



Clearing the Decks: Tackling Energy Debt to Lower Bills

National Energy Action policy paper | June 2026

Executive summary

Energy debt built up during the 2022–24 wholesale price crisis is still increasing. Millions of households remain in arrears, many owing thousands of pounds. For the households National Energy Action supports, this is not an abstract market issue but the lived consequence of bills exceeding what people can afford to pay. Frontline delivery data and client testimony show households on very low incomes, with high and unavoidable energy needs, already rationing use, cutting back on food, and struggling to keep homes warm. Many are in persistent distress, with debt shaping daily routines, worsening health, and narrowing their ability to cope or recover.

This paper makes the case for a government-funded expansion of Ofgem's existing Debt Relief Scheme to clear a significantly larger share of domestic energy debt. The proposal responds to the stock of debt built up through the energy crisis, and still weighing on households, using an established regulatory mechanism to reduce harm and improve outcomes.

Clearing energy debt also lowers bills because this debt carries a recurring cost within the price cap. Suppliers make provisions for write-offs and incur costs associated with debt management and recovery, which are recovered from all consumers through the cap. Ofgem's latest determinations indicate that these costs add around £50-£70 per year to a typical household's bills. Reducing the stock of debt lowers these costs.

Indicative modelling suggests that clearing £1bn of domestic energy debt delivers around £270m to £450m in annual bill savings across households, equivalent to a recurring saving of around £9-£16 per household per year. Clearing the full stock of domestic energy debt is estimated to deliver around £1.5-£2.0bn in annual bill savings, equivalent to approximately £50-£70 per household per year.

The alternative to action is not neutrality. Allowing debt to persist embeds higher debt-related costs into future price caps and deepens household harm. It also increases the risk that households already trapped in arrears are further excluded from the benefits of smarter tariffs, future market participation, and wider energy reforms, while pressure grows for more restrictive approaches such as prepayment.

What is required is a Treasury commitment to fund expanded deployment of Ofgem's Debt Relief Scheme. The mechanism already exists. Additional funding is required to use it at the scale that current debt levels now demand.

