End energy debt

Debt Justice

Briefing | March 2023

The cost of living crisis coupled with a broken energy system has pushed UK households into a record £2.5 billion of energy debt and arrears.[1]

Around £1 billion of the debt is held by households with pre-pay energy accounts – leaving them at increased risk of energy disconnection and the deadly effects of cold, dark, and damp homes.

It is unfair and unrealistic to expect people to pay back record amounts of debt, created by a broken energy market, whilst household incomes are falling sharply. It is time for the UK government to intervene and pay down this unmanageable debt in a fair way.

The energy crisis is driving a debt crisis

We are now in a severe cost of living crisis, exacerbated by short term economic shocks which have led to sharply rising energy, food and transport costs. This crisis has been a long time in the making, driven by structural inequalities of power and wealth that leave millions of people in the UK economically insecure.

Even before this current crisis, household debt owed by people on the lowest incomes was on the rise.[2] Living standards are set to fall by their largest amount on record, worsening the debt crisis as people are forced to juggle bills, delay payments, and borrow to try to make ends meet.[3]

Around **6.7 million** households are now in fuel poverty and **£2.5 billion** of energy debt has amassed.

Rapidly rising energy prices have been a significant contributing factor to the cost of living crisis and are pushing households into debt. Despite the introduction of the Energy Price Guarantee, average household energy costs almost doubled in 2022, from £1,277 in March to £2,500 in October. Around 6.7 million households are now in fuel poverty[4] and £2.5 billion of energy debt has amassed.

The pressure on UK households is unlikely to let up this year - a predicted 7 million people are expected to be unable to meet their energy and food bills in full.[5] Households will be under further pressure from April as the Energy Bill Support Scheme, which provided a universal £400 grant, expires. Half of UK households are now rationing their energy use and nearly one in five are living in cold damp homes.[6] Cold homes can cause or worsen serious health conditions - each year 10,000 people die as a result.[7]

Forced installation of pre-pay meters must end

Most households are credit-based users of energy, typically paying for both gas and electricity by direct debit. There are also a significant minority of pre-pay meter (PPM) users with 4.3 million electricity and 3.4 million gas PPMs recorded in 2020.[8] Pre-pay account users have to top up their accounts before any energy is provided to their home.

Energy suppliers can forcefully install PPMs by obtaining a magistrate's court warrant after energy debt has built up and payments have been missed. PPMs currently penalise people with higher costs than credit-based users. Daily 'standing charges' continue to be levied and need to be re-paid even when a meter runs out of credit and no energy is being used. People with the least have been paying the most for energy because of this pricing structure.[9] The UK government has finally recognised this injustice and at the recent budget the Chancellor pledged to equalise prices.[10]

Citizens Advice have seen record numbers of people who are unable to top up their PPMs.[11] This highly dangerous situation can leave people unable to heat their homes, clean, wash, operate medical equipment, switch the lights on or cook hot food.

Nearly **500,000** new forced installation warrants have been granted by the courts since July 2021.

All energy suppliers sign up to a licensing agreement with the energy regulator Ofgem to "identify all PPM customers who are self-disconnecting and to offer appropriate support, giving due consideration to customers in vulnerable situations."[12] However, poor

CASE STUDY **Junnie Braithwaite, age 56, northeast London**

I live in a socially rented apartment split over two floors and need to use a stairlift because of fibromyalgia and arthritis. Due to rising energy prices and £600 of energy debt I can no longer afford to operate my stairlift.

This debt is based on an estimation as I am unable to read my meter. EON, my energy provider, hasn't sent anyone round to read the meter for years, and are now pressuring me to go on to pre-pay.

I have just been notified by my housing provider that my rent will also be going up and they have yet to find me more suitable accommodation. I need a car to get around, but a lack of parking facilities at my home has led to fines and now a County Count Judgment.

