

# StepChange response to Ofgem consultation on improving debt standards in the domestic retail market

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## Summary

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StepChange Debt Charity is a specialist not-for-profit provider of debt advice and debt solutions supporting people across the UK. In 2024, over 660,000 people contacted StepChange seeking debt advice or guidance with their problem debt and over 170,000 people completed full debt advice through our online and telephone service.

We warmly welcome the opportunity to feed into this Ofgem consultation on improving debt standards in the domestic retail market. Our experience as a free debt advice provider shows that there is a pressing need to increase protections for, and improve the consistency of experiences of, customers struggling to keep up with energy bills and consequently interacting with the energy debt pathway.

Energy arrears are the most common 'priority debt' that StepChange debt advice clients face – a trend which has persisted for several years, with average energy debt amounts increasing over the same period. In the first half of 2024, two in five (41%) of our clients responsible for paying energy bills had arrears at an average of £2,260, and approaching half (47%) of this group had a negative budget – meaning after going through a full debt advice and budgeting session, their monthly income is not enough to cover their basic monthly costs.

For many of those with the lowest and most precarious incomes, which includes lots of our clients, fuel poverty is a daily lived experience. To put this into perspective, approaching half (46%) of StepChange clients in the first half of 2024 were spending more than 10% of their income on energy. The experiences our debt advisors hear about from clients reflect some of the worrying consequences this financial difficulty can have, from causing or exacerbating mental health problems, through to detrimental physical health impacts due to self-rationing energy consumption.

While some suppliers are employing good practice and engaging constructively with the debt advice sector, this is not consistent and there is still considerable progress to be made by suppliers to fully implement responsible debt collection practices. We have particular concerns around suppliers misrepresenting or inadequately explaining the service StepChange can provide, harmful billing practices, rejection of reasonable repayment offers, and the poor treatment of customers in vulnerable situations.

It is therefore encouraging to see Ofgem consulting on policy proposals to develop a consumer debt outcome, standardise ability to pay assessments, and improve working between suppliers and consumer groups and charities. We would argue a cultural shift is required to truly generate consistent, compassionate outcomes for consumers, and we welcome Ofgem's acknowledgement of its responsibility to ensure that suppliers approach debt recovery in a sustainable, empathetic way which protects consumers.

Though Ofgem states that this consultation doesn't cover financial interventions to support customers in debt or arrears, affordability interventions to tackle the cost of energy, or the funding of debt advice, these are all fundamental to truly drive better outcomes for energy customers on an enduring basis. We are therefore pleased that these welcome proposals around improving energy debt standards have been published in tandem with Ofgem's consultation on the case for an energy debt relief scheme to tackle the build-up of debt over the energy crisis.

We also strongly believe that holistic reform of the energy price model is needed to deliver long-term affordability to those at risk of fuel poverty, and to provide sufficient protection and ongoing assistance to those struggling with energy payments. This includes the implementation of a social tariff in the energy market which protects consumers in vulnerable situations, including those on the lowest incomes, from unaffordable energy costs.

## Response to consultation questions

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Q1. Do you have any feedback on the following:

### a) Consumer debt outcome

We broadly welcome Ofgem's exploration of the case for developing a bespoke consumer debt outcome, which is an important step in the right direction towards facilitating a cultural shift in energy suppliers' approach to debt management. This move is especially significant – and urgent – when considering the high levels of consumer debt in the energy market and widespread, ongoing affordability challenges. Efforts to help consumers better understand what their rights are, what suppliers should do, and what support is available, are of course welcome.

Ofgem asks in the consultation about the role of rules and the balance between prescription and principle-based approaches. In effective regulation, principles and prescription are mutually complementary:

- Prescription is often essential to give substance and intention to high level principles: for example, as an advice provider, clear expectations of energy suppliers are essential to set expectations for firms and ensure a level of consistency necessary to support good debt advice and solution outcomes. Prescriptive rules are also a basis for consumers to challenge supplier practices, and much consumer advice depends on this transparency and clarity.
- Prescription of certain minimum expectations does not mean there is no space for flexibility and innovation, and high-level outcomes encourage firms to go further than the minimum.

- Prescription becomes more relevant and important for customers in vulnerable situations such as those in energy debt: there is a history of suppliers arbitrating gaps or ambiguities in high level rules where prescription has been crucial to stop harm to financially vulnerable consumers, most recently requiring Ofgem's intervention around mandatory PPMs.
- Prescription can help alleviate burdens on suppliers that otherwise are uncertain as to Ofgem's expectations.
- Monitoring outcomes is hard without reasonably specific expectations. Expectations that are diffuse and high level will lead to fuzziness about the regulator's expectations.

With this in mind, we think it is important that a consumer debt outcome is situated as a rule (license condition) and complemented by more detailed requirements with clear expectations. However, we would expect there to be flexibility in how suppliers take forward these expectations and encouragement to go further than the minimum (for example, we welcome innovation from suppliers in engaging customers).

The success of an energy 'consumer debt outcome' is ultimately dependent on practical interventions to drive change. We welcome the steps set out in this consultation as a starting point: a durable increase in standards will require clearer expectations from Ofgem.

To be effective, it is crucial a debt outcome is both clear in itself and part of a package including detailed expectations about how the outcome should be used, outcome monitoring and metrics, and an embedded test and learn approach.

