CORNWALL INSIGHT

CREATING CLARITY

Alert – DESNZ and Ofgem set out strategy for domestic energy debt

Headline assessment	
Documents:	Energy debt circuit breaker: a strategy for domestic energy debt
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Impact classification:	High: Domestic Suppliers
Action if desired:	Note the changes proposed by the strategy

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1 Assessment and recommendation

On 28 October, Ofgem and DESNZ published a policy paper: Energy debt circuit breaker- a strategy for domestic energy debt. The strategy focuses on 15 areas that could be used to improve debt standards, including:

- The Debt Relief Scheme
- Involuntary prepayment meters (PPM) and smart Pay As You Go (PAYG)
- Allowing tenants to get smart meters without landlord consent
- Role of standard credit and variable recurring payments
- Priority Services Register review
- Energy debt advice
- Energy debt task and finish group

These focus on implementing guidance, improving data accessibility and identification of customers in or at risk of being in debt, with the establishment of the Energy Debt Task and Finish Group intended to support collaboration across the industry. The Debt Relief Scheme will be delivered in spring 2027, with a consultation expected from Ofgem later this year.

Cornwall Insight comment: There is no one solution that can tackle the level of energy debt in the domestic market, especially when energy prices are rising once again. Preventing greater debt build up over this period will be just as important as dealing with the existing debt from 2022-2024. This strategy sets out a number of proposals to deal with both, but they will require a co-ordinated response across all parties to be delivered effectively. The highly sensitive nature of this topic cannot be ignored either, as the majority of consumers involved will be vulnerable, and a difficult balance will need to be struck in terms of debt repayment. Consumer benefits from this initiative will not materialise until well into 2027, which will be a disappointment for consumers, suppliers and advocates considering this work stream commenced nearly two years ago.

2 Background

Consumer energy debt has tripled since 2022 and is at over £5bn as of Q226, with more than 2mn households in energy debt and arrears and less than half of these with a repayment arrangement in place. The cost for consumers is now approximately £67 per year towards managing this debt, almost double the level seen before 2022. This undermines the energy system by disincentivising investment in the retail market and requiring suppliers to devote more resources towards debt administration and recovery, while also having a negative impact on people's physical and mental wellbeing.

Ofgem published its own debt strategy in December 2024, which set out actions it intended to take to 'reset' the energy debt landscape and raise debt standards in the domestic market. It was followed by a statutory consultation in 2025. The Government also introduced a number of interventions such as the Warm Homes Plan and the removal of VAT from domestic electricity bills. Charity groups and suppliers have been supporting customers with advice and practical solutions.

Within this paper, Ofgem and DESNZ establish four systemic challenges where action is required:

1. Indebted customers, who struggle to pay their energy bills and reduce the debt they have built up, need further support.
2. Barriers such as outdated payment/repayment methods and practices can make it hard for consumers to pay their bills, encouraging the build-up of debt.
3. Existing rules and processes do not always promote effective consumer engagement with debt, preventing action to make repayments or establish arrangements. Inadequate data sharing/access limits the ability to engage consumers or tailor support effectively.
4. Siloed action limits progress – taking action on debt requires a framework for common work and joint working across energy consumers and the debt landscape.

3 Debt strategy

The debt strategy is built on three principles:

- **Relief**: In the immediate terms, they will provide a targeted, one-off debt relief for vulnerable households to give them breathing space.
- **Repayment**: Debt relief must go hand-in-hand with a route back to financial stability. Ofgem and DESNZ will support households to reengage with their supplier and take practical steps to prevent debt building up again.
- **Reform**: In the medium-to-longer term, they will tackle the root causes of energy debt by modernising payment systems, improving supplier practices and making greater use of smart meters.

Based on these principles, Ofgem and DESNZ have developed four objectives for tackling energy debt:

- Customers receive the support they need to prevent debt escalation.
- Greater use of modernised payment methods and practices to remove barriers to payment.
- Improved consumer engagement mechanisms.
- Stronger cross-sector collaboration on energy debt.

Tackling debt requires concerted action across the sector, involving all parties including consumers, suppliers, Government, Ofgem, consumer groups and debt advice providers.