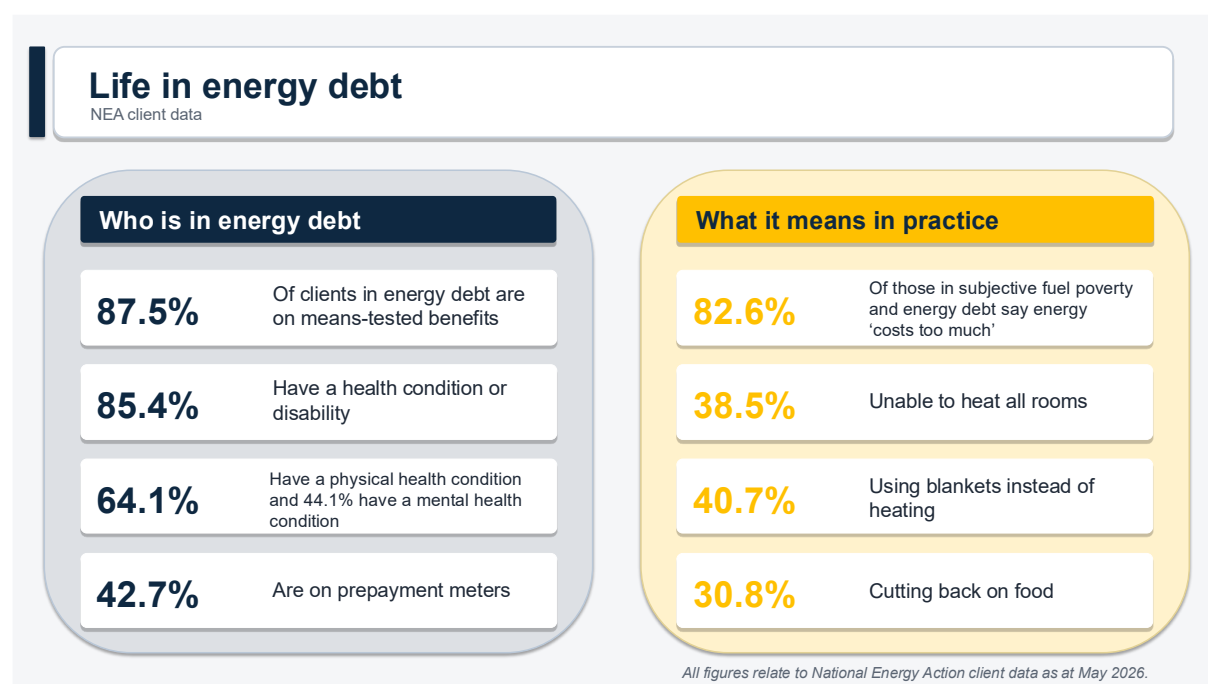
Contents

The problem – evidence from the frontline	4
Energy debt reflects constraint, not choices	4
Energy debt sits within a web of obligations.....	5
The lived impact of energy debt is harm, not inconvenience	6
Prepayment customers and debt accumulation.....	8
Why clearing debt changes outcomes.....	9
Debt as a barrier to engagement with the Warm Homes Plan	11
What has been proposed so far.....	12
Why inaction is not a neutral option.....	13
How clearing debt lowers bills	14
Benefits and implementation considerations.....	16
Why act now	17
Enabling delivery	18
Recommendations.....	19

The problem – evidence from the frontline

Drawing on National Energy Action's frontline delivery data and client testimony

Energy debt among NEA clients is not primarily driven by individual behaviour, but by the interaction of structural pressures. Our client data and lived experience consistently show that households most at risk of debt are those with very low incomes, high and unavoidable energy needs, and limited ability to reduce consumption safely. The majority of clients are receiving means-tested benefits and living with health conditions that increase their reliance on heating and electricity.



1. Energy debt reflects constraint, not choices

Our delivery insights show that energy debt does not typically arise in isolation and rarely reflects disengagement. Instead, it emerges where households with very limited incomes are exposed to energy costs that they cannot safely avoid.

Evidence from the clients we support shows that many households experiencing energy debt are living on negative budgets. Once rent, food, and other essentials are paid, there is often no disposable income left. Even small increases in energy bills can immediately result in arrears. This position is especially acute for households receiving means-tested or disability benefits that do not reflect higher energy needs linked to health conditions, disability, or caring responsibilities.

For these households, debt begins not because bills are ignored, but because there is no viable way to pay them in full.

Frontline casework also shows that many clients have high and unavoidable energy needs. These include medical equipment that must run continuously, homes that need to be kept warmer due to respiratory or cardiovascular conditions, and increased energy use linked to caring roles or time spent at home. In these cases, reducing consumption further would put health and safety at risk.

Debt is also frequently driven or escalated by system failure. Advisers support clients who have inherited debt from previous tenants, been billed inaccurately for long periods, or been unable to access or understand their accounts. In several cases, households believed they were managing their energy until large debts appeared suddenly, triggering immediate crisis.

“I knew nothing about the debt. I just kept saying that I don’t seem to be getting my money’s worth of what I am putting in.”

— Alice (pensioner, inherited prepayment meter debt)

In these situations, debt reflects opaque systems and administrative failure, not refusal to pay.

2. Energy debt sits within a web of obligations

Evidence from adviser casework consistently shows that energy debt exists alongside multiple other debts. Households are often managing rent arrears, water debt, council tax arrears, benefit overpayments, or informal borrowing at the same time.

Clients describe being forced into trade-offs that shift pressure rather than resolve it. Paying down energy arrears can lead to rent shortfalls. Automatic deductions through Fuel Direct reduce money available for food and basic living costs. Changing payment arrangements can increase immediate deductions, making everyday life harder.

“Paying one bill just meant falling behind on another.”

— Layla (single parent, ongoing debt from previous tenancy)

Across the clients we support, repayment capacity often exists only on paper. In reality, money taken to service one debt is money removed from essentials. Adding further repayment obligations increases stress and deepens hardship rather than addressing the underlying problem.

This pattern of layered and interlocking debt explains why arrears harden over time. Households are not failing to prioritise. They are rotating crisis across different parts of their budget simply to get by.

3. The lived impact of energy debt is harm, not inconvenience

Client testimony makes clear that energy debt dominates daily life and mental space. It shapes how energy is used in the home, how households manage basic needs, and how safe and secure people feel day to day. These impacts are sustained and cumulative, particularly where debt persists over time.

Cold homes and under-use

Households routinely respond to energy debt by rationing use to unsafe levels. This includes heating only one room, limiting heating to short periods each day, avoiding hot water, or disconnecting altogether when credit runs out. Adviser evidence shows these behaviours are widespread and persistent, including among households where warmth is essential for health.

