House of Commons

Energy Security and Net Zero Committee

Tackling the energy cost crisis: Ofgem Response

Sixth Special Report of Session 2024–26

HC 1789

Energy Security and Net Zero Committee

The Energy Security and Net Zero Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Energy Security and Net Zero and its associated public bodies.

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Sixth Special Report

The Energy Security and Net Zero Committee published its Fifth Report of Session 2024–26, Tackling the energy cost crisis (HC 736), on 29 October 2025. The Government's Response was received on 5 January 2026 and published as the Committee's Fourth Special Report on 21 January 2026.

Ofgem submitted its response to the Report on 11 February 2026 which is appended below. This response was first published as correspondence to the Committee on 25 February 2026.

Appendix: Ofgem Response

Ofgem is pleased to have this opportunity to respond in writing to the recommendations from the Select Committee's report on tackling the costs of energy last autumn. We welcome the Committee's focus on this issue and we anticipate that the inputs from Government, charities and consumer groups, think tanks and the energy industry itself will shape future policies that further improve the speed and targeting of support to energy customers in financial difficulty.

As Great Britain's independent energy regulator, Ofgem's objective is to protect current and future energy consumers by ensuring they are treated fairly and benefit from a cleaner, greener energy system. We take our responsibility to support consumers in vulnerable situations extremely seriously.

Our response mirrors the structure of the Committee's report and provides Ofgem responses to the conclusions and recommendations that were directed at us as the energy regulator. Broader questions around high prices of electricity in general and their industrial impacts, or affordability of bills, such as whether there should be a social tariff and how one should be set and implemented, are for Government.

Affordability of gas and electricity in general

As we have noted in separate correspondence to the Chair of the Committee, Ofgem cannot unilaterally reduce costs of energy for either businesses or consumers. With regard to consumer bills, costs included in the price cap from Jan to March 2026 outline that around one-third (35%) of a typical domestic bill is driven by wholesale gas and electricity costs, both of which have been affected by high international gas prices. Policy costs set by Government, which also includes support scheme levies, represent around 17% of a typical bill. Ofgem has regulatory oversight of the network costs element of bills, which represent about 23% of bills and supplier operating costs (including an EBIT allowance) at 18% of bills.

As a regulator, we are nonetheless committed to play as great a role as our statutory and regulatory powers allow in supporting customers with their bills and prioritising help to the most vulnerable energy consumers in Great Britain. Ofgem uses the RIIO ((Revenue = Incentives + Innovation + Outputs) framework to set revenues to reflect the efficient costs of running and financing the underlying gas and electricity infrastructure, costs of which feed through to suppliers and to customer bills. We have tightened elements of our price control framework to minimise costs to consumers while still enabling critical investment. This includes updating wider aspects of our cost, financial and tax assumptions in line with the current macroeconomic environment and protecting consumers from future inflation spikes, and setting allowances for specific projects during the period when there is more certainty on need, scope and cost.

Our Final Determination for RIIO-3 for the gas and electricity transmission companies and the gas distribution networks was published on 4 December 2025 and we believe the determination marks a clear step forward towards a clean, secure, and affordable energy system for consumers.

Report recommendations on energy debt

The UK is experiencing a severe energy debt crisis that shows little sign of abating. Millions of customers currently owe more than £4bn in debt and arrears, a record figure that has more than tripled in just five years. This is having a devastating impact on the wellbeing of millions, while increasing energy bills for everyone. We welcome Ofgem's proposals for an Energy Debt Relief Scheme, but a more permanent solution is clearly needed to tackle both an energy debt and energy affordability crisis.

While millions of consumers struggle with energy debt and the fallout of the recent energy price crisis, there is no shortage of money in the wider energy system. It is completely inexcusable that while households are forced to ration energy and choose between heating and eating, energy networks have enjoyed windfall profits of around £4bn through financial outperformance of network price controls.

Ofgem should introduce an ambitious Energy Debt Relief Scheme, funded by windfall profits made by energy network companies, that has broad eligibility and provides support automatically, without consumers having to apply or agree a repayment plan. The regulator should consult, by spring 2026, on a more permanent scheme to provide consumers with lasting protection against debt, including provisions for debt forgiveness. It must set out how profits made in the wider energy system could be used to fund this, such as windfall profits made by energy network companies.