3.1 Debt relief scheme

Ofgem and DESNZ will deliver a Debt Relief Scheme (DRS) in spring 2027. This will be a one-off, targeted intervention designed to help customers in genuine financial need who hold debts airing from high prices during 2022-2024 and have little realistic prospect of repaying them.

This builds on Ofgem's work on the DRS over 2024-25 and introduces a number of changes, including:

- Delivering the DRS in a single phase to simplify scheme delivery.
- Extending the eligibility criteria to consumers on means-tested benefits, disability benefits and pensioners.
- Strengthening engagement criteria which consumers must meet in order to receive DRS support, making greater use of smart prepayment and supplier repayment plans while preserving protection for vulnerable consumers or those in greatest financial need.

Ofgem will further consult on these changes in late 2026, with a decision in early 2027.

3.2 Reforming the home moves process

Government and Ofgem will provide improved guidance to suppliers regarding remote switching to smart Pay As You Go (PAYG), as well as obligating landlords to provide their tenants' contact details to the supplier.

Ofgem estimates that 20-40% of energy debt is associated with changes in occupancy, driven by both uncertainty over who the new occupiers of the property are and consumers leaving properties without clearing outstanding balances.

3.2.1 Home moves guidance

This guidance would apply where no new occupier has contacted the supplier. Suppliers would be able to assess whether the property is suitable for a remote switch to PAYG. It will also standardise the protections available to customers who move into a property without registering with a supplier, to reduce the risk of customers receiving unexpected or large bills.

Through smart PAYG, households can continue to access energy for a minimum two-week period, giving them time to set up an account and inform suppliers of any additional support needed if applicable.

Suppliers would not be required to adopt this approach and would keep flexibility to design alternative home-move arrangements that meet regulatory requirements and deliver appropriate customer protections.

Ofgem has issued a consultation on this guidance, encompassed under the deemed contracts guidance, closing 9 December 2026.

3.2.2 Improving information flows

Government will introduce legislation to Parliament to reform the home moves process, placing an obligation on landlords to provide timely and accurate information to their supplier when tenants move into or out of a property. Where neither the tenant nor landlord has provided the necessary information, landlords may become liable for the energy charges associated with the property. Ofgem and DESNZ will consider whether different arrangements for financial liability are appropriate for the social rented sector.

This would prevent tenants from receiving large, backdated bills, or inheriting bills from previous occupiers and for landlords it would mean tenants are less likely to fall into energy debt which could compromise their ability to pay rent or other bills.

3.3 Linking debt to the Warm Homes Plan

DESNZ will explore opportunities for suppliers to identify customers in, or at risk of being in, debt, and the potential use of Government data and technology to verify benefit status and income so that local partners can prioritise the delivery of home upgrades to those most in need. Delivery of bill saving packages of technologies such as solar and batteries could result in large monthly savings that provide a benefit to the household and could go towards paying down debt.

Other opportunities could be available through the Warm Homes Fund, which will support innovative finance models to support home upgrades and reduce bills. Models considered in the call for evidence include property-linked finance, revenue/savings-sharing models and energy-as-a-service models. DESNZ will publish its response shortly, considering how these models could support households in or at risk of debt by cutting their bills.

3.4 Involuntary PPM rules review

Ofgem is undertaking a review of the involuntary prepayment (PPM) installation rules. Alongside this policy paper, it has published the findings of its phase 1 process evaluation, which examines the development and implementation of the strengthened protections against involuntary PPM installations.

The full review considers a range of issues, including which groups of consumers should not have a PPM installed, the processes suppliers are required to follow before installing a PPM without consent, and whether it is appropriate for suppliers to verify customer circumstances.

Ofgem published a discussion paper seeking views on the rules suppliers must follow when they install a PPM to recover debt without a customer's agreement. The call for input closes on 23 December 2026. Ofgem will collaboratively develop any policy proposals before consulting in the Q127.

3.5 Smart PAYG

Ofgem will develop a smart PAYG innovation programme, to enable suppliers to test new products, services and regulatory approaches. This is broader in scope than the PPM rules review and much of the innovation work is envisioned to encourage consumer uptake of smart PAYG as a tariff of choice.