" I have been forced into unpayable debt because of my situation and it has left me feeling suicidal.

practice has been exposed, including debt agents breaking into the homes of people with 'extreme vulnerabilities'.[13]

The protections for people in energy debt are clearly not robust enough. Ofgem has acknowledged that "the numbers of forced installation of pre-payment meters is extremely high" and that "It is simply not acceptable that vulnerable customers are left in the dark and cold in Winter."[14]

Nearly 500,000 new forced installation warrants have been granted by the courts since July 2021.[15] This dangerous practice has been paused pending the outcome of an Ofgem review but the debt remains hanging over households.[16]

Despite a pause in new warrants, energy debt and fear of debt continue to drive households on to pre-pay energy accounts. The government recently revealed that the vast majority of households that transfer to pre-pay energy accounts now do so remotely via smart meters, not court mandated warrants.[17] In reality, households struggling to keep up with energy payments may feel they have no other option and every new household moving to pre-pay energy means more people at risk of disconnection.

Energy debt in the UK

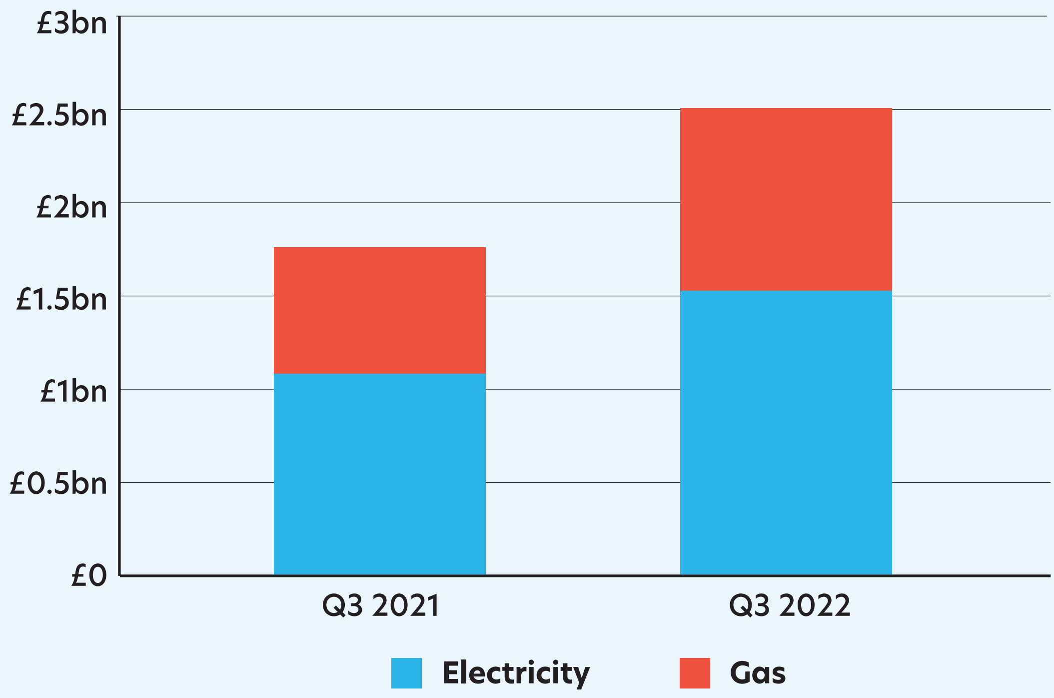
The latest figures from Ofgem (analysed below) show that £2.5 billion of debt and arrears had already been built up by UK households before energy prices were increased again in October 2022.[18]

- 1,378,079 customers have now agreed a plan with their supplier to repay electricity debt. They have an average debt of £391.
- 1,151,767 customers have now agreed a plan with their supplier to repay gas debt. They have an average debt of £316.[19]