Ofgem agrees with the Committee's observations that energy costs have been too high for many customers. This is evident from the rising scale of energy debt—by June 2025, domestic consumer energy debt had reached £4.43 billion–an increase of 71% since 2023, with a total of 2.44 million consumers in debt. Energy debt is also disproportionately held by the 30% lowest earners, which leads to consumers falling into longer term debt that they become unable to clear.

Ofgem's priority is to support consumers who find themselves in genuine payment difficulty and currently lack appropriately targeted support in order to clear that debt in an affordable and sustainable way. We are aware that poor access to data and cross-Governmental data sharing have historically made it difficult to differentiate between customers who can and cannot pay their debts, and we agree with the Committee that the Government's renewed focus on data sharing is welcome. Current pressures on household finances are driving rising debt in lots of sectors, not just energy. However, the debt challenge in energy specifically is also driven by many different factors, such as inefficiencies in the system (for example, changes of tenancy) and some consumers deprioritising energy bills, relative to other household debts where the consequences of non payment are more immediate. The following sections will address the Debt Relief Scheme (DRS) but Ofgem is acutely aware that this intervention in isolation will not resolve all the longstanding issues relating to energy debt in Great Britain. We therefore agree with the Committee that a multi agency approach is required to tackle this in the longer term.

The Committee will be aware that, since the publication of its report, Ofgem has launched a further update to its Debt Strategy to set out how the DRS will work, and a statutory consultation which was open until 18th December

2025. Our intention is to deliver the DRS in two phases throughout 2026, with Phase 1 seeing customers who are confirmed to be eligible for means-tested benefits receive support in the form of a write-off of historic eligible debts incurred between April 2022 and March 2024. Phase 1 should help 200,000 customers and remove up to £500 million of the debt stock.

The second phase of the DRS will be targeted at customers who are not eligible for Phase 1 support, but are nonetheless in genuine payment difficulty. Ofgem is working with stakeholders on an enhanced income and expenditure assessment process that will allow these customer accounts to be identified.

It is important to note that Ofgem does not expect the DRS to remain a permanent feature of the energy market. Customers who find themselves in debt and are making best efforts to pay deserve support, but the incentives should be directed towards helping them start a repayment plan and get on top of their debts as soon as possible. Any permanent debt scheme starts to create the risk of moral hazard and could lead to a situation where some households might seek to manage their finances so that they were constantly eligible for debt support or discounts on bills.

Although the DRS is therefore intended to be a one-time support mechanism, we believe that the underlying work we, Government departments and suppliers will do to deliver the DRS and improve understanding of a customer's financial position will have long term benefits. The DRS eligibility assessment processes should improve the ability to target supportive measures at these types of customers in future. Our work will also set clearer parameters for suppliers on what types of information they need to collect from customers who are in temporary or long term financial difficulty, to ensure consumers are supported with compassion and given tailored debt advice and a sustainable debt repayment plan.

Ofgem has considered how the DRS could be funded. We do not agree with the Committee's recommendation that windfall profits should be used to support the DRS, and have followed up separately on this issue to the Chair of the Committee in correspondence. Following extensive stakeholder consultation, we are instead proposing to recover the DRS costs from domestic customers, and through Standing Charges for electricity customers and volume charges for gas customers. The DRS in isolation carries a small net cost to consumers, but we believe that it unlocks further and more fundamental reform of the non-wholesale cost drivers of historic debt, which will eventually bring bills down for all.

In August 2025, we wrote to suppliers and consumer groups to clarify expectations about how Additional Support Credit should be provided to ensure the most vulnerable households are supported, while preventing households getting into debts they cannot manage. We intend to consider further reforms to Additional Support Credit as part of a holistic review into access to credit in the energy sector and will provide further thinking on timings of this work as we evolve our strategy. Our access to credit review will necessarily also need to explore the role and use of standard credit (or cash or cheque) as a common method of payment in the energy sector.

Recommendations on tackling the poverty premium

It is unjustifiable that financially vulnerable customers are expected to pay more for their energy under the Energy Price Cap because of their chosen payment method. This constitutes a poverty premium.

Time-of-use tariffs that allow customers to optimise the benefits of low carbon technologies such as heat pumps, electric vehicles and solar panels are welcome additions to the retail market, rewarding customers with low energy prices and supporting flexibility of the energy system. However, they are mostly designed for affluent consumers, and those with smart meters and high levels of digital literacy. Without measures to protect vulnerable consumers, such as a social tariff and improved adoption of technology including smart meters, this threatens to create a retail market that deepens societal inequalities. Such tariffs must not be a substitute for lowering the costs of energy for everyone.

