Ofgem Affordability and Debt Call for Input
Citizens Advice Scotland response

Key points

- In 2023/24, the average energy debt clients presented to the Citizens Advice network in Scotland was around £2300. This figure is significantly higher than the market-wide average of £1761 for consumers with no repayment plan in place.
- Of the clients that the Citizens Advice network in Scotland supported with complex debt issues, 34% with a negative budget have some level of fuel debt. People with negative budgets will find it impossible to pay back their debts.
- While wholesale and non-wholesale energy costs have driven the lack of energy affordability, wider cost-of-living pressures and the social security system have also contributed to people struggling to pay their energy bills.
- Our data highlights a marked increase in the scale and detrimental impact of energy debt in Scotland, with acute challenges in rural areas. The average debt for people in accessible/remote rural areas who sought advice from our network was £3047.
- The scale of the affordability and debt problem demands long-term policy solutions. Ofgem must work with the UK Government and energy suppliers to devise and implement a debt write-off scheme. Debt write-off, combined with a social tariff, represents a robust response to market-wide challenges around affordability and debt.
- CAS recognises that suppliers are trying to help customers in debt. However, suppliers have designed and implemented policies and procedures that are not consistent across the industry. Ofgem should play a leading role in establishing robust and consistent industry-wide approaches towards people struggling to afford energy bills.
- There are examples of approaches to debt and vulnerability in other sectors, including financial services and telecoms, that point the way towards improved outcomes for energy consumers. Additionally, Ofgem should look to other jurisdictions, including the Netherlands, California and Ontario to gain new insights into how the to better protect and support consumers in the GB energy market.

Our data suggests the energy debt problem is getting worse and imposing harm on people in vulnerable situations

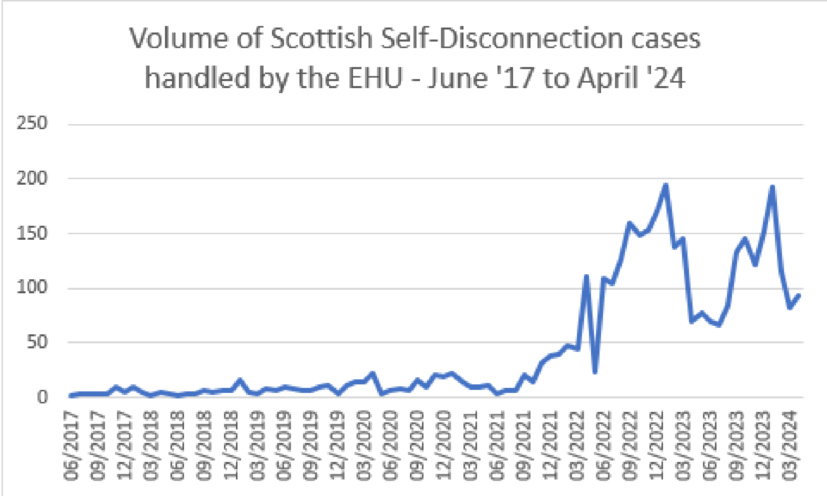
- During 2023/24, bureaux managed over **£6.4 million in energy-related debt for over 2700 clients**.
- That figure represents a **28% increase in the amount of debt and a 10% increase in the number of clients** compared to 2022/23.
- Of clients supported with complex debt issues, **34% of those with a negative budget have some level of fuel debt**. For these clients, it will be almost impossible to pay this debt back within their current budgets. Moreover, they are at very high risk of encountering further debt.

- The **average energy debt clients presented in 2023/24 was around £2300**. This figure is significantly higher than the market-wide average of £1761 for consumers with no repayment plan in place.
- Our data echoes Ofgem figures, which show the total number of customers in arrears, and the total amount of arrears, rose between August 2022 and December 2023. The number of customers repaying debt fell in this period although the total amount of debt stayed relatively stable.
- Clients are bringing cases that underscore how energy debt compounds detriment and exacerbates vulnerable situations.