With regard to wording, we agree that, unless the consumer debt outcome is clearly understood, it may not provide regulatory certainty and clarity for suppliers, which could in turn lead to a lottery of outcomes for customers. Ofgem has proposed potential wording for the debt outcome:

*Domestic customers in, or at risk of, debt or arrears receive proactive, tailored and consistent customer service that meets their needs and helps them sustainably manage their debt or arrears.*

This wording is a sensible starting point but should be further developed. We agree with Ofgem's policy intent that an outcome should encompass both customers in and at risk of arrears and debt. However, the second part of the proposed sentence is only relevant to customers with arrears and debt and does not say anything about those at risk of energy arrears. The proposed wording also seems to risk being too vague and not setting sufficiently high expectations, although complementing the outcome with appropriate metrics and a more granular Debt Guarantee would offset this risk.

As an initial proposal to support further discussion, we would suggest alternative wording of:

*Domestic customers in, or at risk of, debt or arrears are supported through proactive, tailored and consistent customer service to prevent energy arrears growing and affordably manage debt or arrears.*

Ofgem suggests that there could be a consumer-facing element of the consumer debt outcome framed as a 'Debt Guarantee' which promises minimum standards of care and customer service that a consumer in or at risk of debt or arrears can expect to receive from their supplier – and that suppliers could be required to demonstrate and evidence how they are meeting the debt outcome.

We would encourage Ofgem to consider what elements of any Debt Guarantee best sit in rules. Where the intention is rightly to guarantee certain elements of support, those should be set wherever possible in rules (or Ofgem could link the Guarantee document to license conditions so the status of the document is clear).

We agree that a 'Debt Guarantee' document could be useful nevertheless to complement specific license condition rules with detailed practice expectations that are not a good fit for license conditions, and could be reviewed and updated over time.

We note the Financial Conduct Authority (FCA) Consumer Duty consisted of a high-level principle (set in rules), specific cross-cutting rules and outcome areas, and detailed accompanying guidance. While the scope of the proposed debt outcome is much narrower, this is to highlight that there is a level of guidance and explanation that will need to sit alongside a debt outcome to make expectations clear.

To be effective, a debt outcome must also be accompanied by robust monitoring arrangements. These should include existing measures such as the proportion of repayment agreements that are sustained, but these can be extended to better capture different elements of the proposed outcome such as engagement of customers in difficulty or arrears. We would particularly highlight the interaction of repayment agreements and ongoing energy usage and energy rationing: the suitability of repayment agreements will not necessarily be revealed only by whether a customer sustains repayments, but by impacts on a customer beyond the agreement itself. We would also like to see Ofgem encourage suppliers to capture more granular data, for example through periodic customer surveys to better understand the subjective experience and impact of support, to inform their service design.

More generally, Ofgem can learn from the manner in which the FCA's Consumer Duty centres concepts of consumer vulnerability and a continuing test and learn approach to product and service design. The Duty is important because it sets a cross-cutting expectation that consumer vulnerability will inform the approach of firms in applying the wider Consumer Duty expectations: it is a crucial prism through which firms must consider whether their products and services are fit for purpose.

The Consumer Duty also places a strong emphasis on continuous learning and development in product and service design. For example, the FCA has set the

expectation that firms should pre-test their products, interventions and communications where appropriate – including through behavioural testing – and refine their approach in light of experience, and at appropriate intervals. This system could usefully be incorporated into Ofgem’s expectations of suppliers’ approach to supporting customers in at risk of debt and arrears.

More generally, Ofgem (and the Government in considering Ofgem’s role) can learn from the broader purpose of the Consumer Duty, which was put in place because the FCA has been forced to repeatedly intervene in the market to address problems of firm culture and conduct that led to poor outcomes for customers, for example in its ban on unauthorised overdraft fees and well-publicised interventions in the high-cost credit market. This has relevance to Ofgem’s work, where strong evidence that firms have fallen short in their approach to supporting customers in vulnerable situations has demanded a series of significant interventions.

Ofgem should consider whether it needs to establish clearer high-level principles and expectations of suppliers to avoid a persisting detriment-intervention cycle that does not address underlying problems of supplier culture and conduct. We note that Ofgem recently consulted on its consumer vulnerability strategy and the government is currently consulting on Ofgem’s role.

We highlighted in our response to the former that Ofgem’s consumer protection remit and powers should be strengthened to achieve its objective of raising standards having particular regard for consumer vulnerability. We note, for example, that in meeting its responsibility set in the Financial Services and Markets Act to secure an appropriate degree of protection for consumers, the FCA also relies on its responsibility in the same act to have regard to the principle that firms should be expected to provide consumers with a level of care that is appropriate *taking into account their circumstances* (and therefore any vulnerability).

Ofgem does not appear to have similar clearly framed responsibilities to take account of consumer circumstances and vulnerability beyond narrow (but important) considerations such as physical disability. In its proposed revised vulnerability strategy, we noted that Ofgem continues to put forward a narrower vulnerability definition than that used by the FCA. In addition to the limits this will impose on the extent to which energy suppliers identify and address customer vulnerability in their design of products and services, this risks fragmentation of Ofgem’s approach from good practice elsewhere in supporting vulnerable customers struggling with debt.

We fully support the short- to medium-term measures Ofgem is proposing to improve the debt pathway, but also want Ofgem to work with Government and others to revise its objectives and powers, ensuring it has a sufficiently strong remit for ensuring suppliers support customers in vulnerable circumstances and deliver on its rightly more ambitious agenda to raise standards.

