, energy suppliers in the UK are informally implementing an effective ban on disconnections. There have been fewer than 10 disconnections per quarter for gas and electricity since Q4 2016, with the highest number of gas disconnections being 1538 in Q2 2007 (Figure 1). This notably low rate of disconnections, especially when compared to other countries – for example, there have been 572,440 disconnections or power reductions for unpaid bills in France in 2018, only[2] – makes it challenging for UK suppliers to recover costs from consumers who have gone into debt, even in cases of extended late payment.

One way of managing the risk of debt spiralling out of control has been the use of prepayment meters. For many consumers who have struggled to budget to pay for their energy needs, prepayment meters have provided a useful tool for them, and with the advent of smart pay-as-you-go meters, topping up the meter has become even easier through the use of mobile apps allowing this to happen at home. It also provides real time information for suppliers where there is a risk of a customer self-disconnecting in contrast to traditional pre-payment meters.



Prepayment meters can help reduce the financial risk suppliers face of some consumers who have the financial means to pay for their energy refusing to do so because consumers pay for energy consumption ahead of usage. However, where there is clear evidence that there are certain types of vulnerability within the household, suppliers will not undertake involuntary installations of pre-payment meters as part of the new Code of Conduct which has been incorporated within the supply licence conditions.[3] Suppliers nevertheless are still required to support consumers on prepayment meters by granting them discretionary credit on these meters. Whilst the expectation is that customers in receipt of discretionary credit will eventually pay this back, there nevertheless remains a risk that, some consumers, will never be in a financial position to do this. Energy companies sometimes do not even know who is consuming their product, and hence who the bill payer is – for example, during a home move – which can lead to debt arising during both the moving out and moving in part of the home move process. This is a significant issue borne from the inability to withdraw the service.

Figure 1: Number of disconnections for non-payment of debt



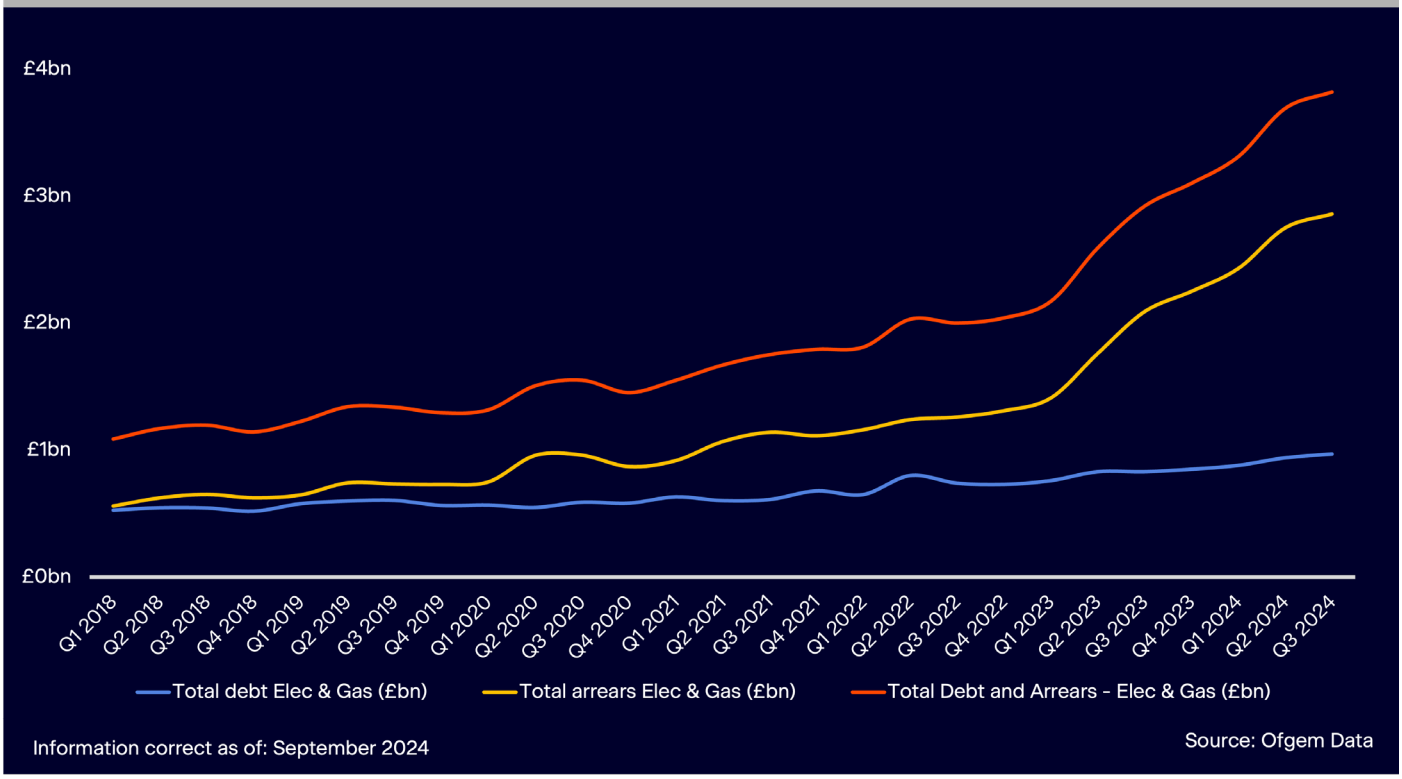
Information correct as of: September 2024

Source: Ofgem Data

This challenging regulatory environment means that there has always been a certain level of debt in the market. However, this used to follow a seasonal pattern in which "debt generally fell towards the end of the year when customers were billed for the warmer months. It then rose in the spring as customers fell into arrears following higher energy usage during the winter months. The seasonal trend was more pronounced with gas due to the importance of gas heating during winter."[4]

However, the ongoing energy and broader cost-of-living crises, driven in part by Russia's invasion of Ukraine, have caused a significant increase in the value of energy debt. Most of this increase stems from customers who are in arrears and do not yet have a debt repayment arrangement in place (Figure 2). As of September 2024, the energy retail market's overdue debt (>91 days in arrears) amounted to £3.82 billion, with 2.3 million households in debt. The average arrears per household rose by 34% between 2019 and 2024. Consequently, more individuals are falling into debt, and these debts are becoming deeper. It is important to note that these estimations exclude near-term debt (<90 days), which is significant. The level of debt is, therefore, significantly underestimated, with the total amount of market debt (based on Stonehaven conversations across the industry) potentially nearing £6 billion.