Citizens Alert: A West of Scotland CAB has been supporting a terminally ill client who struggled to manage their energy bills and therefore accrued arrears. The client stated that due to their terminal illness, they need to keep the heating on for longer periods of time to stay warm. However, with the rising costs of energy, they cannot afford the costs, adding further detriment to their deteriorating health. The client stated that due to issues with their mental health, they had difficulty reading their meter and submitting regular readings, resulting in a debt of over £2,600. Despite being on the priority services register, the client found supplier assistance limited: a one-time meter reading with only one attempt and a potential month-long wait, or quarterly readings with potentially inaccurate estimates. Furthermore, after consistent bill payments, the supplier claimed the amount stated on the pre-printed bill was not the actual amount owed. The client found the billing information complex and misleading, and especially difficult as they struggled with reading comprehension.

- There is a long-established link between debt and wellbeing, including the mental health impacts that money worries exact on people. Analysis of recent YouGov polling for CAS suggests that over 660,000 people in Scotland cite debt as impacting their mental health. Evidence that advisers in our network have gathered also shows the physical toll that energy debt can take on people in vulnerable situations. There are serious societal costs of not tackling energy affordability problems. In 2014, the estimated cost of fuel poverty to the NHS in Scotland was £80 million per year.[1]
- Increased energy costs and debt force people into dangerous coping mechanisms like self-rationing and self-disconnecting. Since 2017, there has been a marked increase in the number of Scottish self-disconnection cases handled by our Extra Help Unit.

[1] Savings to the NHS of addressing fuel poverty.



- These numbers reflect an increasing number of people who make the difficult choice to go without heat or electricity, with damaging consequences for their health and wellbeing.
- CAS is concerned about the damaging impacts of self-rationing on people who are in vulnerable situations. For example, analysis of YouGov polling for CAS indicates that over 40,000 disabled households have gone without a cooked meal to run or charge medical equipment. This finding reflects that disabled people struggle to afford increased energy costs and, in many cases, have unavoidably high levels of energy consumption.

Citizens Alert: A North of Scotland CAB reports of pension-aged woman with osteoarthritis who stopped using her gas central heating and oven because of concerns about cost and anxiety about going into debt. The client uses a sandwich toaster to make meals and reported that her osteoarthritis had deteriorated due to living in the cold.

Citizens Alert: A North of Scotland CAB reports of a pension-aged couple whose energy bills increased to £170, which caused them to accrue arrears of £490. They stopped using their central heating, which exacerbated lung conditions that both clients have. They also started going to bed at 6:30pm to reduce electricity use.

Wholesale costs and standing charges have contributed to affordability and debt challenges

- The Call for Input illustrates the spike in wholesale costs in 2022-23. Wholesale costs have been the main driver of energy affordability problems in recent years.
- Non-wholesale costs, including standing charges, have contributed to making energy more expensive for consumers. In the Scottish Hydro network area, standing charges **increased 113.7% between 2021 and 2023**. Standing charges in the Scottish Power Networks **increased by 137% between 2021 and 2023**. The average standing charge in the Scottish Hydro network area as of October 2023 was £212.83, which is **10.6% higher than the GB average**. The average standing charge in the Scottish Power network area in October 2023 was £221.63 – **15.2% higher than the national average**.[2]

[2] Ofgem, *Standing Charges: Call for Input* (2023), p.28.

- This combination of increased wholesale and non-wholesale costs has contributed to the mounting debt crisis in the GB energy market. The current situation, with around 2.2 million GB households in debt and arrears and total energy debt at around £3.1 billion, is bad for customers and suppliers.

Factors beyond energy costs are contributing to affordability challenges

- The cost-of-living crisis has placed unprecedented strain on household budgets. In 2023/24, the Citizens Advice network in Scotland had **30,808 contacts regarding utilities-related cost-of-living advice.**
- 35% of these contacts involved giving advice on utilities plus advice on other topics. Where other advice was given on generic topics, on **20% of occasions this included advice on debt**. These figures indicates that energy debt sits alongside a range of other debts, exacerbating the strain on budgets and forcing people to make difficult – or even unmanageable – financial decisions.
- For all clients receiving utilities-related cost-of-living advice, **13% also received advice on food banks, 8% received advice on benefits and a further 8% received advice on the Scottish Welfare Fund Crisis Grant**.
- Based on this evidence, issues like food insecurity and the design of the social security system are interacting with increased wholesale and non-wholesale prices to create structural barriers to people's ability to pay their energy bills.