## b) Standardisation of ability to pay assessments

Current license conditions on ability to pay and repayment proposals are inadequately framed and leave too much latitude for suppliers to put pressure on customers (whether deliberately or inadvertently), contributing to the common experiences we see among clients of unrealistic repayment demands that ultimately make their situation worse.

We warmly Ofgem signalling its intention to intervene in this area, and believe that it should introduce new rules that require suppliers to use, where possible, a Standard Financial Statement (SFS), Common Financial Tool (CFT) in Scotland, or equivalent standardised approach when understanding ability to pay and setting repayment rates (noting we have replaced 'similar' in Ofgem's current wording with 'equivalent' here). We recognise there is a role for innovation and suppliers (or partners) using a 'what works' approach to affordability tools, but any alternative approach must be able to co-exist with the SFS and CFT otherwise the current situation of suppliers challenging SFS or CFT budgets on the basis of alternative, less robust, interpretations of affordability is likely to continue.

For customers in financial difficulty, there should not be room for suppliers to argue that repayment plans are 'suitable' without evidence from a robust affordability assessment which also takes account of other debts where applicable. We are firmly of the view that assessments of a consumer's ability to pay should be conducted using a robust budget tool such as the SFS or CFT, to ensure consistency across the sector and with debt advice.

StepChange advisors continue to report harmful billing practices, including suppliers putting undue pressure on customers to accept unsustainable repayment rates or increasing direct debit contributions without sufficient warning. This has forced some clients to cut back on other essentials including food and led to concerning mental health outcomes for some clients.

- *The client built up a small amount of arrears with her previous supplier, which was then taken over. When the account was acquired, the new supplier agreed for the client to pay £148 per month to cover her usage and her arrears. Now the supplier has reneged on the agreement and want the client to pay £324, which she is unable to do. This has made her feel suicidal and her family are watching her constantly as a result. Her family, who live with her, are feeling trapped as they are all frightened to even put on a light. The client's daughter showers at her local gym as she does not feel comfortable doing this at home. – Recorded April 2024*
- *The client was reduced to tears following an interaction with a representative from their supplier, who they described as rude and unsympathetic. The representative demanded a payment of £450 per month to repay the debt, which the client explained they couldn't afford, providing budgeting information. Despite this, the*

*representative refused to carry out a financial assessment, and made no attempt to refer the client for debt advice (with the client finding StepChange details online). The client reported the representative continued to press them, demanding that they be quiet, and accusing them of crying in order to try and shirk repayment to their debt. They repeatedly said the client's benefits should be covering their living costs and debt repayments. – Recorded February 2024*

- The client, who has energy arrears, told us her supplier upped her direct debit from £169.83 to £471.49 without informing her, therefore not allowing her to discuss or make prior arrangements to pay something towards the debt at a rate more affordable to her. This move has left her with little money to pay other bills or even buy food, and she now has a negative budget because of it. – Recorded January 2024*

These cases are testament to the fact that suppliers are currently not doing enough to ensure repayment plans are affordable and sustainable. The license condition intervention Ofgem is proposing would improve consistency across the sector and likely lead to an increasingly standardised experience for those behind on energy bills regardless of their supplier, preventing an unfair lottery. We believe it would also contribute to enhanced outcomes for both customers and suppliers, on the basis that repayment plans would be more sustainable and therefore less likely to fail.

Crucially, to ensure that repayment plans are sustainable, individuals should only ever be required to pay what they can afford. Best practice debt collection should be based on an assessment of means and affordability, and the industry-wide use of the SFS and CFT or equivalent tools is an important step to achieve this.

We would welcome further clarity on how Ofgem would ensure suppliers are consistently and appropriately using a standardised approach when setting repayment rates based on ability to pay, in the welcome event that this intervention was pursued. It is also critical that suppliers ensure that their staff are well trained to support customers struggling with energy bills and deal empathetically with challenging situations.

Ofgem must be cognisant of the ongoing energy affordability challenges many consumers are facing when exploring interventions around ability to pay. Here, we would point to the fact that approaching half (47%) of StepChange debt advice clients with energy arrears in the first half of 2024 had a negative budget. There is a significant cohort of customers who are struggling to pay for current consumption, never mind being able to affordably clear accumulated debt. It is therefore vital that solutions designed to tackle persistent energy affordability challenges, as well as the important drive towards improving the consistency of suppliers' efforts to set affordable repayment plans, are explored by Government and Ofgem at speed.



### c) Debt repayment offers from credible third parties

It is our view that the current positioning of license conditions around suppliers' consideration of information provided by third parties (including debt advice organisations) when conducting assessments around a customer's ability to pay is not robust enough to ensure positive, consistent outcomes for consumers, and gives too much room for suppliers to counterproductively reject reasonable repayment offers.

We have consistently presented evidence to Ofgem that suppliers too often reject client budgets and affordable repayment offers facilitated by FCA-regulated debt advice providers. StepChange debt advisors unfortunately continue to report that this inconsistency persists. This is ultimately likely to lead to poor outcomes for customers, including customers turning to harmful coping mechanisms to try and deal with their energy bills.

