Subject: Help to Repay - making it work in practice

From: Simon Francis <s To: "Fahnbulleh, Minister (Energy Security)" </br>

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Tue, 24 Sep 2024 09:25:56 +0100

Dear Miatta and colleagues,

Following our meeting last month, we agreed to follow up with information about how a Help to Repay scheme could work in practice - and with limited impact to the taxpayer.

Firstly, just to repeat that we need to remember why this energy debt has been built up - due to the record energy prices over the last three years. These have cost the average household an extra $\pounds_{2,500}$ to date - a huge sum for people to find, especially when combined with the wider cost of living crisis. Meanwhile, <u>energy firms have made excessive profits</u>.

Paying for Help To Repay

The Government has rightly introduced the Energy Profits Levy and it could look to extend this to other firms in the industry - such as the networks and transmission firms - in order to raise additional revenue for support for households in debt.

In addition, analysis shows that between April 2024 – March 2025, consumers will pay a total of $\pounds 1.3$ billion towards debt-related costs, via the energy price cap. Over £730 million of this is from the new additional 'bad debt' allowance Ofgem has temporarily added to the price cap for the year ahead. As we discussed, we are not clear what this money is spent on. Ministers should assure themselves that it is actually helping households and not being used by energy firms to hire debt collectors or on "back office" costs.

Part of the money raised from this could be redirected to a Help to Repay scheme (e.g. suppliers pay a proportion into a central pot to fund the scheme), which would reduce the level of debt in the market while ensuring that consumers benefit from actually moving out of debt.

This would be a more effective approach than currently, where the allowance is intended to be used for suppliers to 'write-off' debt, but this appears to occur largely from an accounting perspective – whereby the supplier adds a 'bad-debt' element to their income statement for debts they do not expect to recover. It does not, however, mean that the debt is written off on the customer's account and suppliers can choose to continue to take recovery action against the individual.

Examples of where similar scheme has worked in practice

<u>Wessex Water's Restart scheme</u> offers payment matching on the basis that, if a customer pays their ongoing usage charges for the year, they then write-off an equivalent amount of debt. If customers continue to pay their ongoing bills in year two, they write-off the remaining debt. It's had high success rates - 90% of customers who completed the programme have gone on to maintain up to date payments of their regular water usage and stay out of debt (<u>source</u>).

EDF has been offering help to customers over the past two winters through a 'fresh start' scheme which writes-off energy debt and also offers payment matching to customer top-ups for PPMs. There's limited public detail on the scheme but the key thing is that <u>87% of customers</u> supported through this remained debt free a year-on, with 67% of those still in debt seeing a reduction. One of the challenges of our energy system is that there are pockets of good practice, but no consistent approach for customers.

For Prepayment Meter (PPM) customers, our recent consultation response to Ofgem on standing charges (<u>pdf</u>) also recommends that standing charges should be abolished and costs moved entirely onto the unit rates while more support is given to PPM customers in debt.

There is also scope for further quick wins on PPMs. This includes moving standing charge debt to the "back of the meter", so customers only pay off the debt after they have used the energy they need. Or Ofgem could mandate a maximum weekly amount that can be charged for standing charge debt. This would function as a second weekly repayment rate, which accumulates in addition to the weekly repayment rate for debt.

I've copied in Grace and Meg from Money Advice Trust who are the experts on the Help To Repay scheme as well as Eva from Debt Justice who you met at our meeting.

We would be happy to meet with you separately to discuss energy debt in more detail.

Best wishes Simon, End Fuel Poverty Coalition coordinator