Figure 2: Total financial value of domestic customer debt and arrears (existing for 91+ days)



Trust - The missing factor

In addition to its high level of debt, the energy retail market is also often characterised by its low level of trust. Some consumers do not trust their suppliers to offer them a fair deal. This is why retaining the Ban on Acquisition Only Tariffs (BAT) until at least March 2025 and making it a permanent feature of the energy retail market will be essential in helping to rebuild that trust. Polling has already highlighted than maintaining BAT will help consumers have more trust in energy suppliers. A YouGov poll showed that nine out of ten customers felt that suppliers should not be able to restrict their best deals to new customers – and more than three quarters said they would have less trust in their supplier if it did so.[5]

In 2024, the level of consumer satisfaction across the energy sector was lower than in comparable industries such as water and telecommunications.[6] Moreover, in 2023, half of the population did not trust their energy supplier.[7] The previous government unintentionally exposed their fears that suppliers' support for government proposals could tarnish them as they believe consumers would instinctively conclude it is not in their interests,[8] and despite the change of government, we should remain mindful of this point.

This lack of consumer trust constitutes a barrier to engagement. In September 2023, 32% of those who fell behind on bills had no contact with their supplier about this, and less than half of them reached out to their supplier themselves.[9] This makes it

challenging for suppliers who don't have all of the tools to know if a consumer in debt who fails to engage is in debt due to their financial condition or because they deliberately refuse to pay their bills.

There are a number of steps which suppliers have taken to improve customer service, engagement with their customers and to help consumers who have fallen into debt. For example, E.ON UK has partnered with TellJO to issue c.800k wellbeing assessments to customers in order to have a better understanding of their wider circumstances and, as part of their Winter Affordability Scheme, they offered customers a 50% reduction in their tariff over the Winter period. However, these suppliers' individual efforts are often met with mistrust from their consumers. For example, a significant number of customers declined E.ON's Winter Affordability Scheme because they were unwilling to adopt a Smart meter and similarly, only 2% of their consumers who have been in debt for over a year has opened an email setting out E.ON's desire to provide support with no reference to debt.

As such, despite the extra lengths which some suppliers have gone to in order to persuade consumers to engage early when they are struggling to keep up with their payments, this is an area where we should explore what more can be done to help consumers have more trust and faith in suppliers who are trying to find solutions for the consumer. However, as long as this negative perception of suppliers' intentions remains across the public and professional bodies, where there has been a particular focus on the relatively small number of poor outcomes rather than the considerable support which the industry is providing to customers, it will remain challenging to address a number of the issues around consumer debt.

This lack of communication resulting from a lack of trust negatively impacts debt in two ways. First, it facilitates debt creation. It prevents suppliers from understanding their consumers' circumstances and needs and they are therefore not able to support those struggling financially by offering debt prevention measures or by establishing an appropriate payment plan that is right for them. As some consumers don't engage with their suppliers, it also leads to higher debt balances that are more difficult for them to recover from, increasing the prospect of the debt never being paid off. This is not in the long-term interests of the consumer. Second, it hinders debt recovery. Consumers are much less willing to have an honest conversation with their supplier about how much they can afford to pay if the perception is that they won't be treated fairly.

Why we must act now

Given that debt has been an endemic issue in the energy retail market, discussions on its management and reduction have been consistently ongoing, with various efforts aimed at mitigating it. While these discussions have progressed, the debt mountain has continued to accumulate.

Although it has always included debt management within the price cap to alleviate the cost borne by suppliers, in 2024, Ofgem was forced to announce a temporary adjustment of the price cap of £28 from April 2024 to April 2025 – i.e. £2.33 per month – for additional debt-related costs incurred from April 2022 to March 2024. This is in addition to the costs of bad debt which are a major factor in the significant difference between the average cost to serve customers paying by standard credit compared to direct debit.

The longer this goes on, the greater the burden that will be placed on every single energy consumer. However, it is the low-income households who are particularly impacted, paying a disproportionate share of their income to fund ex post the costs of higher levels of consumer debt. As the debt problem has risen significantly in the past years, the historical mechanisms for debt management and debt recovery are no longer fit for purpose. We need to move away from a historically reactive approach to debt management to a more proactive one focusing on preventing debt from occurring in the first place.

03 WHAT SHOULD WE DO?

DEVELOP A SAFEGUARDING SCORE

To draw an accurate representation of a household for the purposes of tackling energy debt, three sets of indicators are needed: (1) its financial capacity, (2) its energy use, and (3) its composition.

First, debt often arises when financial distress prevents an individual from meeting their payment obligations (although this is not always the case - sometimes debt arises because a customer chooses not to pay, either in order to prioritise other items, or because they wish to try and avoid having to do so). Therefore, financial capacity and energy use indicators should be considered complementary. Understanding a household's financial status helps evaluate its ability to pay bills, whilst understanding its energy use allows one to estimate bill amounts. This will help establish whether a customer should get support (and hence such costs should be socialised) or whether it is fair to expect them to pay. Both types of information are essential and interrelated; for instance, a lower-middle-class individual may experience financial hardship due to high energy bills if their home is inadequately insulated. Conversely, a low-income individual may face less financial strain from energy bills if their home has been recently upgraded.

Second, knowing a household's composition helps suppliers identify those households that need the most support. For example, if there are no other adults living at the property who could help support bill payments despite not being registered on the bill itself.