- *The client, who is elderly, vulnerable and on a low income, has arrears over £1,000. StepChange's budget states that their repayment offer should be £1 per month, but the client was advised on the phone she could be cut off if the debt isn't paid – at a time when the supplier hadn't been approved by Ofgem to be able to apply to court to force-fit a prepayment meter. The client also reported that their meter is faulty and needed replacing. – Recorded September 2024*
- *The client was referred to StepChange by their energy supplier, and we recommended a payment suspension due to the client's circumstances. We also recommended that she applies for the supplier's hardship award, as the client has no way of clearing the debt. The supplier turned both requests down – and the client has no way of clearing what she owes. – Recorded August 2024*
- *The client, who has a negative budget, offered a token amount of £1 to her energy supplier and included her budget to evidence her financial situation. Despite seeing her budget is over £1,000 in deficit, the supplier is insisting on changing her direct debit to double the amount she is currently paying in order to recover her arrears; a change from £286 to £572. This is unaffordable to her, and she has been borrowing money from friends to pay. The situation has caused her to feel stressed and very upset. – Recorded January 2024*

We would emphasise that, for many people, the decision to access debt advice is not one that is taken lightly or without hesitation – from feelings of embarrassment and shame through to thinking they will lose more than they gain.<sup>1</sup> Choosing to initiate and build a relationship with a debt advice provider is therefore often a hard-fought milestone. When a reasonable repayment offer based on this debt advice is rejected by

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<sup>1</sup> Money and Pensions Service (2023), [Motivations and barriers to seeking debt advice](#)

a creditor, or a client feels that their personal circumstances have not been listened to or considered, it can be a concerning knockback on the road to becoming debt-free.

We therefore warmly welcome Ofgem signalling that SLC 27.8 could be modified to make it clear that suppliers must accept relevant information from credible third parties (such as a debt repayment offer based on a standardised income and expenditure assessment from an FCA-authorized debt advise) unless there is exceptional reason not to.

It is our view that this move would enable better outcomes for all participants in the energy debt pathway – including those behind on their bills, energy suppliers and FCA-authorized debt advice providers – as it would help to reduce needless barriers to securing sustainable repayment arrangements.

There is very little justification for energy suppliers refusing to engage with information provided by credible third parties. Ofgem rightly acknowledges that this rejection of evidenced repayment offers generates extra work for debt advice providers and creates inefficiencies for suppliers. This includes burdensome back and forth to reach a repayment arrangement – and the troubling situation whereby, if an agreement cannot be agreed, arrears can continue to build up and become more unmanageable and difficult to resolve in the process.

This move would also create alignment with other regulated sectors, including the FCA, which has rules to state that firms must not refuse to deal with a third party who is assisting a customer to develop a repayment plan, or a third party who is developing a debt management plan for the customer's debts, unless there is an objectively justifiable reason for not doing so.<sup>2</sup>

We would urge Ofgem to carefully consider how an “exceptional reason” for refusal could be defined or articulated, to prevent loopholes which enable suppliers to continue to reject evidence-based repayment offers.

We are also mindful that a move by Ofgem to clarify that suppliers must accept relevant information from credible third parties would not negate a supplier's responsibility to listen to their customers' own explanations of their financial circumstances and requests regarding affordable arrangements directly. In essence, a requirement to accept a repayment plan from an FCA-authorized debt adviser should not be a reason for suppliers to deflect from their own efforts to support their customers. This intervention would nevertheless be likely to have implications for debt advice capacity, which Ofgem must consider as it takes any such proposal forward.

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<sup>2</sup> Financial Conduct Authority, [CONC 7.12 Lenders' responsibilities in relation to debt](#)

#### d) Third party authorisation

StepChange does not act on behalf of clients in the manner identified in this consultation so is unable to comment in detail on the proposals but we welcome Ofgem's exploration of a new rule which would make it more explicit that suppliers must have appropriate processes in place for dealing with third-party representatives.

As Ofgem acknowledges in the consultation, consistency in processes could improve efficiencies for suppliers and third-party representatives through a standardised arrangement – noting any standardised form would need thorough consultation with the sector to ensure it's not adding undue administrative burdens on resourcing. We would welcome work in this area to make sure clients aren't disadvantaged by suppliers making it difficult for third parties to act on behalf of clients (especially smaller, localised agencies who aren't perhaps known to the supplier). Suppliers also need to make sure they are working with all FCA-regulated debt advice agencies.

#### e) Referrals

StepChange has worked hard to build proactive and constructive relationships with many energy suppliers over time, engaging with them on referring their customers in financial difficulty. Referral volumes from energy suppliers have increased exponentially in recent years, with them becoming the largest referrers to the charity in 2023. Referral mechanisms must be effective for consumers and support organisations to ensure the best outcomes; in a time of incredibly high demand, the necessity of this could not be clearer.

While the relationships that StepChange has established with a number of energy suppliers have been fruitful in many ways, this sharp increase in referral volumes has exposed some challenges. We unfortunately continue to see many cases where an energy supplier has inappropriately directed one of its customers towards StepChange, misrepresenting the services we can provide. These unsuitable referrals lead to frustration for those referred, and erode the capacity of providers like StepChange to meet demand for debt advice, which continues to outstrip supply.

For example, clients have been told by their energy suppliers that StepChange would be able to provide immediate and upfront support with emergency credit or fuel vouchers, or similar assistance, despite this not being an option. We've also picked up on some suppliers telling their customers that StepChange could facilitate energy bill reductions or help to establish accurate meter readings, which should be part of a supplier's toolkit and are not the responsibility of debt advice providers.