Ofgem should set the Energy Price Cap at an equal level for all customers, regardless of their chosen payment method, taking effect from the price cap period January to March 2026. It must also ensure that customers who are in energy debt are given greater flexibility to switch their supplier and have access to a wider range of tariffs to better manage their finances.

Ofgem acknowledges that there are cost differences between payment methods. This is standard practice in many sectors (such as financial services, where direct debit payments are often offered discounts) as different methods of payment carry different risks and costs to serve.

The higher price cap for standard credit reflects the additional costs and risks in servicing the average customer using this payment method. Setting a single price cap across all payment would require us to set it at a level at which suppliers could recover their efficient costs, which would mean that we would need to set it a level between the current direct debit and standard credit caps. This would mean an increase in bills for the majority of financially vulnerable customers and would likely lead to higher system costs over time through reduced efficiency incentives. It would also result in distortions to competition in which suppliers with relatively more standard credit customers would under-recover their costs while those with fewer than average may over-recover.

According to the latest Consumer Impacts of Market Conditions Survey, 13% of consumers pay by standard credit and 13% by prepayment meters, while 74% use direct debit, the latter being the lowest-cost method for suppliers. Importantly, standard credit becomes the default payment method where a direct debit fails, or prepayment is not an appropriate way for a customer to pay (for example where it is not safe or practical).

The vast majority of low income and vulnerable customers pay by direct debit or prepayment so we do not agree that the financially vulnerable are universally expected to pay more for their energy. Customers who have not accumulated debt with their supplier can change payment method at any time, and doing so would reduce whole system costs. As such we think it is appropriate that there is financial incentive to do so and Ofgem is supporting efforts to make consumers aware that standard credit carries a payment premium, so they can make informed choices.

In response to concerns about financial pressures on vulnerable customers, Ofgem has also worked to reduce or eliminate the differences in charging for customers on prepayment meters, who are also more likely to be vulnerable. Following our work to levelise standing charges across payment methods, prepayment meter customers now have a lower cap than equivalent customers on credit meters. However, we note that this required extensive financial engineering and Government support to make viable.

Ofgem fully agrees with the Committee's view that smart meters are a valuable tool for all households to manage their energy consumption, and to take advantage of flexible time of use tariffs that enable electricity to be consumed at times of day when there is abundant supply and a lower price. A smart meter installation is free of charge to the consumer and 70% of meter points in Great Britain are now smart. While it is true that time of use tariffs inherently require greater consumer engagement than standard volumetric flat rate tariffs, we also note that many low income households have long experience of simplified time of use tariffs, such as Economy 7 or Economy 10 meters. Many low income consumers already use time of use tariffs and plan their electricity consumption to fit within time periods that have the lowest price per kWH.

As we continue to work on scaling up consumer led flexibility, including enabling innovative propositions such as time-of-use tariffs, we will consider how to best do this in a way that creates opportunities for all to engage with and benefit from flexibility whilst ensuring the retail market continues to serve all consumers appropriately. To support this we will take learnings from relevant trials and research initiatives, for example the Centre for

Sustainable Energy's Smart and Fair programme which is exploring how to increase different consumer types' flexibility capability. We are also looking at progress of a partnership initiative between Northern Powergrid and EON Next, which is piloting providing free batteries to vulnerable consumers to support them to engage with flexibility and lower their bills.

Standing charges

We welcome Ofgem's ambition to reassess how costs are allocated across consumer energy bills, but we are unconvinced that its proposals for a mandatory zero or low standing charge tariff option will go far enough to address the inherent unfairness of the existing arrangement of standing charges. Moreover, while consumers should be given greater choice in how to pay for their energy bills, Ofgem must proceed with caution and recognise that its current proposals carry inherent risk for consumers, if not accompanied by a robust information campaign and obligations on suppliers to ensure that consumers are adequately informed.

Ofgem should exempt customers from having to pay the gas standing charge if they convert their home to electrical heating and no longer otherwise need a gas service. They should also work with retailers so that the accumulation of standing charges over the summer months by pre-payment meters do not require the full payment of those charges before they can begin to heat their home. Standing charges should never constitute more than 50% of money put onto a pre-payment meter.

Ofgem should reassess the outcomes of its Targeted Charging Review and consult on how increased network costs resulting from a sharp increase in investment in electricity infrastructure could be allocated more broadly, including across wider parts of the energy system. It should complete this process by summer 2026.