However, actually doing this is considerably harder than simply saying it. There is no single register of household energy consumption, no single register of who actually lives in a home, and no single register of household income (or broader wealth indicators which are typically illiquid assets). Instead, we need to explicitly aim at developing a collection of data sets that can be used to provide this basic information but also crosscheck and verify discrepancies between them. People who are in energy debt may also move more frequently than average; helping to ensure that support follows them around is critical.

We therefore need a system that contains the following records and dynamically links them together:

1. The physical characteristics of a property: its address, its meter number, how energy efficient it is and who lives there.

2. The characteristics of a person; their name, their health, and their financial status.

3. Energy consumption recorded by a particular meter.

Table 1 is an initial list of data sets that could be used to establish this system. This is intended as a first cut; the goal of this system should be to build an ever more granular understanding of consumers to enable ever more sophisticated interventions in their support.

The approach we set out focuses initially on understanding a person's financial status through their household's income level, but it could be extended at a later stage to include a broader wealth assessment, encompassing income, liquid assets (such as shares), and illiquid assets (such as property). Sharing income data at a household level would represent a significant step forward to the limited data available today. The proposed approach also offers a step towards a broader wealth assessment by overlaying household income data with other metrics such as council tax band data – as council tax band offers an indication of the size and therefore value of the property (although it does not provide an indication of ownership or equity in the property).

To reduce the risk of privacy issues, this data should be managed by a third party such as the Data Communications Company (DCC), Elexon, or a debt charity such as Citizen's Advice. This third party would be responsible for aggregating the above data to create the kinds of records set out above and verifying the integrity of these records through the careful analysis of the kinds of overlapping data sets set out in Table 1. It would enable the development of a much more granular assessment of each individual household and person with some kind of debt liability, establishing for each MPAN the persons responsible for energy, their financial, health and other relevant factors such as the proportion of household income spent on paying their energy bills. Furthermore, this would enable an evaluation of how likely they were to fall into debt as well as establishing how readily they would be able to pay back any debt they had accrued.

The information set, suitably anonymised, would then be provided to a supplier when they took that particular MPAN on in the form of a Safeguarding Score, indicating their propensity to fall into debt as well as key factors relevant to interventions, such as the energy efficiency rating of the property (where such an EPC assessment has been undertaken). Suppliers would know from this data set which households have a score that indicates significant financial resilience but who are choosing not to pay their bill. This evidence can then help suppliers take more appropriate action where it can be confident that such households should be in a financial position to pay their energy bill. Suppliers wouldn't have access to this information before taking on a particular consumer in order to avoid any risk of market distortion – i.e., suppliers deciding to only take on consumers with a low safeguarding score.

While data sharing is often assumed to be legally challenging, there is scope within the UK's complex data regulation framework to enable this. The Digital Economy Act (DEA) was introduced in 2017 to facilitate data sharing across government and enable better public services using digital technologies.[10] It allows specific bodies to share personal information to achieve four objectives – among which is tackling fuel poverty.[11] The third party identified above could be incorporated within this framework through secondary legislation to add them to Section 36 of the act.

Table 1: Initial data sets required to establish a Safeguarding Score

PERSONAL DATA	ENERGY USE DATA	PROPERTY DATA
HMRC real time Income information This is currently used as part of the WHD, but income data is at an individual level. The Previous Chancellor kicked off a project to reform child benefit which included collecting income data at a household level. Completing this project would allow this data set to be utilised.	**Energy consumption data** Held by the supplier.	**Council tax or polling data** Household composition
DWP welfare benefits Can be used as a proxy for income but might lead to inefficient targeting by ignoring some vulnerable customers not on means tested benefits.	**Meter Point Administration Number (MPAN)**	**EPC ratings** Efficiency of the building. Is publicly available but 40% of dwellings currently do not have a rating.
NHS teams NHS teams (including social prescribers and complex care teams linked to GP surgeries) could help identify consumers who would benefit from additional support without disclosing the medical information per se. This has been tested in the Catapult Energy System Warm Home Prescription trial.[12]		
Proxy data from third parties: - Credit card transactions - Specific consumer purchases - Credit score		



BOX 1: The Digital Economy Act (DEA) and fuel poverty

Section 36.1 of the DEA states that a specified person may disclose information to licensed gas and licensed electricity suppliers in order to assist people living in fuel poverty by reducing their energy costs, improving efficiency in their use of energy or improve their health or financial well-being. In this case "a specified person" refers to the entities mentioned in schedule E of the act which encompasses a wide array of public bodies such as the Secretary of State for Energy Security and Net Zero, the Secretary of State for Work and Pensions, local councils, and the Gas and Electricity Market Authority. Moreover, section 36.5 states that the appropriate national authority can amend section 36.1 of the act to add a person to whom information may be disclosed. In our case, this would be adding the third body in charge of compiling the data.

Use The Safeguarding Score To Make Better Use Of Existing Tools And Enable New Ones

Currently, individuals eligible to receive government support for bill reliefs – e.g. Warm Home Discount (WHD) and Energy Company Obligation (ECO) – are identified through the social security system, which encompasses benefits and the state pension. However, this system falls short when it comes to identifying individuals struggling financially.

Firstly, not everyone who needs support claims benefits: for example, only 45% of households in the poorest decile claim means-tested and disability benefits.[13] Secondly, relying on the social security system to identify vulnerable individuals for e.g. the Warm Home Discount entails that support is being delivered in an on/off manner: everyone receives the same level of assistance when they are on the system, regardless of their specific circumstances. However, as soon as their situation improves even slightly, the support ceases. Consequently, the assistance is not tailored to the safeguarding needs of individuals, leading to inefficient use of public resources. Additionally, those who are struggling but do not meet the threshold are unable to receive support.