- *The client was told by her energy supplier to call StepChange and that we would apply for its Hardship Fund for her. The debt advisor explained that we can't apply on behalf of the client but could support her with a debt advice session. – Recorded July 2024*

- *The client, who has a form of lung disease, was referred to StepChange by his energy supplier and told we could give him mattress toppers and blankets. He didn't have any arrears or other debts and was left very confused about why he'd been referred. – Recorded January 2024*
- *The client has had a recent cancer diagnosis, which she said her energy supplier had not acknowledged or supported. Her supplier told her to call StepChange under the misassumption that we could reduce her direct debit from £101.49 to £23.94 within 48 hours. – Recorded August 2023*
- *The client, who is 13 weeks pregnant, needed to top up her electricity meter as she had no credit. She was inaccurately told by her supplier that StepChange could provide emergency credit and called as a result, with the adviser having to explain this wouldn't be possible. – Recorded July 2023*

These are not isolated examples. One advisor described an overview of several recent interactions regarding a particular supplier below:

- *Clients being referred to us for help with their bills or debts. Clients getting inconsistent, lacking or misleading information. Clients often don't know why they are contacting us and how we can help. They often believe we can reduce their monthly bills. Also, they often believe we can provide the Hardship Fund or at least apply on their behalf. Clients are often confused about what they need to do and how we can help. They are sometimes frustrated that we cannot reduce their monthly bills, write off the debt for them or apply for the Hardship Fund on their behalf. – Recorded June 2024*

We continue to see individuals passed onto StepChange when they are not in arrears or in need of debt advice (for example, customers with no or minimal debts are told they need to obtain a budget assessment from StepChange to access emergency support from their supplier).

- *The client's energy supplier told her to call StepChange, but it transpired that she had no debt and was instead disagreeing with the amount the supplier was charging. The client now has to go back to the supplier to sort this out, taking up more of her time. – Recorded September 2024*
- *The client had been referred to StepChange as they couldn't afford their usage. They have no debt at all, and are primarily struggling with the tariff they are currently on. This led the client to believe we could help with their usage and that we could give advice on the cost of living, but the client wasn't eligible for our service as they weren't in debt. – Recorded April 2024*

These case studies indicate that suppliers are not always thinking hard enough about why they refer to debt advice and whether it's appropriate to do so, and hence what a customer's needs are and whether the firm can (and should) meet them itself.

Worryingly, some could suggest that energy suppliers might – in some cases – be using debt advice referral as a buffer to avoid providing actual direct help, even when this is more suitable for the customer. This is perhaps indicative of suppliers not having the right processes in place to support customers directly where that's appropriate.

We therefore warmly welcome Ofgem's assertion that it could develop good practice guidelines for suppliers on effective referrals, supported by the work the regulator is doing in collaboration with ourselves and the Personal Finance Research Centre (PFRC) at the University of Bristol around improving debt advice referral pathways for energy consumers.

We note key elements of an effective referral pathway from PFRC's *Joined up* report in partnership with StepChange include:<sup>3</sup>

- Clients' referral needs are identified in the first place.
- Clients understand where they're being referred and why.
- Clients are referred at the right time for them.
- Referrals are smooth and effective.
- Clients are referred to relevant organisations.
- Using feedback loops to improve referrals.

Guidance for energy suppliers that encourages referrals into debt advice must make clear that services, including staff training, should be designed to ensure advice referrals are appropriate for customers and avoid placing undue capacity pressure on external agencies with inappropriate referrals. This will reduce poor advice journeys for energy customers and enable organisations like StepChange to make sure our resources are channelled appropriately and that we continue to be a more efficient and effective provider for our partners.

It is important for energy suppliers to understand the different services provided by the range of organisations in the debt advice sector, and this consideration should be embedded in any good practice guidelines which emerge from these proposals. Understanding more about a customer's circumstances and their capacity to deal with the situation will help the supplier to identify the right organisation for their circumstances.

We also note that Ofgem is inviting views on the possibility of modifying or introducing new licence conditions requiring suppliers to conduct a warm referral to a relevant consumer group and charity, where appropriate and with the customer's consent – for

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<sup>3</sup> University of Bristol PFRC (2023), [Joined-up: Supporting debt advice clients through strong referrals partnerships](#)

example, conducting a warm referral for a customer in payment difficulty to a debt advice agency.

Warm referrals can certainly be an important and effective approach to engaging customers with advice services. However, requiring warm referrals through license conditions would be a notable undertaking: it would require significant partnership capacity building with sufficient funding. Warm referrals are also not possible at all times (for example, where supplier customer service and advice operating times are not aligned, or simply because a customer does not have time to stay on a call). Here we note StepChange operates callback arrangements with some suppliers (where a supplier submits a customer's details to StepChange and the charity then contacts a customer to arrange a callback time), which can also be effective.

Based on these factors, our view is that a blanket requirement on suppliers to make warm referrals in all cases would not be pragmatic or necessarily desirable at this stage. However, we strongly agree that suppliers should be required to make effective referrals to debt advice providers, including warm referrals where appropriate. A critical factor here is not only that referrals are effective but that they are made when appropriate, for example where a customer has multiple debts, is consistently in arrears or has experienced a significant change of financial circumstances.