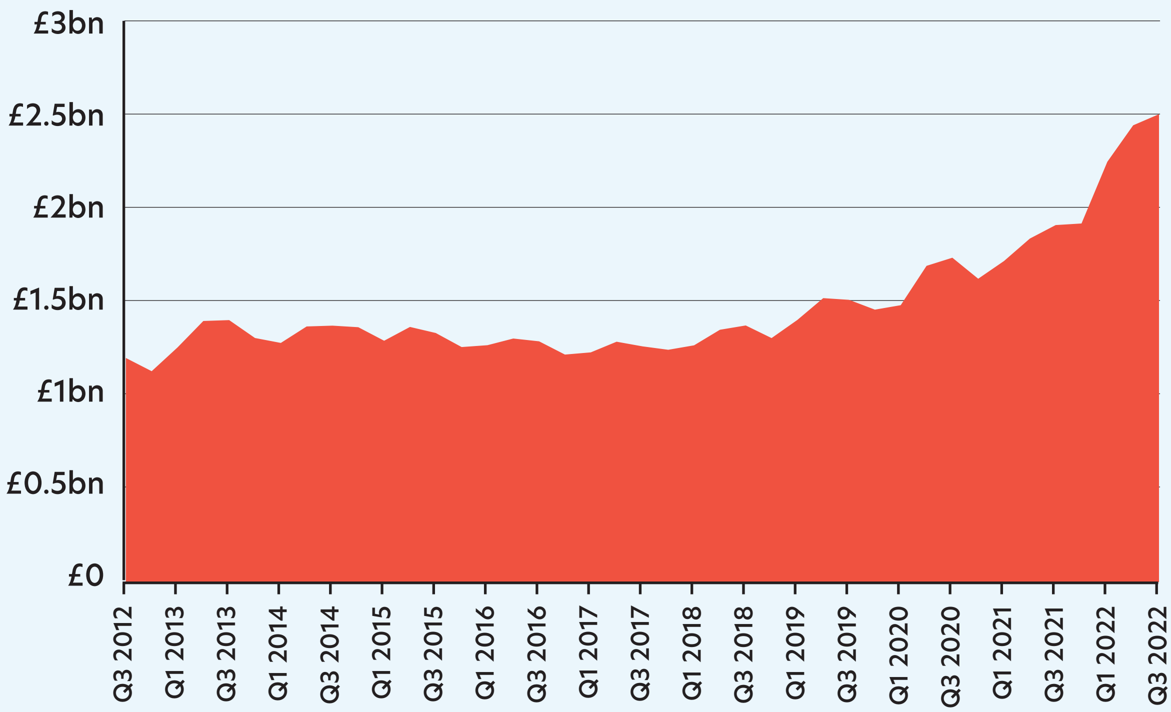
> **1.7 million** electricity and gas customers are now in arrears of 91 days or longer.

- A customer is in arrears if they have not paid a bill for longer than 91 days (13 weeks), and there is no formal arrangement to repay the debt. 946,525 electricity customers are in this position with an average arrears of £1,036.
- 758,809 gas customers are in arrears and have an average debt of £807.

Year on year energy debt



Total energy debt (2022 prices)



Pre-pay meter debt

We calculate that around £1 billion of this overall energy debt is now held by households with pre-pay accounts.[20] Average repayments are £6 per week, with repayment plans for pre-payment meter electricity users averaging 200 weeks (3.8 years) and PPM gas users averaging 262 weeks (5 years).

These debt repayments are deducted from meter top ups – worsening fuel poverty, encouraging energy rationing and accelerating energy disconnection.

	GAS	ELECTRICITY
All customers with debt repayment plan	1,151,767	1,378,079
Proportion of customers repaying debt using a PPM	26%	30%
Number of PPM customers repaying debt (projection based on publicly available figures)	299,459	413,424
Average debt	£1,137	£1,511
Total debt	**£340,485,360**	**£624,683,210**
Combined total pre-payment meter debt	**£965,168,571**	

Recommendations

We need a three stage plan to tackle this crisis:

1. **Pause energy debt enforcement and collection**
2. **Write down the unpayable debt**
3. **Reform the energy system**

1. Pause energy debt enforcement and collection

We need to pause all energy debt recovery action and protect people falling behind on energy payments whilst we undertake fundamental reform of the energy system and tackle unpayable debt. This means:

Pausing court action: The moratorium on the forced installation of PPMs through court warrants must remain in place until new protections are introduced, and their effectiveness demonstrated. We also cannot allow aggressive alternative collection paths such as County Court Judgements (CCJs) to replace magistrates warrants. CCJs can result in rulings for debt to be paid back through benefit deductions, wage deductions or a charging order which secures the debt against a property. These rulings can accelerate a debt spiral and be enforced through highly distressing bailiff action.

Stopping debt collection: Energy debt can also be passed on to specialist debt collectors. These agencies have fewer enforcement powers than court bailiffs but can still cause significant distress – people in debt have reported feeling "harassed and persecuted" by them.[21]

Protecting credit scores: A freeze on issuing default notices and protection from damaging credit reports is also necessary. Missed payments can stay on credit records for up to six years, damaging credit ratings and leading to greater reliance on higher cost credit.