The regulator will publish a plan to review the wider PPM landscape in 2027 and will consult in early 2027 on powers to authorise supplier trials on smart PAYG. This will consider the appropriate framework to enable

safe and controlled trials of innovative propositions in the smart PAYG market, with a view to the first authorised trials starting in summer 2027.

3.6 Giving tenants greater control over energy use

When parliamentary time allows, Government will bring in new legislation to strengthen private and social tenant rights in relation to getting a smart meter and tackle bad practice from landlords.

These will establish that a tenant who pays energy bills at their rented property can get a smart meter without their landlord's consent. Statutory guidance will be developed for landlords and tenants to underpin this right.

Reforms to the Minimum Energy Efficiency Standards (MEES) will also be effective in increasing smart meter installations in the sector. These will require private rented homes to meet a dual-metric standard against the new Energy Performance Certificates (EPC) metrics by October 2030. Landlords must first meet a fabric metric standard, then have a choice between the remaining two metrics of either a heating system or smart readiness of their property.

This looks to improve the flexibility of the building's energy use, enabling the tenant to lower their energy bills and help prevent build-up of debt.

3.7 Role of standard credit

In 2027, Ofgem will publish a call for input on phasing out the use of standard credit as the default payment mechanism. Working with suppliers, charities and consumer groups, it will look to develop new options and processes so that alternatives to standard credit are as widely available as possible. This will not prevent consumers from choosing standard credit if it is the best method for their needs.

Following the outcome of their review into involuntary PPM rules, Ofgem will consider the debt pathway, which could reduce or remove the use of a standard credit stage in the debt journey.

3.8 Variable recurring payments

Ofgem is exploring how new payment methods such as variable recurring payments (VRP) can provide consumers with greater choice and control over how they pay for energy. VRPs can allow consumers to immediately authorise and amend payments within agreed limits. When combined with consented open banking information, the timing or value of the payment could better reflect a consumer's circumstances, such as taking smaller or more frequent payments, pausing payments or allowing larger payments when a customer has sufficient headroom.

By the end of 2026, Ofgem will establish a cross-sector Task and Finish Group on VRPs in the energy market and will publish its findings by summer 2027.

3.9 Facilitating sustainable payments

DESNZ, together with the Department for Work and Pensions (DWP) will investigate supporting those struggling to budget for energy payments with facilitated sustainable payments. DWP is responsible for Fuel Direct, which is a long-standing scheme that enables eligible consumers receiving certain benefits to have deductions taken directly from their benefits and used to help clear debt, or with consent, pay for ongoing consumption to help prevent further debt from building up.

Feedback on the efficacy of government mechanisms to support sustainable debt repayment, particularly by those in receipt of benefits, has been mixed, so the Government will explore solutions to support those struggling to budget and to manage paying for energy debt and ongoing energy consumption.

3.10 Consumer outcomes

In June 2026, Ofgem published the consumer outcomes strategic direction. This includes a proposed Debt Outcome, which will make it clear that suppliers should proactively identify payment difficulties, offer appropriate support and develop affordable and sustainable repayment arrangements that reflect individual circumstances. Other areas of the outcomes, such as billing, will also look to prevent and manage debt. Ofgem will respond to the consumer outcomes implementation consultation in early 2027.

Ofgem will also be conducting consumer journey sampling to better understand what drives positive outcomes for consumers in payment difficulty. It will be collecting data to better understand where friction still exists.

3.11 Supplier debt and support practices

DESNZ and Ofgem are asking suppliers to support a collective endeavour to share and adopt best practice for consumer engagement and support. Alongside this strategy, Ofgem has published guidance on behavioural strategies for preventing and reducing energy arrears, which sets out practical outcomes that have been shown to improve payment outcomes, reduce arrears and increase uptake of support schemes.

DESNZ will use the Energy Debt Task and Finish Group (EDTFG; see Section 3.15) to identify and share examples of good practice and hold suppliers to account for taking opportunities to improve engagement and debt collection processes.