We would strongly encourage Ofgem to consider the role of digital debt advice referrals in this context. As well as offering clients further choice in how they engage with debt advice, this route is also less of a strain on debt advice provider capacity and provides a 24/7 option for those referred.

Finally, this is an area where it is critical Ofgem integrates its approach with the Department for Energy and Net Zero as the latter develops a renewed Warm Home Discount scheme (WHDS) and refreshes the Industry Initiatives element of the scheme. Expectations of suppliers and advice providers have shifted and increased significantly since the WHDS was last renewed and it is vital the scheme funding is aligned with aspirations for a more extensive and integrated energy debt advice offer for customers.

#### f) Dedicated phonelines

While StepChange advisors do not make outbound calls to suppliers on behalf of customers (except as part of funded partnerships with suppliers), we agree that it would be helpful to require suppliers to have dedicated lines for debt advisors. The present situation in which it can be hard for advisors to reach energy suppliers on behalf of a client appears to particularly disadvantage advice clients in more vulnerable situations who are most likely to access local or casework-based advice services that are most likely to reach out to suppliers this way.

Q2. Do you have any feedback on whether we have prioritised the right issues?

We are broadly happy with Ofgem's proposals to prioritise action and agree in the light of the urgency of improving support for customers with energy debt that it should take a pragmatic approach to intervening where possible now.

This noted, it is important Ofgem pushes forward changes to the energy debt pathway coherently. There are aspects of Ofgem's proposals, like ensuring suppliers use an SFS/CFT methodology and accept advice budgets, that will have the most impact where suppliers see them as part of a wider pathway with a clear purpose. As such, Ofgem's proposed debt outcome and concept of a 'Debt Guarantee' should be important reference points that ensure suppliers translate specific rule changes into a coherent package.

Q3. What are the benefits and costs to consumers, suppliers, and consumer groups and charities of each policy proposal? If you are able to, please provide evidence/estimates to help quantify these.

StepChange is not able to usefully quantify specific benefits and costs at this stage but we remain happy to discuss the specific resource and cost implications of measures affecting debt advice providers with Ofgem colleagues, and are also happy to provide or use client data where doing so may help estimate benefits.

Q4. Do you have evidence or views on the following that could help inform next steps:

a) Identification of financial and non-financial vulnerabilities

We welcome Ofgem's assertion that improving the identification of financial and non-financial vulnerabilities across the debt pathway is key to help suppliers support customers in or at risk of debt or arrears, and we agree that improved data sharing can help build a more holistic understanding of consumers struggling with their bills.

That being said, identification alone is not enough to improve outcomes. StepChange insights reveal instances where our clients have made their experiences of vulnerability *explicitly* clear to energy suppliers, to have this experience disregarded. This includes experiences where vulnerable customers have made requests around accessibility, such as requiring payment cards or support to take meter readings, but had these requests neglected. This has exacerbated people's levels of debt and had worrying consequences for clients' mental health in some cases:

- *The client, who has a disability which means she cannot perform meter readings, requested that her energy supplier send an operative to her home to take these as she is unable to do so. So far the supplier has failed to do so, meaning the client is only getting estimated bills instead of accurate bills. – Recorded April 2024*

- *The client, who is paralysed from the waist down, recently had multiple upsetting encounters with representatives from his energy supplier.  
When on a call about meter readings, one representative – who he had told about his health condition – repeatedly told him to get up and take photographs of the meters, even as he reiterated that he wasn't physically able to do so.  
When he told the representative she was upsetting him, he said her reply was that he needed to toughen up and all she wanted was a meter reading.  
The client also told StepChange how on a previous call with his supplier, another representative was rude to him and threatened bailiffs if he didn't pay.  
The client, who suffers from PTSD and has had suicidal thoughts in the past, indicated that these incidents have had a significantly distressing impact on his mental health. – Recorded February 2024*

Worryingly, there are instances where it appears emergency credit has not been applied, or people describe being on meter types which are inappropriate for their circumstances and go against existing rules:

- *The client keeps getting disconnected, despite being registered as vulnerable with his energy supplier and requiring a constant electricity supply due to refrigerated medication. As he keeps being disconnected, he is not able to guarantee that he can keep the medication at the temperature it needs to be, so the client is not taking the medication. – May 2024*
- *The client is on a prepayment meter despite their daughter using a feeding tube which requires constant electricity supply. Their energy supplier would not provide emergency credit or assist in any way when supply was running low, despite the vulnerabilities present in the household. – June 2023*

We would therefore urge Ofgem to ensure that the welcome drive to improve identification is accompanied by tangible steps to act on and accommodate energy customers' vulnerabilities and relevant support needs. We offered our views on this in response to Ofgem's recent Consumer Vulnerability Strategy consultation.<sup>4</sup>

#### b) Making monthly billing the default

We welcome Ofgem's efforts to prevent unexpected ('shock') bills and ensure bills are easy for customers to understand, and recognise the argument that increasing the frequency at which bills are issued provides a greater opportunity to smooth costs and identify affordability issues at an earlier stage.

We are therefore open to this idea being explored, but would welcome further clarity from Ofgem on whether it has conducted, or intends to conduct, further research into

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<sup>4</sup> StepChange Debt Charity (2024), [Response to Ofgem Consultation: Refreshing our Consumer Vulnerability Strategy](#)



this intervention to ensure its effectiveness. For example, there may be groups of customers whose circumstances or preferences mean that quarterly billing is more favourable to them. Should Ofgem decide to intervene to make monthly billing the default, it is important that an element of choice regarding payment frequency still remains.