Scotland's rural communities face significant challenges around energy debt

- Of the clients that the Citizens Advice network in Scotland supported with complex debt issues, 34% with a negative budget have some level of fuel debt. For these clients, it will be impossible to pay this debt back within their current budgets. Moreover, they are at very high risk of encountering further debt, other financial difficulties and poor mental wellbeing.
- Clients from rural areas had by far the largest average energy debt during 2023/24.
- The **average debt for people in accessible/remote rural areas was £3047**, compared to £2100 for people in large urban areas.
- The surge in energy debt in rural communities implies that rurality – or issues attendant to living in rural areas like low-quality housing stock, digital exclusion and difficulty accessing services – is contributing to affordability and debt challenges.

Long-term solutions, including a social tariff and debt write-off are required to deal with energy affordability and debt challenges

- CAS reiterates its strong and consistent support for a social tariff in the retail energy market. While accepting that Ofgem cannot implement this policy unilaterally, we remain convinced that a social tariff is the long-term solution to energy affordability problems.
- Data from our network shows the market-wide nature of the debt problem. Between Q1 2022/23 (April to June 2022) and Q1 2023/24 (April to June 2023), all the top energy creditors – apart from two suppliers – had significant increases in average debt value. This trend reflects the fact that increased energy debt is an unavoidable consequence of a precipitous increase in energy costs. In the context of entrenched and market-wide energy debt, a write-off scheme

is the robust and necessary solution to this problem. Therefore, Ofgem must work with the UK Government and energy suppliers to develop a write-off scheme. In the absence of a write-off, consumers will continue to struggle to pay their debt, which poses the risk of perpetuating the harmful mental health effects that debt imposes on people, as well as the wider societal costs to public services.

- We support Ofgem's decision to examine the standing charge regime. In a previous submission to Ofgem, we expressed reservations about a blanket shift from standing charges to unit rates. We also raised concerns about the impact of rising block tariffs on people whose energy consumption is unavoidably high. However, we believe that Ofgem should use its powers to compel suppliers to offering tariffs with no standing charges to those customers who stand to benefit from this option.
- We are open to proposals like the Fuel Bank Foundation's suggestion that debt repayment for PPM customers should be rephased to summer months when energy consumption tends to be lower.[3]

There are inconsistencies between suppliers when dealing with customers in debt. Ofgem should introduce robust standards that facilitate good outcomes for people regardless of their supplier

- Based on the anecdotal experience of advisers in our Extra Help Unit (EHU), who deal with complex energy cases and consumers at risk of self-disconnection, suppliers have a range of approaches to agreeing repayment plans with people in arrears. In some cases, a supplier has offered repayment plans of up to 14 years; other suppliers offer repayment plans of one to three years.
- These examples underline the inconsistent and patchwork nature of the approaches suppliers take to debt, even when they are trying to help customers. Consumers would have more certainty if there was a consistent approach to repayment plans across all suppliers. Ofgem should work with suppliers and other stakeholders to establish a sector-wide definition of financial vulnerability, which does not exist currently.
- This anecdotal evidence suggests indicates instances when suppliers approach repayment with the aim of recovering a balance quickly rather than understanding what a customer can afford. Suppliers should have a more nuanced approach and adhere to their obligations to understanding a customer's ability to pay. Failure to reach repayment plans that people can afford impacts wellbeing and can impose detriment on people in vulnerable circumstances.

Citizens Alert: The Extra Help Unit reports of a client with a brain tumour who moved from a pay-as-you-go account to quarterly billing. He received two bills: one for £789; and another for approximately £1,100. The client was unable to pay both bills in full. He phoned his supplier to arrange an affordable repayment plan but was unable to secure an agreement with the customer service agent. Subsequently, the client began to receive debt collection action letters.

- A small number of suppliers request that customers struggling to pay their bills use open banking platforms to create income and expenditure forms. Thus far, it is unclear whether these tools support people in arrears or if they inhibit people asking suppliers for help. CAS

[3] Fuel Bank Foundation, *Fuel Crisis Report*, p.19.

has several concerns about suppliers using open banking. There is an inherent power imbalance between an energy suppliers and consumers in arrears. Granting suppliers access to granular detail on consumers' spending risks tilting that imbalance further in suppliers' favour. Moreover, suppliers have a clear interest in using open banking to focus on finding ways for consumers to repay energy debts rather than other priority and non-priority debts.