3.12 Priority Services Register review

Ofgem is engaging with stakeholders to better understand whether the Priority Services Register (PSR) remains fit for purpose. As this work progresses, it will consider how reforms could support more consistent identification and definitions of vulnerability, better targeting of support, and stronger links between vulnerability protections and wider consumer support programmes. The government also recognises the wider importance of identifying and supporting customers who may need additional support when accessing essential services across sectors.

Engagement with stakeholders has begun and Ofgem aims to publish an update in late autumn. The EDTFG will also consider opportunities to support this work.

3.13 Improving access to data

The absence of reliable government data on household income has meant financial support is directed at either those receiving means-tested benefits or everyone, regardless of need. Government will continue to develop better means of targeting support to those who need it most through the Government Digital Service Household Income Kickstarter project and by exploring the potential of credit reference agency data.

The Household Income Kickstarter was established to test whether government financial support could be targeted more effectively using overall household income rather than eligibility for means-tested benefits alone. DESNZ will continue to work with other government departments to explore how they can better use data to support those in most need of energy bill support.

Credit reference agencies hold important information on consumers financial circumstances and play a key role in helping prevent people taking on unaffordable levels of credit. More effective and consistent use of credit reference data could help suppliers identify emerging financial difficulties earlier, provide more targeted support to customers and strengthen debt prevention activities. Ofgem is already working with stakeholders on this and will publish an update in early 2027.

3.14 Energy debt advice

3.14.1 Consumer Energy Debt Advice (CEDA)

DESNZ will continue to work with Citizens Advice, Money Advice Trust and StepChange on the full mobilisation of the CEDA service, which provides support to households and small businesses in England and Wales with energy debt.

Between August 2025 and June 2026, the service had achieved financial outcomes of more than £2.6mn for 8,268 clients with energy debts. Once fully mobilised, Citizens Advice estimate the service will have the capacity to reach 150,000 clients and reduce the cost of bad debt within the price cap by £2.53 and reduce the human cost involved in problem debt and its effects to the value of £4,300 per person helped.

3.14.2 Improving income and expenditure assessments (I&EAs)

Effective I&EAs are fundamental to ensuring consumers receive repayment arrangements that are affordable, sustainable, and tailored to individual circumstances. Through Ofgem's debt standards work, it will continue work with stakeholders to improve the consistency and effectiveness of these assessments, including the Standard Financial Statement and Common Financial Statement in Scotland.

3.15 Energy Debt Task and Finish Group

DESNZ will create a new Energy Debt Task and Finish Group to deliver collaborative action across industry to reduce energy debt. This will bring together senior representatives from Government, Ofgem, suppliers, charities and consumer groups to drive collective action, oversee delivery of the strategy and identify further opportunities to tackle debt.

Its initial priority will be to agree a shared programme of work and a collective set of actions to be taken forward by members. The action plan will set out agreed activities, responsibilities and timelines, with progress reviewed through future meetings.

4 Next steps

The next steps are set out in Table 1 below.

Table 1: Next steps on proposals set out in the Debt Strategy

Date	Action	Responsible party
November 2026	Energy Debt Task and Finish Group launched	DESNZ
9 December 2026	Consultation on home moves guidance closes	Ofgem
23 December 2026	Call for input on prepayment meter protections closes	Ofgem
Before end 2026	Publication of Debt Relief Scheme consultation	Ofgem
Before end 2026	VRP Task and Finish Group established	Ofgem
Before end 2026	Update on Priority Services Register review	Ofgem
Q127	Update on Credit Reference Agency Data	Ofgem
Q127	Energy Consumer Outcomes Implementation consultation response	Ofgem
Spring 2027	Debt Relief Scheme launched	Ofgem
Summer 2027	VRP Task and Finish Group publish findings	Ofgem
2027	Standard Credit call for evidence published	Ofgem
2027	Consult and authorise trials on innovative smart PAYG propositions	Ofgem
When parliamentary time allows	Legislation to strengthen tenants' rights to smart meters	DESNZ
When parliamentary time allows	Legislation on home moves reform	DESNZ

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