#### c) Reviewing the back billing rules

We are pleased that Ofgem has committed to reviewing its back billing rules, protecting consumers by ensuring accurate bills based on actual energy consumption and reducing the risk unexpected or 'shock' bills.

Our debt advisors report frequent interactions with clients who are disputing the accuracy of energy bills. We agree that reducing the back billing period could incentivise suppliers to ensure bills are accurate and improve metering arrangements as costs could only be recovered from a shorter period where at fault.

We have also heard feedback which indicates that suppliers have chased for payment for energy used more than 12 months ago where the customer had not received accurate bills – going against existing back billing rules:

- *The client is getting chased by her energy suppliers for historic bills going back 3 years, as they weren't sending bills when she moved to a new property. She is in contact with [another debt advice provider] about a complaint about back billing. The client also has brain tumour and there is no indication that her supplier is treating her as vulnerable. – Recorded December 2024*

#### d) Changes of tenancy

We recognise the rationale behind Ofgem considering further work to help prevent debt through change of tenancy. Here, we note that approaching half (45%) of StepChange clients with energy arrears in the first half of 2024 rented through their council or a housing association, while over a third were private renters (36%) – a situation which might lend itself to changing tenancy more frequently.

We would welcome efforts by Ofgem to investigate the links between tenancy changes and the build-up of energy debt. StepChange research has shown the links between debt problems and housing precarity in the private rented sector, and difficulties arising from mis-assigned energy debt continue to appear in case studies gathered by StepChange advisors from clients – as per the below example:<sup>5</sup>

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<sup>5</sup> StepChange Debt Charity (2023), [Trapped in rent: Experiences of StepChange's debt advice clients renting in the private sector](#)

- The client moved to a new property 8 months ago, and since living there has paid £124.97 each month for her dual fuel – an amount which exceeds what her monthly usage actually is, according to a representative of her energy supplier. Despite this, the supplier is insisting she owes arrears of £5,113. The client believes the previous occupant has accumulated these arrears and her meter was not correctly reset when she moved in.*

*The client has been spoken to 'rudely' by supplier staff, and when she asked to speak to a manager she said she could but would be waiting 3 days. The supplier is threatening to take her to court for the arrears, despite her pointing out she has paid the supplier every month she has lived at the address.*

*The client has told the supplier she has mental health problems and a young child at the address, and yet they still stated they will take her to court and will not accept monthly payment of less than £350 per month to set up a new direct debit. This is unaffordable to her. This has caused my client to be stressed, anxious and worried. – Recorded July 2024*

#### e) Domestic debt objections and the Debt Assignment Protocol (DAP)

We agree that Ofgem should undertake work to refresh rules around switching energy suppliers for customers in debt and the DAP threshold. This will be particularly important following work on the energy debt pathway that means more customers may have longer-term repayment agreements or no agreement in place because they cannot afford any repayment.

We also note Citizens Advice has highlighted that suppliers may deliberately or inadvertently make switching harder for certain customers like those on prepayment tariffs within license conditions, for example through credit checks or administrative barriers, in a way that undermines access to the cheapest tariffs (or other benefits offered to customers) and a market in which all suppliers are competing on a level playing field.

#### f) Moving customers in debt or arrears onto the cheapest tariff

We agree that Ofgem should take forward this proposal as it is likely to benefit customers struggling with bills, and encourage Ofgem to work with consumer groups and suppliers to ensure that the benefits outweigh any risks.

#### g) Fuel Direct

Ofgem notes it would like to work with the government, suppliers, and consumer groups and charities to consider ways to improve the administration and take up of Fuel Direct (deductions from benefits).

Ofgem highlights that the number of customers on Fuel Direct has fallen significantly since the mid-1990s. The deductions system has changed significantly since that time, particularly with the introduction of Universal Credit (UC) when the scope of the deductions system expanded to a wider range of debts including UC advances and the increasing use of sanctions where repayment may be prioritised over Fuel Direct.<sup>6</sup> Suppliers may also, often with good reason, be more cautious about using deductions where these may not be affordable to the customers affected.

As a general principle, people who receive benefits should not be subject to a different, lower standard of debt protections than those who do not: deductions should not be used as a shortcut to debt collection. Past StepChange research has shown that third party deductions from benefits to repay energy debts like Fuel Direct, which are made at a fixed rate, are often unaffordable and contribute to hardship, desperation borrowing and debt problems.<sup>7</sup> As such, it is important that Ofgem thinks carefully about the role of Fuel Direct and responsible use of a mechanism that can take control and decision-making out of the hands of customers in financially vulnerable situations.

Fuel Direct can be useful where a supplier has undertaken a robust affordability assessment and the deduction amount for arrears is affordable, or where a customer has consented to an affordable deduction for ongoing costs. Fuel Direct should not be used where a supplier has not undertaken an affordability assessment, or where it has and a customer cannot afford any repayment amount. Deductions from benefit entitlements without a claimant's consent can leave them unable to meet essential costs or other priority debt repayments and should not be undertaken lightly.