Instead of drawing a hard line between "vulnerable" and "non-vulnerable" consumers, we suggest using our new safeguarding score to target support. As set out above, suppliers should receive an indication of financial resilience plus contributing factors with the higher a household's safeguarding score is, the more vulnerable that household is. This would allow for a more gradual approach to support interventions, moving away from a binary support system. It would enable vulnerable individuals to benefit from support tailored to their safeguarding needs, thus leading to a more effective cost distribution of these measures.

Only **45%** of households in the poorest decile claim means-tested and disability benefits.

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BOX 2: Examples of safeguarding score

If household A is composed of 4 individuals among which two young children and one adult receiving unemployment benefits in a poorly insulated house, household A would receive a high safeguarding score highlighting the contributing factors to their vulnerability, so for example 8 – income and energy use.

If household B is composed of 4 individuals among which two young children and one adult receiving unemployment benefits but they live in a newly renovated house that is well insulated, its safeguarding score would be lower than household A, so for example 6 – income.

If household C is composed of 2 individuals receiving high-income but living in a poorly insulated house, its safeguarding score would be lower than both household A and B, so for example 2 – energy use.

Potential forms of support include:

Offering discounted bills to help vulnerable consumers pay their bills

Currently, the WHD scheme provides eligible individuals with an annual £150 discount on energy bills. Our data-matching approach could enhance the efficiency of this scheme by tailoring it to households who find themselves in a vulnerable position due to a lack of financial resources – i.e., the lowest income – and not because of a poorly insulated dwelling. Moreover, our approach entails a more gradual approach to vulnerability. This could be translated in the overarching scheme design – i.e., a household having a higher income-driven safeguarding score could receive higher support than a household still being vulnerable but with a lower income-driven safeguarding score.

Improving the energy efficiency of the dwelling

Currently, under the ECO 4 scheme, suppliers must promote measures to improve the ability of vulnerable households to heat their homes by installing insulation or upgrading their heating systems, which help deliver Notional Annual Bill Savings (NABS). Search costs – the actual cost of finding households in such circumstances – have historically been extremely high for ECO. Centralising this through a Safeguarding Score could reduce search costs, potentially considerably, enabling more of the spending to be allocated to actual measures installed in the home. The scheme could also provide more autonomy for suppliers to spend more of the ECO money on their own vulnerable customers without having to meet arbitrary EPC improvement requirements since improving the insulating properties of the home will lower carbon emissions and permanently reduce the cost of energy for the household. As such, suppliers should be empowered to deliver energy efficiency measures that will effectively reduce bills, but that might not move the EPC rating of the dwelling.

Convert the Warm Home Discount into a solar PV and battery voucher scheme

This would be a one-off form of support providing continuous and lasting benefits for vulnerable households while speeding up the country's journey to low carbon by accelerating the rollout of solar energy and batteries. Stonehaven analysis indicates that installing solar PV on the roofs of vulnerable households could save between £300 and £500 on average from a combination of energy savings and Smart Export Guarantee (SEG) payments. Similarly, a domestic battery complemented by a smart Time-of-Use tariff could save the household between £250 and £300 a year by charging the battery during cheap periods of the day and discharging the energy to avoid paying for electricity during peak periods. This could be financed through converting the Warm Home Discount into a voucher scheme, analogous to an approach used in New South Wales,[14] Australia, giving participants the option of the discount or the panels. In this model, suppliers would instead provide a zero-interest loan, financed from the foregone WHD, and procure the PV and / or battery on behalf of the property. Our Safeguarding Score proposal would reduce the risk of misallocating this cash and enable the sharing of financing costs on a sliding scale.

BOX 3: A solar PV voucher scheme

How would it work?

Under this scheme, energy companies would install a solar panel in households at risk of fuel poverty – i.e., in the households of a financially vulnerable consumers. This could be achieved through reallocating the WHD income the consumer receives into paying off a loan that covers the cost of the asset if the consumer chooses to participate. We would envisage this being strictly optional for consumers, ensuring that they can continue to receive the WHD if they prefer.

In December 2023, households in Great Britain were estimated to pay around £523 million in total for the WHD. This proposal would not increase the costs of the scheme beyond creating a new administrative process on suppliers and would deliver greater and lasting support for recipients. Moreover, for loans held by energy suppliers, the payback period of providing a solar panel in lieu of continuing to provide the WHD rebate is 8 years, assuming an interest-free loan. This extends to 13 years if a battery is included.[15]

For this scheme to be efficient, several factors must be considered. First, the loan should be tied to the property, not the owner, meaning that the consumer would lose out if they sell the property but the income stream paying for the loan remain in place. Second, the loan should sit on the supplier's books and not on the consumer's as experiences have shown that consumers are much less likely to take something structured as a loan to them even if in practice it represents a liability of zero. Third, the scheme would need to be targeted at home occupiers and not landlords. This would ensure that all eligible individuals and only eligible individuals benefit from the scheme, but also that financially vulnerable consumers can remain adequately protected if they move house.

The New South Wales Rebate Swap for Solar scheme

In 2023, the New South Wales Government launched the Rebate Swap for Solar scheme to help low-income consumers install a 3-kilowatt solar system at no cost. This initiative was specifically targeted at owner-occupiers in New South Wales who qualified for the Low Income Household Rebate, which provides a $285 annual rebate per retail household. Under this scheme, eligible participants – i.e., owner–occupiers with a pensioner concession card, a health care card, a low–income health care card, or a Department of Veterans Affairs gold card, and who had not previously installed solar panels – could opt to forego their Low Income Household Rebate for a period of ten years in exchange for a free solar panel installation. This installation could enable them to save up to $600 annually on electricity bills.[16] In February 2024, 2,700 households had participated in the scheme.[17]

In December 2023, households in Great Britain were estimated to pay around **£523 million** in total for the WHD.

Implementing a graduated social tariff

Social tariffs – discounted tariffs only open to particularly vulnerable consumers – are often considered as a solution to managing the energy debt crisis. However, they are typically rejected on the grounds of their cost and the 'cliff edge' effect created when an individual eligible for a social tariff is no longer considered 'vulnerable' and therefore experiences a steep increase in energy costs. These views on the concept of a new social tariff make the introduction more challenging for Government, despite some of the measures contained within simply being extensions or evolutions of the policies above, for example the support introduced through the WHD.