As the Committee will be aware, as the regulator Ofgem does not set or determine the level of the standing charge, and nor can we unilaterally exempt particular customers from the costs of running and maintaining the system. The price cap reflects cost allocation within the system and provides a maximum amount that can be recovered in a fixed charging structure – within that, suppliers are free to structure tariffs in whichever way they choose, and some already do provide tariffs that lack a conventional standing charge and operate on a zero standing charge or falling block tariff basis. Nonetheless, Ofgem is aware that many consumers find the standing charge confusing and would like more alternative options to be available. With this in mind, Ofgem has conducted several consultations on options to change the standing charge. We agree with the Committee that a cautious and gradual approach is necessary here to support consumers in making an appropriate and informed choice. We are carefully considering responses and will provide an update to you later this spring.

We note the Committee's broader recommendations on how increased networks costs could be differently allocated and spread across the broader energy system. Ofgem has begun work on a Cost Allocation Review that will examine these issues in depth and consider whether the existing infrastructure costs are fairly and efficiently recovered across different parts of the market. We are working closely with Government and will be consulting with further policy options.

With regard to households who have switched to electricity based heating systems such as domestic heat pumps, and have no further need for a gas connection, we are aware that there is currently variable practice across the sector in whether suppliers charge for the capping of the gas service to that property, after which the gas network can fully disconnect the property from the main. Gas disconnection is a key part of transition to a modern and lower carbon energy system, and Ofgem is reviewing the disconnections regulatory framework to ensure that it remains relevant as more and more households seek safe and permanent disconnection from gas networks. Our conclusions from this review will also be ready in the spring.

Ofgem is aware of the concerns regarding gas standing charges building up over the summer for pre payment meter customers. We have considered this issue carefully. However, we have also received feedback from charities who support these consumers, who argue that there is less risk from the standing charge accumulating over the summer than the risk of these consumers, who tend to be lower income than average, having to deal with higher unit rates. This is particularly relevant in the winter, when many pre payment meter customers already struggle with the inability to spread unit costs throughout the year. While we are not proposing immediate changes in this area, we will continue to consider this issue and the proposal to move standing charges to the back of the meter for pre payment customers through the Cost Allocation Review.

Billing and back billing

Energy bills are generally becoming more accurate, but the high cost of energy means that when billing issues do occur, the impacts are felt far more severely. In an era of smart metering, it is unacceptable that back bills are being issued more than a year after energy was used, often in

breach of Ofgem's rules. This can have a profound impact on customers already under financial strain and highlights a worrying disregard for Ofgem's rules by suppliers.

Ofgem should limit the back billing period to six months for customers with a smart meter. It should also publish annual data on the penalties it gives energy suppliers for breaching its back billing rules.

Accurate customer billing is a fundamental service to the consumer and there are several licence obligations that require suppliers to give customers regular and accurate bills. Nonetheless, 'Billing & Meter Reading' is the joint highest cause for complaints, alongside 'Customer Service' (taken together, representing around 60% of complaints) and a key driver of customer satisfaction.

Our data shows an improving picture across the market, with performance significantly better for customers who have smart meters compared to those without. Smart meters play a key role in reducing billing errors and associated costs, improving accuracy and safety—particularly for prepayment customers.

However, issues remain with late and estimated bills. While the error rate is small in percentage terms, the high volume of bills means this still affects a large number of customers. These issues, alongside whether a customer has a working smart meter, are the main drivers of backbilling problems. Ofgem is working closely with suppliers to address these areas and ensure consistency and clear communication.

The backbilling rules prohibit suppliers from charging customers for energy that would reasonably be viewed as being used at least 12 months previously. Suppliers can apply an exemption to this prohibition where the customer has acted in an 'obstructive or manifestly unreasonable' way, for example, energy theft, blocking access to their meter, etc. When we examined this issue, our assessment did not show systemic issues in suppliers' application of the backbilling rules. Suppliers' policies indicate that exemptions are broadly being applied in a way that we would expect, with most suppliers having some level of quality assurance to ensure policies are being adhered to.

Our analysis did, however, identify that many suppliers struggled to provide clear data on the number of instances where exemptions had been applied. We will therefore be working with all suppliers to ensure exemptions are recorded in a reportable format and we will consider how to best monitor this data on an ongoing basis. Having reviewed a sample of complaints that reached the Energy Ombudsman, Ofgem has decided, with the support of the industry, that additional guidance to suppliers on when to apply exemptions is necessary to improve consistency in suppliers' performance.