“We never had the heating on. We used hot water bottles.”

— Colin (carer household)

For many households, under-heating becomes normalised rather than temporary. Clients describe structuring daily routines around avoiding energy use, confining activities to a single room, or spending extended periods in bed to stay warm. These practices continue even during colder months and even where they worsen existing health conditions.

Older people and disabled clients report living in cold homes despite increased pain, reduced mobility, or exacerbation of respiratory and cardiovascular conditions. In these cases, under-use is not a matter of preference but of constraint, with households absorbing harm in order to remain connected at all.

Mental health and distress

Frontline advisers consistently report a strong link between energy debt and deteriorating mental wellbeing. Clients describe anxiety, panic, sleep disruption, and constant worry about bills they cannot resolve or predict. Many fear opening post or answering phone calls, particularly where supplier contact has resulted in threats or confusion in the past.

“It was making my mental health a lot worse. I was constantly worried about how we were going to do it.”

— Florence (parent, prepayment meter)

For some, mental strain becomes a barrier to engagement itself. Clients disengage not because they are unwilling to address debt, but because the psychological burden becomes overwhelming. Advisers describe growing safeguarding concerns where debt intersects with poor mental health, trauma, disability, or caring responsibilities.

In several cases, advisers report that clients describe the stress of unmanageable energy debt as overwhelming, contributing directly to feelings of hopelessness and a loss of control. From frontline experience, these effects tend to persist rather than diminish, particularly where underlying drivers such as low income, poor housing, or high and unavoidable energy needs remain unchanged. In this context, energy debt acts as an ongoing constraint, narrowing capacity to engage, plan, or recover, and compounding financial hardship with a sustained erosion of agency.

Effects on children and caring roles

Where children or caring responsibilities are present, the harms associated with energy debt deepen and become harder to mitigate. Evidence from the families we support shows that responsibility for others sharply limits households’ ability to absorb or escape the conditions described above.

Families with children consistently experience reduced nutrition, cold and uncomfortable home environments, and heightened parental stress. Energy costs compete directly with food, clothing, school items, and transport. Parents and carers often prioritise children’s immediate needs by absorbing hardship themselves, skipping meals, living in cold conditions, or delaying essentials in order to keep the household functioning.

Cold homes are a routine feature of family households in energy debt. Heating is frequently restricted to short periods or specific times of day, with reliance on coping measures such as blankets and throws. These practices persist even where children are present at home throughout the day.

“Yeah. So, I used to have it on, like, for an hour in the morning... and then just an hour at night. We just had loads of throws and stuff.”

— Florence, parent (prepayment meter)

Caring responsibilities significantly limit the scope households have to reduce energy use safely. Children’s wellbeing, disability, illness, and the need to maintain routines all increase energy demand at the same time as arrears and deductions reduce available income. This leaves families with little or no safe margin.

Parents and carers also describe sustained emotional strain. Constant vigilance over spending, fear of bills, and anxiety about keeping children warm and fed contribute to high levels of stress. This affects household relationships, mental wellbeing, and parents’ ability to plan or engage with support.

Energy debt in households with children or caring responsibilities is not a contained financial issue. It directly shapes living conditions, stability, and wellbeing for those in the household with the least control over the situation.

4. Prepayment customers and debt accumulation

Among the clients we support, prepayment customers often experience debt through daily interaction with the meter itself. Adviser casework shows repeated cycles of self-disconnection, small top-ups, and continuing arrears despite extreme rationing.

Standing charges and debt deductions mean that topping up frequently provides very little usable energy. Clients describe paying to avoid immediate loss of supply, only to remain cold.

“They take 70p out of each £1. So £10 only gives me £3 gas.”

— Barbara (disabled, prepayment meter)

Some clients delay or avoid topping up because it feels futile. Others top up repeatedly in small amounts, which creates constant stress and uncertainty. Adviser evidence shows that this pattern often normalises under-use, with households structuring daily routines around conserving energy rather than meeting basic comfort or health needs. Over time, the meter becomes a source of continual vigilance rather than control.

For households dependent on electricity for medical equipment, the consequences are severe. Advisers describe clients limiting essential

equipment use, staying in bed to keep warm, or cancelling everyday activities because they cannot keep devices charged. These choices affect physical health, independence and dignity.