The Safeguarding Score which we propose would alleviate some of this risk by creating a graduated, rather than binary, concept of vulnerability. In practice, this would allow for an increase in energy costs proportionate to an individuals increasing income, avoiding the risk of the steep marginal cost. Whilst introducing a brand new tariff can still take time, the government could implement some of the interventions provided above before embedding them in a single social tariff, to provide ease of access.

There are several examples of how such a process could be put in place:

1. Enhanced rebate on energy bills – introduced as support, or a discount on costs, for vulnerable consumers of which the costs are recovered through either higher energy policy costs for non-vulnerable consumers or general taxation.

2. Rising block tariff – providing for essential energy consumption at a lower cost and higher energy consumption at increased prices. More detail can be found in box 4.

3. Dutch Temporary Emergency Fund – a scheme co-funded (through Government and the energy supply value chain) providing a route for households with a disproportionately high percentage of income spent on energy bills to apply for support through a third party. More detail can be found in box 5.

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BOX 4: A Rising Block Tariff

The New Economics Foundation (NEF) has developed a proposal for a national energy guarantee in which essential energy needs would be provided at a low cost and higher consumption would be charged at higher prices. This form of social tariff known as a rising block tariff would enable all households to benefit from a safety net on their essential energy needs while incentivising wealthier households, who tend to have a higher energy consumption, to invest in domestic energy efficiency.

The NEF first estimated the "essential energy" that is to be guaranteed. For electricity, their calculation found that this amounted to 2,100 kWh per year – i.e., 72% of the actual average national consumption – and for gas, this amounted to 5,400 kWh per year – i.e., 45% of the actual average national consumption.

They then tested their approach under two different scenarios. First, using a three-tier system in which (1) 50% of the essential household energy requirement is free, (2) consumption up to the national average is charged at the Q4 2021 market rate, and (3) the rest is charged at 30% about the 2021 market price. Second, using a two-tier system in which (1) the essential energy requirement is charged at 50% below the Q4 2021 price and (2) the rest is charged 20% above. Under both models, they found that anyone consuming at the national average level of consumption would see a reduction in their total bill.

The NEF's proposal also includes additional protection mechanisms for vulnerable households with high energy usage. These include excluding households in receipt of means-tested benefits from the higher tier of the system, and increasing the threshold at which higher energy tariffs are triggered for households with children and households with disabled residents. A challenge with implementing a Rising Block Tariff across the market is how it undermines the pressing need for the energy system to become more flexible through the use of demand shifting across the day. However, applying the principles of a Rising Block Tariff to those with a high safeguarding score could provide considerable benefits, especially where only two blocks are used – a discounted unit rate and a standard unit rate. Such a tariff should only be available to financially vulnerable households.

BOX 5: CASE STUDY

The "Temporary Emergency Fund" scheme in the Netherlands

In 2022, the Netherlands implemented a Temporary Emergency Fund scheme that used a similar combination of data to our proposed approach to target energy bill support. Under this scheme, households with a joint gross income less than or equal to 130% of the social minimum and spending over 8% of their income on energy bills or households with a joint gross income less than or equal to 200% of the social minimum and spending over 10% of their income on energy bills, were eligible (in 2022/23, these thresholds were 10% and 13% for energy bills and 160% and 200% for social minimum).[18] The Temporary Emergency Fund will then cover the remainder of the monthly energy bill over the threshold of 8 or 10% through the energy supplier, who will provide a discount on the bill.[19]

To participate in the scheme, households must apply through an independent debt charity that acts as a third party and administers the scheme. That debt charity then verifies eligibility by collecting income data from the Dutch government and bill data from the household suppliers. If the household is eligible for the scheme, the debt charity calculates the amount of the grant they are entitled to receive and transmits that information to their supplier, who provides the corresponding discount on their energy bills.