2. Write down the unpayable debt

It is time for the UK government to intervene and write down this debt pile in a fair way, minimising the anxiety felt by households pushed into unpayable energy debt.

Pre-pay users are at increased risk of energy disconnection and the deadly effects of cold, dark, and damp homes. Real incomes are falling, especially for low income households,[22] who are more likely to have been forced on to or inherited PPMs.[23] It is unfair and unrealistic to expect PPM users to re-pay debt at this time. Instead, it is time for the UK government to pay down all debts held by PPM customers, in full.

Credit based users may not be in immediate danger of disconnection, but energy rationing is widespread and people in arrears are often under extreme financial and emotional pressure.[24] For that reason a debt relief fund should be created to help pay down unaffordable debt held by credit-based users. Not only would this alleviate some of the anxiety felt by people in arrears and help them obtain the minimum necessary access to energy, but it would also help prevent even more credit-based users being remotely switched on to smart pre-pay accounts.

It is only right that those that have profited from record prices shoulder most of the burden for paying down this debt. In February 2023, BP and Shell posted record annual profits of £32.2 billion and £23 billion respectively.[25] Profiteering has pushed up prices, as the government has already tacitly acknowledged by introducing the Energy (Oil and Gas) Profits Levy. However, the existing levy has a significant loophole that allows tax relief on capital investment, delaying decarbonisation of the energy supply as well as reducing the income raised from the tax by up to £22 billion.[26]

The National Audit Office now forecast that the energy bill support package will now cost £69 billion, half the original estimate of £139 billion.[27] This is due to the falling cost of wholesale gas and reduced demand.

Finally, the energy suppliers that have behaved disgracefully by breaking into homes and force fitting PPMs should be penalised. The main compensation should be given directly to people affected by this appalling practice, but any unallocated or additional fines levied by Ofgem for poor conduct could be used to top up these funds.

3. Reform the energy system

Alongside these urgent steps to tackle the energy debt build up and strengthen protections for people pushed into debt, we need to fix the energy system to prevent recurring crises.

The two-tier energy supply system must be phased out – no one should be forced to live with the fear of energy disconnection. A basic level of energy should be a right, not a privilege.

Our privatised energy production, transmission and supply system has clearly failed to deliver affordable and sustainable energy and we need alternative models. Energy For All and/or a new social tariff for energy could deliver fairer prices in the medium term. Energy For All would offer a free allocation of energy to meet households' basic needs, paid for in part by higher tariffs for excessive use of energy. A social tariff would auto-enrol a well-defined set of households on a subsidised energy tariff, providing lower unit costs.[28]

We also need to protect households from future volatile gas prices by insulating homes and unblocking the cheapest forms of renewable energy like onshore wind and solar. This can help reduce exposure to international fossil fuel markets as well as reduce carbon emissions to help address the climate emergency.[29]

No more sticking plasters. We need to write down unpayable energy debt.

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GAS	Average length of debt repayment plans agreed (weeks)	Average weekly repayment	Total average debt per household
EDF Energy	352	£5.60	£1,971
Bulb Energy	266	£5.20	£1,383
Ecotricity	244	£5.10	£1,244
Utility Warehouse	225	£3.60	£810
Scottish Power	163	£11.20	£1,826
Utilita	159	£3.40	£541
British Gas	149	£6.00	£894
Ovo Energy	139	£6.50	£904
E.ON	105	£6.30	£662
Average	**200**	**£5.90**	**£1,137**

ELECTRICITY	Average length of debt repayment plans agreed (weeks)	Average weekly repayment	Total average debt per household
EDF Energy	329	£6.20	£2,040
Bulb Energy	344	£5.20	£1,789
Ecotricity	517	£5.00	£2,585
Utility Warehouse	301	£3.70	£1,114
Scottish Power	201	£11.20	£2,251
Utilita	179	£3.50	£627
British Gas	143	£7.00	£1,001
Ovo Energy	192	£6.30	£1,210
E.ON	150	£6.60	£990
Average	**262**	**£6.10**	**£1,512**

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Debt Justice (formerly Jubilee Debt Campaign) is a campaigning organisation dedicated to ending unjust debt and building a fair economy for all, here in the UK and across the world.

@debtjustice **Debt Justice** **debtjustice.org.uk** **info@debtjustice.org.uk**

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