In our delivery experience, prepayment is often introduced after debt has already built up. Hardship frequently increases after the switch, rather than easing. Homes remain cold, standing charges and deductions continue to absorb income, and arrears persist or grow despite extreme efforts to manage consumption. Adviser casework also highlights a marked deterioration in trust in suppliers following the move to prepayment, particularly where clients feel they are paying frequently but seeing little benefit.

For many households, this point marks a shift from temporary difficulty to sustained entrenchment. Prepayment does not resolve unaffordability but instead contains it within daily rituals of rationing, self-disconnection, and repeated crisis management, leaving households with limited scope to stabilise or recover.

5. Why clearing debt changes outcomes

Evidence from delivery focused specifically on households already experiencing energy debt shows that outcomes change when accumulated debt is removed, rather than managed or restructured. Interventions that cleared debt and reduced pressure immediately restored stability in a way that repayment arrangements alone did not. Across these cases, non-repayable support enabled households to stabilise beyond immediate crisis. Relief came from removing the debt burden itself, not from reshaping how unaffordability was carried.

Non-repayable financial support, including energy grants, trust funds, and hardship payments, consistently produced the strongest outcomes for indebted households. By bringing accounts back to zero, these interventions reduced anxiety and allowed clients to re-engage, not only with their energy supply but with wider efforts to stabilise their household finances. Clients described the immediate removal of debt as creating the breathing space needed to regain stability.

“It’s a huge load off my mind.”

— Hafsa (Warm Home Prescription grant)

“It was an absolute lifesaver... it made such a difference.”

— Amanda (severe respiratory condition)

Outcomes were strongest where debt clearance was part of a joined-up response addressing the conditions in which debt had accumulated, including low income, poor housing quality, ill health, and system failures such as incorrect billing. In these cases, benefit maximisation, housing repairs, appliance replacement, health and social care referrals, and advocacy with suppliers supported stability once the debt burden itself had been removed. Treating energy debt as an outcome of wider household constraint, rather than as a standalone billing issue, reduced repeat crisis.

Crucially, adviser evidence shows that where unaffordable debt is left in place, households remain trapped in cycles of harm regardless of how repayment is structured. Relief came from clearing debt, not reshaping it. Without removing the accumulated burden, unaffordability is displaced rather than resolved, and households continue to absorb harm through under-heating, self-disconnection, and repeated financial crisis.

This points to a clear implication for policy: where debt has accumulated because affordability has broken down, better management alone is not sufficient. The stock of debt itself must be reduced.

Debt as a barrier to engagement with the Warm Homes Plan

Energy debt does not only deepen immediate financial hardship and distress. It is also likely to act as a practical barrier to engagement with the government's Warm Homes Plan, related energy efficiency activity, and future markets more broadly. If a fuel poor household receives low-carbon technology while remaining trapped in debt, there is a real risk that it will be unable to access the tariffs, opportunities, and wider benefits needed for those technologies to deliver value.

In some cases, debt operates as a direct barrier to access. It can make switching harder, restrict access to better-value tariffs, and leave households stuck on poorer arrangements even where they have the technologies that should allow them to benefit. This matters for both import and export value. A household may receive solar, electric heating, storage, or other flexible demand options through the Warm Homes Plan, but still be unable to access the smart tariffs, export tariffs, or flexibility offers that would allow it to realise the full value of that support in practice. Debt can also complicate wider transitions in the home, including moving away from gas where arrears remain tied to an existing account and supply arrangement.

Debt also operates as a behavioural barrier. Households in persistent arrears are less likely to trust supplier communications, less likely to engage with tariff choices, and less likely to feel that the energy market works for them. Over time, repeated stress, confusion, and difficulty can lead households to withdraw from engagement altogether. That matters because the benefits of smart tariffs, flexibility, and future market participation do not flow automatically. They increasingly depend on households being willing and able to engage.

The same dynamic is likely to affect wider Warm Homes Plan delivery and energy efficiency schemes. Lower bills and relief from immediate crisis are often a precondition for engagement with retrofit. A household dealing with arrears, deductions, or repeated financial crises is less likely to engage with home upgrade journeys, tariff optimisation, or the practical disruption that retrofit can involve. In that sense, reducing debt is not only about relieving current harm. It is also about creating the conditions in which low-income households can participate in home upgrades, benefit fully from new technologies, and share fairly in the wider gains of the energy transition.