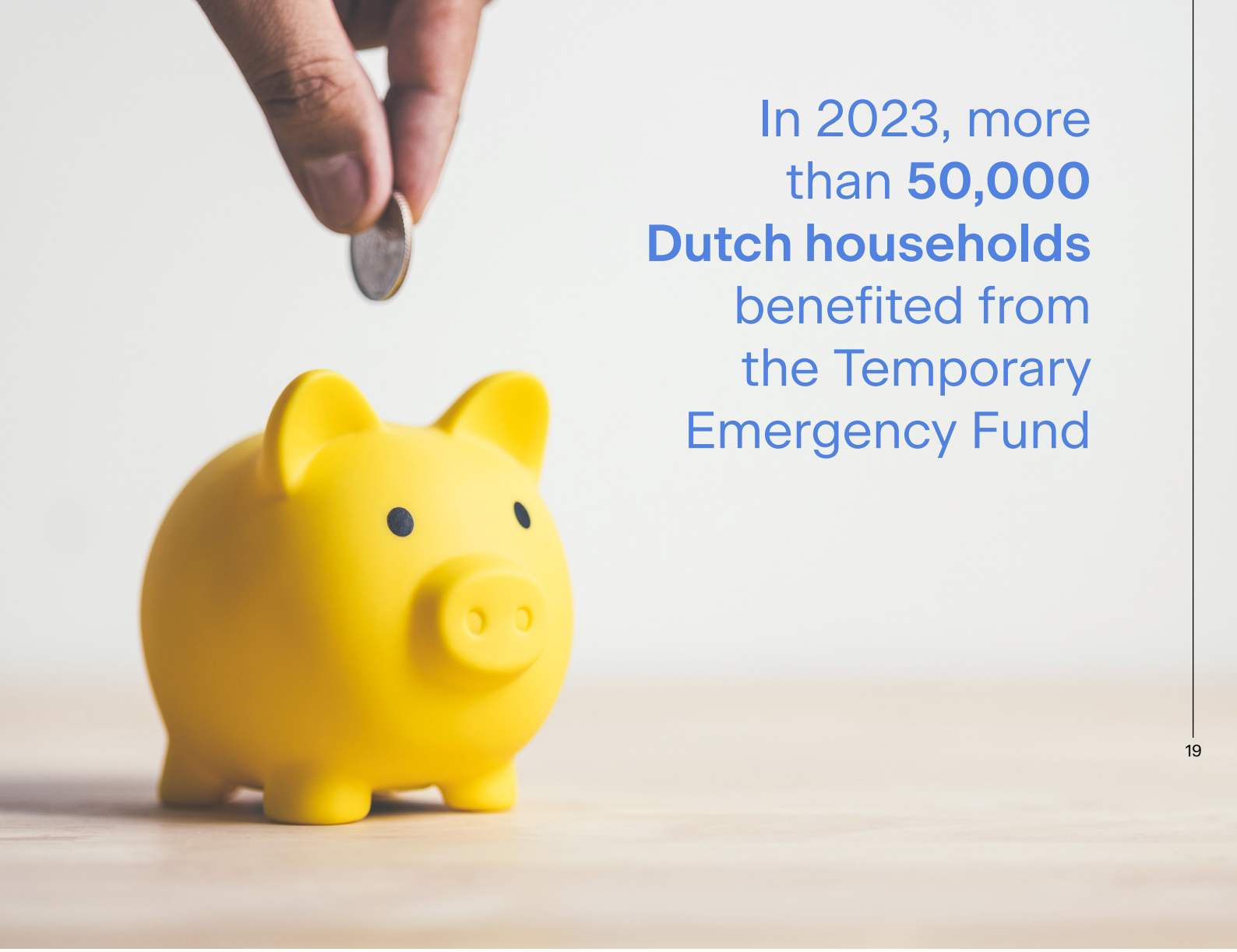
This scheme is co-funded by Dutch energy companies, across the value chain, and the Dutch Government with a total contribution of €60 million: in the first year, both parties provided €30 million, and in 2023/2024, they contributed €20 million and €40 million, respectively. In 2023, more than 50,000 Dutch households benefited from the Temporary Emergency Fund and a total of €43.7 million was paid out.[20] However, the Netherlands comprise roughly 8 million households[21] compared to 28 million in the UK[22] and has a lower poverty rate (8.5% compared to 11.7%).[23] As such, a similar scheme would cost approximately €289 million or £244 million.

The above tools can help reduce debt, but the safeguarding score also opens the way to ensuring fairness on both sides of the debt equation.

Part of the debt in the energy retail market occurs when a consumer moves out of a property and fails to settle their last bill. While it is the responsibility of the billpayer to notify their energy company when they move, in practice some fail to do so. However, they may notify other bodies, including Government services or banks, which the Safeguarding Score can use as a proxy for their moving date. This would allow more accurate association of the right person with the right MPAN. This would not only avoid billing issues – e.g. when consumers are wrongly charged for a time they didn't live in a property[24] – but when debt occurs, it would also enable suppliers to know who is responsible for the unpaid bill.

The system also unlocks the ability to have clear processes for who has the duty to pay the bill. When a dwelling is occupied, the liability should fall on all adult members of this household and not on a single individual. This would avoid having a household exempt from paying their bills or receiving debt prevention support if only one vulnerable individual is listed on the bill but other non-vulnerable adults also occupy the dwelling. The more sophisticated understanding of these additional inhabitants the Safeguarding Score unlocks permits alternatives that are not simply free riding, as is the case now. When a dwelling isn't occupied – for example, when there is a delay between the last tenant and the new tenant, but the standing charge still accumulates – the bill liability should fall on the dwelling's owner.

Funding of these interventions ultimately needs to come from either all bill payers, a specific group of bill payers, energy players operating across the value chain including generators and network companies or the Government. Models for co-funding would be the most effective means to ensure a fair division of cost which both addresses affordability for the vulnerable and avoids disproportionate bill increases to other bill payers, whilst also allowing for debt to be recovered – the latter of which is explored later in this paper.



In 2023, more than **50,000 Dutch households** benefited from the Temporary Emergency Fund

One approach to ensuring an equitable cost balance could be through the expansion of the levelisation and reconciliation process which Ofgem were planning to introduce in 2024. The proposed mechanism would have shared the costs of bad debt and levelling payment methods more fairly between suppliers.[25] This would have been delivered through a process in which Ofgem provided nominal costs associated with bad debt and empowered the Retail Energy Code Company to invoice suppliers with a lower-than-average share of bad debt in their customer base in line with these costs and make payments to suppliers with a higher-than-average share. For the levelisation of costs between customers on standard credit and direct debit – as well as those on prepayment meters – this means that those paying via direct debit will lose out, although it will still be cheaper to pay via that route.

In practice, this enhanced approach means that the additional costs for supporting vulnerable consumers will be spread equitably across suppliers and, hence, across consumers. Ofgem will be responsible for identifying the nominal costs of doing so. Importantly, this means that if a supplier is able to beat the average cost of supporting vulnerable consumers, they will essentially be able to make a return, either through lower transfers if they have a smaller share of vulnerable consumers or higher payments if they do not. This creates an inbuilt incentive to innovate to drive down the costs of supporting the vulnerable and, thus, to hold down costs for all consumers. It is not possible to avoid the costs associated with seeking to reduce vulnerability across energy consumers. What is important is to find the most cost-effective way of doing so for all those impacted, from Government to supplier to consumer. The proposed mechanism is intended to reward suppliers who are able to achieve this. Box 6 below explores how this could be implemented.

BOX 6: How to reconcile costs of debt management

The fundamental aim of our proposal is to provide a mechanism to reduce the vulnerability of consumers to energy debt and manage down the costs of resolving it. We think the right pathway to pursue is by rewarding suppliers that are able to improve Safeguarding Scores. This boxout will illustrate how we believe this should work.