Ofgem can help ensure Fuel Direct serves a responsible purpose by putting in place a clear protocol of steps suppliers must take before applying for a deduction, including an affordability assessment and, if a customer is not engaging with them, safeguards aligned with mandatory PPM protections. Suppliers should also have arrangements in place for periodically contacting customers to check a Fuel Direct arrangement remains appropriate, and easily accessible routes for customers to contact them to stop or revise a Fuel Direct arrangement when their circumstances change.

#### h) Debt collection agencies

Ofgem notes the potential impact of debts referred inappropriately to debt collection agencies (DCAs) but also states that it does not see this issue as a priority for action as it has not seen an increase in the use of debt recovery using DCAs. We recognise the need to be pragmatic and prioritise policy that will make the most difference of people struggling with energy debt. This noted, we would ask Ofgem to be mindful that a great deal of energy debt has built up as the situation could change quickly: it would be

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<sup>6</sup> Deposited paper: [Deductions Priority Order v7 / UC, PIP, JSA & ESA \(C&P\) Regulations](#), Schedule 6 / [ADM Chapter D2: Third Party deductions UC, JSA & ESA](#)

<sup>7</sup> StepChange (2017), [Third party deductions briefing](#)

better to pre-empt any significant increase in referral of energy debts to DCAs with guidance for suppliers if possible.

Our primary concerns with regard to DCAs are that suppliers will refer debts inappropriately, for example where the supplier is aware the customer cannot affordably repay the debt or has another vulnerability that makes further debt collection activity inappropriate, or that suppliers will use DCAs that are not FCA-regulated and do not meet comparable standards (effectively undermining any work by Ofgem to ensure responsible debt collection of energy debt). We note Citizens Advice recent research on this issue and agree with their recommendations that Ofgem should ensure suppliers only refer energy debts to DCAs where appropriate and use suitable DCAs; it can do this by requiring suppliers to use FCA-regulated DCAs and making clear it expects suppliers to set suitable expectations of, and take responsibility for the conduct of, DCAs they contract.<sup>8</sup>

#### i) Court enforcement action

The creation of mandatory, more prescriptive PPM guidance and rules was a necessary step in efforts to protect energy customers in vulnerable situations from poor outcomes. That being said, we have previously raised concerns with Ofgem that this move might inadvertently lead to an increase in suppliers using court enforcement action as an alternative means of recovering debt. Non-PPM debt collection and enforcement, including the use of High Court Enforcement Officers (HCEOs), can pose risks to vulnerable groups which are similar to involuntary PPM installation.

We were therefore pleased to see Ofgem directly acknowledge this concern in its 2024 call for input on debt and affordability, and have some reservations around the regulator's decision not to prioritise policy work in this area at this moment in time. Ofgem notes that data collected from suppliers shows there has "not been a significant growth in the overall number of customers referred to debt collection agencies or for court enforcement action between 2019 and 2024"; we would welcome further detail on these figures.

We would also reinforce the principle that prevention is better than cure. Without action to improve protections, there is a risk that use of this recovery method could grow unchecked and lead to substantial harm. Improvements in the energy debt pathway might lead suppliers to move more energy debt to DCAs. It remains our view that Ofgem must act urgently and proactively to strengthen its requirements of suppliers pursuing enforcement of energy debts.

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<sup>8</sup> Citizens Advice (2024), [The debt protection gap](#)

The energy industry's 2024 Voluntary Debt Commitment contained some useful commitments, but the measures relating to HCEOs lacked clarity and its voluntary nature means support is not binding and may not be consistent.<sup>9</sup>

We would like to see equivalent protections in place to the new PPM rules and guidance for the use of HCEOs, with specific customer groups exempted from this form of enforcement. For example, we would like to see a 'do not use' category for HCEO enforcement which would include enforcement on small debts below a certain threshold, households in receipt of means-tested benefits as well as those facing other additional vulnerabilities but not eligible for this support, alongside a wider 'Further Assessment Needed' category as per the PPM protections.

As part of a consumer debt outcome and Debt Guarantee, there should also be further pre-enforcement requirements on energy suppliers to engage with customers before escalating to this action and more careful consideration of the use of court or enforcement action where a person has offered an affordable payment arrangement.

More broadly, we would like to see a requirement for all bailiffs used by suppliers to be signed up and accredited with the Enforcement Conduct Board (ECB). Building on this, standards on the use of enforcement to pursue energy debt should be drawn up in collaboration with the new regulatory body.

#### Q5. What issues should be prioritised?

These issues are each important. That being said, we believe that identification of vulnerabilities (crucially, accompanied by practical steps to meet customers' relevant support needs and personal circumstances) could be likely to make the most encompassing difference to struggling customers, and is closely connected to the wider challenge of improving the energy debt pathway. If suppliers internalise a vulnerability-first approach to understanding their customers' needs and circumstances, it will help them to design better services and support pathways as well as better support individual customers. We therefore see this as an important priority.

We also believe Ofgem should act quickly to make interventions around the use of High Court enforcement and DCAs in the energy debt pathway, as we have outlined above. Doing so would signal a proactive regulatory approach designed to minimise and prevent harm and reduce the likelihood of a high-profile reactive response to later poor behaviour – evidenced by the 2023 mandatory PPM moratorium and Ofgem's subsequent revisions to consumer standards in license conditions and guidance.

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<sup>9</sup> Energy UK (2024), [Energy UK's Winter 2024 Commitment](#)