What has been proposed so far

A range of proposals and ongoing workstreams now recognise that rising domestic energy debt is not a marginal issue, but a system-level affordability challenge following the 2022-2024 price shock. Most approaches focus on improving how debt is managed and prevented. Many of these measures deliver meaningful support for households and can improve outcomes at the individual level, but they do not materially reduce the overall stock of existing debt.

A number of proposals have centred on:

- **Stronger ability-to-pay standards**, ensuring repayment plans reflect real household circumstances, including low-income constraint and additional energy needs
- **Earlier engagement and better support pathways**, particularly through closer working between suppliers and advice services
- **Improved use of data**, with appropriate safeguards, to identify vulnerability and intervene sooner
- **Ongoing affordability support**, such as a social tariff or an enhanced Warm Home Discount rebate, to reduce the flow of households into arrears

These measures are important. They improve how the system responds when debt emerges and reduce the likelihood of escalation into crisis. But they do not remove the stock of debt that has already built up.

Alongside these proposals, there are also approaches that seek to manage debt primarily through tightening control. These include greater reliance on restrictive payment arrangements, expanded use of involuntary prepayment, and emerging changes to how debt is treated at change of tenancy and during home moves.

While these measures aim to reduce outstanding balances and limit system risk, they often do so by reallocating or containing debt rather than fully resolving its causes. In some cases, they target narrower, process-driven drivers, such as how debt is handled at home moves, but they do not address the central issue of affordability or materially reduce the overall stock of arrears.

Why inaction is not a neutral option

Allowing debt to persist and accumulate does not simply defer a decision. As arrears continue to grow, the resulting bad debt write-offs and recovery costs are embedded into future price caps. The longer debt remains unresolved, the more these costs are locked into bills, raising costs for all households.

There is also a regulatory consequence to continued unmanaged growth in the debt stock. Ofgem has already taken the principal steps available on the relief side through the introduction of its Debt Relief Scheme. While welcome, this intervention is limited in scale and will not materially reduce overall debt levels. If debt continues to grow beyond this point, further action to contain system risk becomes unavoidable.

With relief-side tools largely exhausted, future regulatory responses are more likely to focus on debt control rather than debt resolution. This creates a real risk of increased use of penal measures, particularly involuntary prepayment. While such approaches may stabilise or reduce recorded debt, they do so by constraining access to energy rather than addressing underlying affordability.

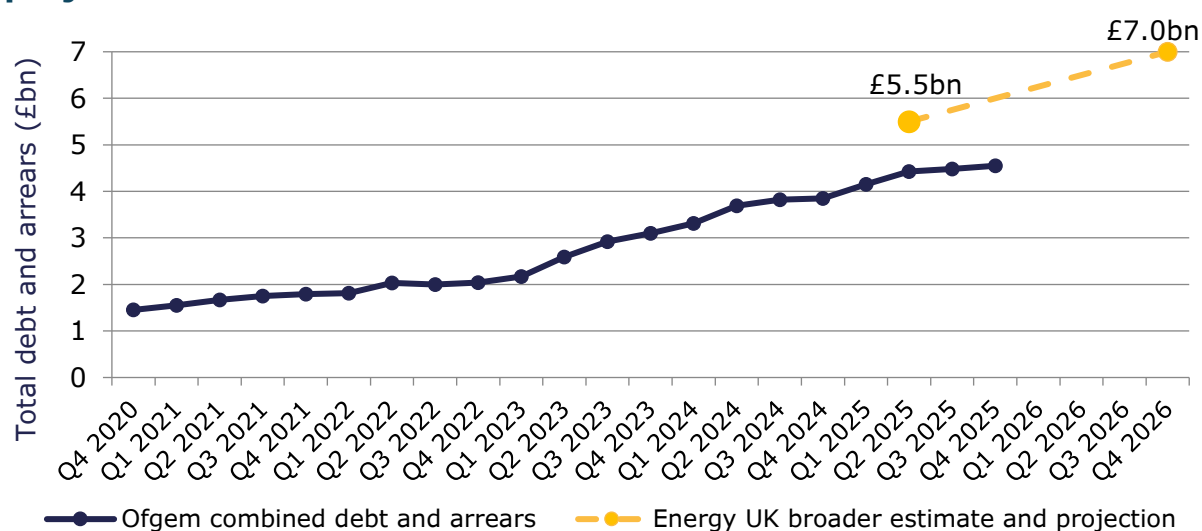
In practice, this risks exchanging visible debt accumulation for increased self-disconnection and under-use of energy, with disproportionate impacts on low-income households. The choice is therefore not between action and inaction, but between addressing debt directly now, or allowing pressures to build until more restrictive and harmful interventions become the default response.