Example 1: Simple levelisation and reconciliation

Supplier A has a total Safeguarding Score that represents an overall lower proportion of vulnerable consumers than Supplier B.

During levelisation and reconciliation, there is a net payment from A to B in proportion.

Example 2: Rewards for reducing vulnerability

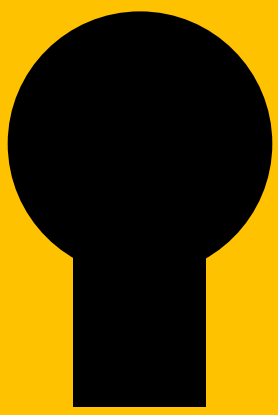
Supplier A has a total Safeguarding Score that represents an overall lower proportion of vulnerable consumers than Supplier B.

However, Supplier A has invested in a social tariff solution to reduce the vulnerability of a set of its customers and is entitled to offset this against any payments it would otherwise make. During levelisation and reconciliation, there is no net payment between Supplier A and Supplier B.

Example 3: Rewards for reducing vulnerability through capital investments.

Supplier A has a total Safeguarding Score that represents an overall lower proportion of vulnerable consumers than Supplier B.

However, Supplier A has invested beyond their ECO commitments in improving the energy efficiency of the homes of their vulnerable consumers. It can recover the capital costs of doing so over a fixed period, and during levelisation and reconciliation over this period there is a net payment from B to A.



Using our **Safeguarding Score**, suppliers can identify consumers who are **vulnerable** and experiencing financial **difficulties.**

GIVE CONSUMERS REASONS TO TRUST SUPPLIERS

Establish an industry-wide debt charter

When a household is at risk of falling into debt, the energy supplier's first step is to try and engage with the customer to understand their circumstances and their ability to pay in order to potentially agree on a repayment plan with them. Despite this first step being an industry-wide requirement for suppliers, Citizens Advice found that not all suppliers do so, and some repayment plans fail because they do not consider the consumer's ability to pay.[26] Moreover, different suppliers have different approaches to the recovery of debt, including things such as likelihood to litigate, speed to escalated debt processes etc. Poor practices in one supplier create negative sentiment that is then applied to all suppliers, leading to erosion of trust for the sector as a whole. In order to prevent this from happening, the debt repayment process should be standardised across the industry. Therefore, suppliers could work with consumer groups and other key stakeholders in order to develop a standardised approach to income & expenditure assessments and to debt repayment – i.e., which debts are considered priority debts depending on certain circumstances. As such, a supplier's first step should always be to contact the consumer in difficulty to try and understand their particular circumstances and the repayment plans that result from this initial engagement would be standardised across the industry. Having uniform, clear, and transparent processes about how debts are to be repaid and which criteria are to be considered when developing a repayment plan could help improve consumer trust. Indeed, it would give them greater certainty that energy debt is considered a priority debt and that the appropriate mechanisms to facilitate repayment are in place.

Establish an industry-wide consumer duty

In order to restore consumer trust in the market we must look beyond the singular issue of debt to address the broader relationship between suppliers and their consumers. The current Ofgem regulations emphasise fair treatment of consumers by suppliers – i.e., offering the same products to all the consumers – rather than ensuring positive outcomes – i.e., ensuring that the product the consumer is receiving or the contract the consumer is on, is the most adapted to their circumstances. To enhance consumer protection and rebuild trust, we propose that Ofgem adopt a consumer duty in the energy retail sector to put the onus on retailers to ensure that they are delivering good outcomes to consumers. This industry-wide consumer duty could mirror the approach taken by the FCA in financial services.[27] It would require suppliers not only to help consumers make informed decisions but also to ensure that their products meet consumers' needs, especially when thinking about complexity emerging from new products such as solar panels and heat pumps. This may include adding contract flexibility to accommodate the evolving needs and circumstances of consumers. Additionally, such a duty would go beyond existing protective mechanisms by, for example, introducing a clause to prevent foreseeable harm. Finally, it would establish clear processes for the regulator to monitor supplier practices, thereby addressing poor practices before they become widespread.[28] In December 2024, the Government made a step in this direction by issuing a call for evidence of the energy regulator in order to help promote a "consumer-first" culture in the energy retail market.

Foster pro-active first contact from suppliers

Using our Safeguarding Score, suppliers can identify consumers who are vulnerable and experiencing financial difficulties. By leveraging this information, suppliers can proactively reach out to these consumers to offer support, aiming to stop things from getting worse. This proactive engagement will help strengthen consumer-supplier trust, as those supported will be more inclined to maintain communication with their supplier if financial challenges persist.[29] Additionally, as part of this contact strategy, suppliers should collaborate with third-party organisations, such as debt support charities, to refer consumers who would benefit from independent financial or debt management advice.[30]

TACKLE THE LEGACY OF THE ENERGY CRISIS

Even with all of the above interventions available, we anticipate that there will remain a rump of people who fell into debt during the energy crisis and will still struggle to get out. Our last use of the Safeguarding Score, therefore, is to identify these individuals and subject to funding being available, offer them a one-off debt repayment scheme. This could be analogous to the Help to Repay scheme designed by Money Advice Trust, detailed below. We would recommend a graduated scheme based on financial resilience to avoid the cliff-edge effects outlined above.

BOX 7: Money Advice's Help to Repay Scheme

Their Help to Repay Energy Arrears scheme could offer support to over 654,000 low-income households at a cost estimated between £551 million and £684 million, depending on the generosity of the approach. It would lead to a 36% reduction in the amount of debt – i.e. £1.04 Billion. To access the scheme, consumers would need to have energy debt and qualify for the WHD (or enhanced targeted support scheme using better data) – this would ensure that support is targeted at low-income and provides an easy identification pathway as data-matching is already completed as part of the WHD.

