

Angus Brendan MacNeil
Chair of the Energy Security and Net Zero Committee
[Issued by email and for website publication]



Date: 29 November 2023

Dear Angus,

Thank you for your engagement and the work of the Committee on preparations for Winter. We are committed to ensuring customers are treated fairly, receive good service and the most vulnerable are protected and we share the Committee's view of the vital importance of these issues as we enter another Winter with high prices.

I note you have raised the issue of credit balances with energy suppliers, an area of significant importance to customers. It may be helpful if I set out the action Ofgem has taken here, the rules we have in place and how we are monitoring and ensuring compliance.

Paying by direct debit helps customers spread higher winter costs over a full year. This means that there will be periods of the year when customers' balances will be in credit. Ofgem is clear that suppliers must ensure that customer fixed direct debit amounts are based on accurate and up to date information (to prevent accumulation of excessive credit balances), customers are provided with information to explain their bills and customers can recover credits or seek to adjust payments if necessary.

We have strengthened the rules around direct debits to prevent excessive accumulation of consumer credit. Earlier this year, we told suppliers to look at processes around direct debits, which resulted in 900,000 customers having their payments reviewed. Where necessary, adjustments were made for miscalculations. Ofgem also launched compliance action against 12 suppliers and enforcement

action against one supplier¹. Importantly, we have also put in place reporting requirements to identify when a supplier may be over-relying on customer credit balances for their financial resilience. As from 20 September 2023, where a supplier does not hold cash equal or greater to 20% of its gross domestic customer credit balances net of unbilled consumption (energy that customers have already used but not yet been charged for), we have the power to direct that supplier to ringfence funds. Customers can therefore be reassured that if their balance is too high, the supplier will have the money on hand to repay in a timely manner.

With bills remaining well above pre-crisis levels, customers' individual balances will likely be much higher than in previous years and cumulatively across suppliers' credit balances will be high. We published data recently showing that total balances of suppliers in the first quarter of this year was £8.1 billion. This figure includes balances held in respect of business customers for those suppliers who supply domestic and non-domestic customers. We estimate the relevant figure for domestic customers to be £7.1 billion. This figure is a gross figure and does not take into account energy already consumed by customers but for which they have not yet been billed. Adjusting for an estimate of unbilled consumption, the net domestic customer credit balance was around £4.1 billion, equating to around £140 per customer.

Reflecting the policy measures above, we have started to collect data from suppliers on this basis. We are committed to promoting transparency in the market and will publish aggregated quarterly domestic customer credit balances, net of unbilled consumption, starting during the first quarter of 2024. This will build on other information already published including aggregated quarterly debt and arrears information.

We expect suppliers to ensure direct debits are based on accurate and up to date information to ensure that credit balances are not excessive and to help customers efficiently manage their bills. Customers can ask their suppliers for a refund of their net balance at any time and suppliers must do so in a timely manner. We will continue to closely monitor credit balances and complaint levels over the winter period to identify and respond to risks of consumer harm.

¹ [Direct Debit Market Compliance Review: Progress Update | Ofgem](#)

I hope this letter is helpful to you and the Committee in explaining the work Ofgem is doing in this area, and I would be pleased to discuss in further detail if helpful.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'R' followed by a long horizontal stroke.

Rohan Churm

Director, Financial Resilience and Controls