A debt clearance scheme is therefore required to address the accumulated burden directly, rather than relying on mechanisms that can only manage, and at times deepen, the consequences of it.

How clearing debt lowers bills

Energy debt has surged since the start of the 2022 energy crisis. This is largely because energy prices have been sustained at such a level that a significant proportion of households cannot afford to pay their bills.

Figure 1: Household energy debt has risen sharply and is projected to rise further¹



In Ofgem's latest published figures, total electricity and gas debt and arrears stood at around £4.55bn at Q425², with roughly three quarters comprised of arrears. Industry estimates suggest the true scale is higher³. Energy UK estimates total domestic energy debt at around £5.5bn, compared with Ofgem's lower published figure, because it uses a broader measure, including arrears over 30 days overdue rather than 90 days overdue.

This debt impacts on suppliers in two main ways:

- Debt is financially negative for their balance sheets
- Chasing debts incurs a cost

These financial burdens scale with the amount of overall debt. The price cap legislation dictates that these costs must be recovered by suppliers. Therefore, if overall debt was reduced, these line items in the price cap (and in fixed tariffs being offered under the cap) would also be reduced, resulting in lower bills.

¹ Note: Ofgem figures show combined domestic electricity and gas debt and arrears on the published quarterly measure. Energy UK's £5.5bn figure is a broader estimate of total debt at June 2025, and £7.0bn is Energy UK's projected end-2026 level.

² <https://www.ofgem.gov.uk/data/debt-and-arrears-indicators>

³ <https://www.energy-uk.org.uk/publications/energy-debt-everyone-pays/>

Evidence on how much it lowers bills

The scale of these costs is reflected in Ofgem's price cap allowances.

Ofgem's 2025 operating cost and debt allowances decision sets an enduring debt-related cost allowance in the price cap at around £71 per customer per year across payment methods⁴. Ofgem's November 2025 announcement on energy debt reform described the price cap "debt allowance" as adding around £52 per household per year to bills⁵.

Taken together, this suggests that energy debt was adding in the region of £50–£70 per household per year to bills over this period. Debt has continued to increase since these estimates were set, meaning that the underlying cost pressures reflected in the price cap are likely to have strengthened. As a result, reducing the stock of debt would lower bills over time, with the scale of savings depending on how much of the accumulated debt is cleared.

The large majority of this allowance relates to bad debt-related losses, accounting for write-offs and accounting provisions for energy bills that are never repaid, while the remaining share reflects administrative costs associated with managing and recovering debt.

Clearing accumulated debt would therefore remove a substantial portion of these costs, though not all would necessarily fall away immediately or in full. In broad terms, if the full stock of domestic energy debts were cleared, bill savings would be expected to fall within the same range as the current cost burden, at around £50–£70 per household per year, depending on the size of the debt stock and how fully associated costs are removed from the price cap.

Indicative modelling supports this relationship. Clearing £1bn of domestic energy debt is estimated to deliver around £270m–£450m in annual bill savings across households, equivalent to roughly £9–£16 per household per year, or 27p–45p per £1 of public funding, depending on the total debt stock assumed.

⁴ <https://www.ofgem.gov.uk/consultation/energy-price-cap-operating-cost-and-debt-allowances-consultation>

⁵ <https://www.ofgem.gov.uk/policy/debt-strategy-update-supporting-reduction-energy-debt>

Benefits and implementation considerations

Energy debt has become a significant burden in the energy market.

Clearing this debt offers **three major advantages**:

- **Direct and lasting bill reductions:** lower supplier costs from bad debt and debt recovery feed through the price cap, reducing bills permanently for all households.
- **Health and wellbeing benefits:** debt is strongly linked to poor mental health (Money and Mental Health Policy Institute) and cold homes, which exacerbate physical illness (NEA polling). Reducing debt alleviates these pressures, easing demand on NHS services.
- **Economic stimulus:** indebted households spend less locally. Clearing debt boosts disposable income, supporting local economies and productivity.