- CAS believes that suppliers' agents must use the information derived from open banking tools sensitively and non-judgementally. Specifically, we are concerned that suppliers could make inaccurate assumptions about a customer's ability to repay arrears based on evidence of small amounts discretionary spending highlighted by open banking, even when their financial position means they struggle to fund essential living costs
- A recent report suggests that 14% of 'digitally active' consumers are using an open banking app.[4] However, the proliferation of open banking raises questions about how digitally excluded customers can engage with this process. Based on these concerns, CAS calls on Ofgem to establish industry-wide standards on how suppliers should use open banking platforms for consumers in debt.
- We welcome suppliers' efforts to use payment matching schemes to assist consumers who are in debt. The EHU's anecdotal evidence is that payment matching is a useful way of allowing customers to pay an amount they can afford while also lowering debt balances that may have seemed insurmountable. Payment matching also brings down the costs associated with bad debts, which helps suppliers and consumers alike.
- Trust Funds are another vehicle that suppliers use to reduce customers' debts. However, access to these funds is predicated on customers have a sustainable payment plan in place. People with negative budgets who cannot afford to pay for a reasonable amount of ongoing consumption are unable to benefit from these funds. Suppliers should consider how they can assist customers with negative budgets.
- Problems accessing Trust Funds underlines the importance of suppliers tailoring their support around customers' individual circumstances and avoiding a one-size-fits-all approach to debt support.

Ofgem should examine approaches to debt and affordability initiatives in the financial services and telecoms sectors

- Ofgem should examine the Financial Conduct Authority's (FCA) approach to dealing with vulnerability and other debt-related initiatives. FCA Guidance, which outlines how firms can meet its Principles, suggest that firms should understand customers' needs, ensure staff are capable of recognising vulnerability and skilled enough to respond to it, respond to customer need in terms of the products they offer and how they communicate, and to monitor and assess their progress in meeting vulnerable customers' needs.[5]
- The FCA has devised a Consumer Duty, which established a new Principle requiring firms to deliver good outcomes for retail customers. The rules undergirding this Principle require firms to 'consider the needs, characteristics and objectives of their customers – including those with

4 Adoption Analysis - The open banking Impact Report 2024.
5 Guidance for firms on the fair treatment of vulnerable customers.

characteristics of vulnerability – and how they behave, at every stage of the customer journey.'[6]

- The FCA's Tailored Support Guidance, which was created during the pandemic, asks creditors to provide tailored forbearance to borrowers in financial difficulties.
- Ofgem can emulate the FCA's approach to ensure that suppliers recognise the significant pressure on household budgets, consider their customers holistically and work with them to agree manageable ways out of energy debt.
- Ofgem should examine social tariff provisions in the telecoms sector. Most telecoms providers have developed social tariffs voluntarily, which has improved choice and bolstered financial protection for consumers in vulnerable situations. Crucially, the social tariff in the energy market should include an autoenrollment element to ensure take-up is higher in this sector that telecoms.

Examples from other jurisdictions point to how tackle affordability and debt issues in the GB energy market

- CAS notes the approaches to energy debt in the Netherlands and California that Ofgem cited in the Call for Input. Both examples provide useful models that will contribute towards energy customers resolving problems with debt. The Dutch model has the advantage of placing independent debt advice at the heart of the process, helping consumers understand their financial situations and develop plans to improve their financial health.
- However, initiatives that deal with debt do not address the underlying challenge around energy affordability. Solutions to help people repay debt must be accompanied by measures that make energy cheaper for people living on low incomes and in vulnerable situations, not least a social tariff.
- Ofgem should examine the Ontario Energy Board's energy affordability programmes. The Ontario Electricity Support Program functions as a social tariff, with support calibrated around household income and size.[7] The Low-income Energy Assistance Program provides financial help to people who are in energy debt or arrears, with eligibility based on household income and size.[8]

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[6] A new Consumer Duty.
[7] Ontario Electricity Support Program.
[8] Low-income Energy Assistance Program.