As part of their scheme, Money Advice Trust has fleshed out two potential scenarios to support individuals in debt. Under their first scenario, individuals who will struggle to contribute anything towards their debt repayment could benefit from a full debt write-off, whereas those who can afford to contribute to the repayment but would struggle to do so affordably in a reasonable timeframe could benefit from a 50% repayment matching. This scenario entails higher administrative costs to determine if a household should receive a full debt write-off or a repayment matching. A Money Advice Trust study has shown that currently, 24% of individuals who would be eligible for this scheme cannot afford anything towards their debt. Under their second scenario, support is only provided via a 50% repayment matching.

According to Money Advice Trust, costs associated with this scheme would be spread over a period of 4-5 years, with a majority of this spending in the first 3 years. This is because they anticipate most of the applications to come towards the opening of the scheme, but they expect some delays in people applying. Moreover, based on Ofgem estimations, without the scheme it would take 4 years and 4 months on average to repay debt. With the scheme the average timeframe could therefore reduce to 2 years and 2 months.

In addition to providing vital support for the financially vulnerable and lowering bills from all consumers through a reduced bad debt allowance in the price cap, such a scheme includes longer-term benefits.

First, it promotes the ongoing payment of bills. Evidence from the water sector and from individual energy suppliers suggest that repayment-matching schemes are highly successful in supporting long-term ongoing payment of bills. For example, 90% of the Wessex Water's Restart programme's customers continued to pay for their regular water consumption after their debt was writen-off.[31] Similarly, 85% of customers who benefited from E.ON Energy fund programme did not fall back into debt 12 months after debt award.

Second, it induces long-term trust between suppliers and consumers. The Energy System Catapult's Warm Home Prescription pilot found that 76% of the pilot's recipients were more likely to implement measures of energy efficiency after receiving the Warm Home Prescription. The Help to Repay scheme could have a similar impact: as consumers feel like they're receiving adequate support from their supplier, they could be more willing to engage in conversations regarding energy efficiency and insulation. This could even act as a route for Labour to meet its commitment of providing 5 million households with energy efficiency measures by 2030.

Lastly, it would alleviate pressure on the NHS as it would have a positive impact on recovery rates for mental health conditions, thus reducing the NHS Talking Therapies waiting list. A study conducted by the Money and Mental Health Policy Institute found that individuals who experience depression and have financial difficulties are 4.2 times more likely to be still suffering from depression 18 months later compared to those who experience depression without financial difficulties.[32]

Funding for this approach could be deployed through several pathways. The first option would be to use a proportion of the money raised through the price cap adjustment being redirected towards this repayment assistance scheme. Indeed, as Ofgem expect over £730 million to be raised through the new bad debt allowance, a proportion of this sum could be redirected towards a common pot that would fund the scheme.

A variation on the help to repay scheme is to pool the amount of additional debt which consumers have built up since the energy crisis began (c.£2bn) and socialise the costs across the industry based on each supplier's market share.



08

BOX 8: Pooling of debt

Under this proposal, each supplier would put their current customer debt into a central pot in excess of what the level of bad debt was before the energy crisis. This amounts to around £2bn if we simply focus on debt > 90 days. Based on 29m households, it is equivalent to each household paying c.£70 towards the pooling of this debt. To reduce the cost to each household, the repayment of the debt could be phased over a number of years e.g. 5 years, equivalent to c.£14 a year on the bill for each customer. The annual charge would then be levied by all suppliers, so those with a higher share of the retail market would pay more towards the costs of effectively cancelling his extraordinary level of debt.

Example:

Supplier A with a 20% market share would fund £400m towards the cancelling of this debt. However, its' customers have only accumulated debt of extra costs over the last few years of £300m, so it is making additional contributions into the fund. Supplier B with a 10% market share would fund £200m but it has a customer base which is less affluent and has seen its debt book grow by £275m, and therefore some of the cancellation of this additional debt would be paid for by other suppliers including Supplier A.

04 CONCLUSION

This report has shown how existing debt recovery tools focusing on a reactive approach to debt as opposed to a proactive one are no longer fit for purpose due to the lack of trust in the energy retail market and consumers' reluctance to engage with their suppliers. Suppliers must be empowered to identify who among their consumers is financially struggling in order to provide adequate support, but consumers must also be encouraged to engage with their suppliers when they are struggling in order to for their supplier to provide adequate support. For this to happen, trust in the system must be restored.

- **The measures we have outlined in this paper, in the narrow but consequential world of energy debt, are radical and can be paid for through a levy on every consumer's bills – similar to the already existing environmental and social policy levy. The key proposals are:**

- **Developing a safeguarding score combining a number of data sets in order to better target debt prevention measures. The higher the safeguarding score the greater the level of vulnerability. This safeguarding score could later on be extended to other essential services beyond energy, such as water of broadband services.**

- **We have developed a number of alternative policy options to help support customers with a relatively high safeguarding score.**

    - Better targeted financial support for vulnerable customers such as a discounted (social) tariff applied to some (e.g. essential energy consumption) or all consumption levels, and an enhanced rebate.

    - Improved targeting of energy efficiency programmes such as ECO through the use of the safeguarding score.

    - Unlock funding for green technologies such as solar PV and batteries which can sustainably reduce energy consumption or ensure energy is stored during cheap periods and utilised to avoid peak periods of the day which leads to permanently lower energy bills for vulnerable customers.

- **Establishing an industry-wide debt charter**

- **Establishing an industry-wide consumer duty**

- **Fostering pro-active first contact by suppliers**

- **Tackling the legacy of the energy crisis through a help-to-repay scheme and pooling of debt.**

Reforming the Priority Services Register to introduce a much more sophisticated – but correspondingly complex – arrangement will be challenging, but in our view necessary. However, restoring trust between consumers and their energy supplier will require radical action and will require radical action promptly. We must act to tackle the misery and stress that energy debt represents and lay the groundwork for the kind of radical new market[33] that Labour's 2030 decarbonisation target will require. There can be no doubt that this must be one of the first priorities for this new Government.



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