There are a number of objections that policy design would need to address, but these should not be treated as reasons for inaction.

- **Moral hazard:** There is a concern that intervention could create expectations of future government support. This risk can be mitigated through targeted eligibility and strengthened debt management standards. More fundamentally, the current situation reflects a breakdown in affordability rather than consumer behaviour. Addressing accumulated debt should be understood as a corrective response to that failure, not a signal of ongoing subsidy.
- **Fairness concerns:** There may be perceptions that some customers benefit without having paid. However, the costs of energy debt are already shared across all households through the price cap. Reducing the stock of debt would lower those costs for everyone, while relieving acute harm for those currently in arrears.
- **Uneven supplier impact:** Debt is not evenly distributed across suppliers, which could create distortions in how relief is applied. This is a familiar feature of energy policy and can be addressed through standard levelisation mechanisms. It is a design issue, not a barrier to action.

A further objection is that clearing energy debt could disproportionately benefit suppliers with larger debt books, while disadvantaging those seen

as having stronger debt management practices or a lower-risk customer base. Under this view, debt relief risks rewarding weaker behaviour and penalising best practice.

From a consumer and system perspective, this framing does not hold. Households do not choose suppliers based on debt collection policy, and many did not choose their supplier at all following market exits during the crisis. More fundamentally, the costs arising from uneven debt distribution are already being socialised through the price cap. All households are paying for bad debt and recovery costs regardless of which supplier holds the debt.

Supplier neutrality can be addressed directly through policy design. Uneven impacts across suppliers are a familiar feature of energy interventions and can be managed through a standard levelisation mechanism, as used elsewhere in energy policy. This is a design challenge, not a reason to avoid action. Allowing debt to continue compounding in order to preserve relative supplier positions simply entrenches higher costs and worse outcomes for consumers.

Why act now

Although prices have fallen from their absolute peak, bills remain well above historic levels and affordability pressures are acute for low-income households. The price cap is also set to rise in July, adding further pressure to household budgets.

Critically, the debt accumulated during the previous crisis has not unwound. Instead, arrears have hardened and become increasingly difficult to repay. Delay allows:

- Further accumulation of debt
- Higher bad debt allowances to be baked into future price caps
- Deeper, more persistent harm for indebted households

With ongoing volatility in wholesale markets, debt relief is not only about debt built up during the last price shock but about limiting the next round of bill pressure. It is an active lever to address ongoing affordability, reduce future bills, and stabilise the retail market.

Enabling delivery

The immediate priority is to enable Ofgem's Debt Relief Scheme to proceed without further delay. The mechanism already exists, and the regulator has indicated readiness to implement.

Government should take the necessary steps to ensure that the scheme can be implemented in full, with all supporting powers, data flows, and administrative arrangements in place. Delays at this stage risk undermining confidence in the scheme and allowing debt to continue accumulating, with costs feeding through to bills. The policy framework is already in place, and the priority now is delivery.

However, unblocking the scheme is not sufficient on its own. As currently designed and funded, the Debt Relief Scheme will not materially reduce the overall stock of debt in the market. It must therefore be seen as the foundation for a broader intervention, not the end point. To achieve meaningful system-wide impact, it needs to be expanded in scale with Treasury funding and supported by a wider package of affordability and prevention measures.

Recommendations

1. Unblock and enable the Debt Relief Scheme

immediately. Ensure all necessary powers, data access, and operational conditions are in place so the scheme can proceed without further delay.

2. Commit Treasury funding to scale the scheme. Expand the Debt Relief Scheme beyond its current parameters to clear a substantially larger share of domestic energy debt.

3. Resist reliance on coercive debt management tools.

Avoid further expansion of involuntary prepayment and other measures that contain debt in exchange for restricting access to energy.

4. Introduce ongoing affordability support. Complement debt clearance with structural measures such as enhanced rebates or a social tariff to reduce the flow of households into arrears.

5. Protect and strengthen ability-to-pay standards.

Ensure repayment arrangements reflect real household affordability, particularly for low-income, disabled, and at-risk households.

6. Improve early identification and support pathways.

Enable better use of data, with appropriate safeguards, to identify households at risk and intervene before debt escalates.

7. Ensure lasting debt relief outcomes. Establish clear evaluation and embedded safeguards to prevent a return to debt, including measures that address ongoing affordability pressures and structural drivers of arrears.