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Ofgem seeks views on debt and affordability in domestic sector

Headline assessment

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Action if desired:	Respond to the call for input

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1. Assessment and recommendation

On 11 March, Ofgem published a [call for input seeking views on debt and affordability](#) within the domestic retail sector. The key questions posed focus on three key areas:

- Energy affordability and impacts on consumers.
- Impacts of affordability and debt on the market.
- Addressing the affordability and debt challenge.

We recommend that suppliers respond to the call for input with any relevant considerations, as Ofgem asserted that this call for input will lay the groundwork for future work in this area. The call for input closes on 13 May 2024.

Cornwall Insight comment: In the context of the wider cost of living crisis, it is imperative that Ofgem continues to work to improve outcomes for consumers who are struggling to pay bills. This call for input acts as a first step toward potential significant changes to support those in debt as well as pushing for solutions on debt prevention.

2. Background

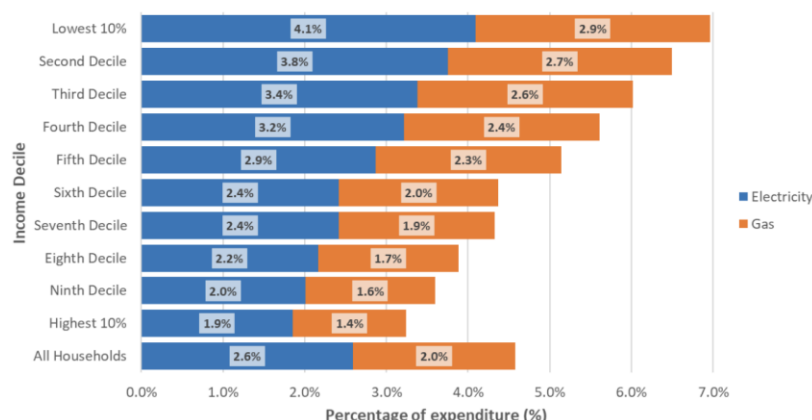
While emerging from the energy crisis, affordability of energy bills remains a pressing issue for many. To explore this further, Ofgem issued this call for input to better understand what more it could do within its capacity as the energy regulator, to address both existing issues and mitigating for potential future ones. It noted that it will also consider where it may need to make recommendations to government. Below discusses the questions posed by Ofgem in the call for input.

3. Key questions

3.1. Energy affordability and impacts on consumers

This section discusses issues that the market has faced in recent times. It highlights that even with intervention from government in the form of the Energy Price Guarantee and Energy Bill Support Scheme, domestic consumers have seen a significant rise in their energy bills since 2022. Ofgem also shared data from the Office for National Statistics (see Figure 1 below) that demonstrated that low-income consumers spend proportionately more on energy than high income consumers.

Figure 1 GB Household expenditure on gas and electricity, % total expenditure by equivalised disposable income decile group, Financial Year Ending 2022



Source: Ofgem.

The regulator continues to recognise the harm debt can cause to consumers, but highlighted its main concern as persistent and problem debt. In particular, consumers who may be unable to reduce their energy consumption, cannot increase their income level, cannot be disconnected, or have a prepayment meter (PPM) installed.

Ofgem noted in this section the rise of energy theft, with the current estimated annual cost sitting at £1.38bn, which equates to an additional £29 to £48 annually on each domestic customer's energy bill. Even with support from government intervention, consumer and

charity groups, as well as the efforts made by suppliers during the crisis to assist their customers, Ofgem raises the questions of: what are the key drivers of energy affordability challenges and how do we expect those to change in the future; and what options should be explored to tackle energy affordability?

3.2. Impacts of affordability and debt on the market

In this section of the call for input, Ofgem seeks to address the wider impacts that debt may have on the market. It discusses the reviews regarding elements of the Default Tariff Cap, the resulting actions to socialise the costs of bad debt and raising prices for some customers. When looking at the future of the market, Ofgem stresses there must be a framework that works for all consumers. It also noted that it will publish a related discussion paper on future price protection, to explore and discuss how different models of price protection may have different strengths and weaknesses in the context of these future challenges.

The regulator is also looking for views on what factors should be considered when redistributing costs. It asks to what extent is debt a factor that puts suppliers off taking on new customers or offering certain types of services and tariffs to them, thereby acting as a blocker to innovation? The final question under this section asks, with reference to the themes and indicators in Ofgem's Domestic Competition Framework, to what extent is the affordability of energy and the build-up of legacy debt affecting competition and innovation (including new entry) in the domestic retail market?

3.3. Addressing the affordability and debt challenge

Under this final section, Ofgem outlines some examples of best practice from suppliers around debt management. For example, it notes how debt prevention can be helped by suppliers ensuring bills are accurate, and how its recent decision on raising consumer standards emphasised the need for suppliers to proactively contact their customers. However, Ofgem recognised the complexities of the issue, and noted a number of examples from other sectors where mechanisms, such as a social tariff, have been introduced.

For example, the water sector in England and Wales offers a social tariff to reduce the bills of consumers on low incomes, although companies have flexibility in their design. Therefore, eligibility and help available for each tariff varies between regions. Similarly in the telecommunications sector, Ofcom encourages telecommunications providers to offer and promote social tariffs, though these are voluntary and not offered by all providers. It also noted some of the differences between the UK, Australia, the Netherlands, and the USA. This led Ofgem to ask the following questions: what represents best practice in debt management by suppliers; and what lessons can we learn from other sectors and countries on managing affordability and debt? How should they be applied to the energy sector?

4. Next steps

Responses to the call for input are requested by 13 May 2024, suppliers and any other interested parties, including consumers, should respond with any consideration which may help to shape later reform or change in this area.

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