Whilst some are better than others, all suppliers will also be required to put improvement plans in place to address areas of concern identified through our review. We will also actively monitor progress. This approach ensures every supplier is accountable for raising standards.

More widely, we are currently evaluating billing issues and potential rule changes as part of our 'Consumer Confidence' work, assessing if the regulatory system will continue to provide positive results for consumers in the future. The Committee will be aware that we recently launched a call for input on the approach we should take here, which closed last month. In the consultation, we set out proposals for clear customer outcomes on debt, fair pricing, quality and standards, low-cost transition, system resilience and enhancing protections for vulnerable consumers. As part of this, we will review whether we need to make changes to billing rules, including backbilling, in order to support a better customer experience and facilitate consumer bill understanding. The way we develop our approach to monitoring outcomes for billing will be an important step in making sure Ofgem can more quickly and efficiently take action where a supplier's performance is not delivering for consumers.

We are also running a parallel review of the supplier Guaranteed Standards of Performance where suppliers must make automatic compensation payments to customers when they have failed to meet certain performance criteria. Through this review, Ofgem is considering the role of these automatic compensation payments in our wider regulatory framework and how they should be used to best support the delivery of consistently good consumer outcomes. This may include extending the Guaranteed Standards to new issues, including billing, if doing so would lead to service improvements for consumers.

Protecting businesses

We are greatly concerned by exploitative practices in the non-domestic energy market, especially instances of mis-selling and pressure selling, as well as excessive deposits and out-of-contract rates. These practices exploit resource-poor business owners who often lack the time and knowledge to procure a good energy deal.

We recommend that Ofgem introduce a cap on out-of-contract rates and deposits that can be charged by suppliers to agree or renew business energy contracts. It should also introduce a mandatory 14-day cooling off period following a business energy bill first being issued by a supplier, where a business can exit an energy contract without penalty.

We recommend that Ofgem require energy suppliers to clearly itemise and publish online all non-commodity costs charged on business energy bills to ensure full transparency of all costs.

Ofgem has taken a number of actions to tighten up practices in the non-domestic energy market, following our review of this market in 2023. We have worked closely with Government to deliver these actions and are keen to continue working with them to support businesses both now and in the future.

We would note that we have taken compliance and enforcement action on deemed rates, which apply when there is no formal contract in place, and we will continue to monitor the market in this area, sending a clear signal that we will not tolerate abuse of our rules. We want to clarify that there are rules which protect customers on deemed rates – in particular, Standard Licence Condition 7.3 of the gas and electricity supply licence which prevents suppliers from charging customers unduly onerous deemed rates. Following the non-domestic market review, Ofgem published a guidance document on SLC 7.3 and deemed rates, clarifying our interpretation of the condition, and certain behaviours we expect suppliers to undertake when setting deemed rates.

Our judgement is that there are significant risks and challenges in introducing a price cap in the non-domestic sector, which may cause consumer detriment. For instance, contractual arrangements in the non-domestic sector are often bespoke for that business given the diverse range of needs, with wide variations in energy usage. It would be very challenging to design a price cap that would be capable to accounting for the diversity of the sector, and it could risk deemed or out of contract (OoC) rates rising for some consumers.

We would also draw to the Committee's attention to the fact that OoC rates are different from deemed rates. OoC rates are the rates consumers are put onto when their current contract continues to apply after the fixed term period of a contract has expired, as defined by the terms of their contract. OoC rates are not covered by SLC 7.3 as they are not 'deemed' rates by our definition. In this situation, the consumer has previously chosen a supplier and contract and will have been made aware that the contract is expiring. The consumer is therefore free to choose a new supplier or contract when their current one ends. Whereas in a deemed contract, the consumer has no choice of the supplier, and this is why Ofgem has greater protections in place for deemed rates.

If a non-domestic consumer has a complaint, question or a concern regarding their energy contract, we recommend that in the first instance they speak with their supplier. If a customer is unhappy with the resolution offered, and they are a microbusiness or a small business customer, they can take their case to the Energy Ombudsman. Citizens Advice and Advice Direct Scotland can also provide further impartial help and advice.

We have also investigated the 14-day cooling off period suggested by the Committee, and found that it is not likely to solve the issue, as the majority of problems occur when customers are sold energy contracts via verbal contracting. Business energy contracts are typically agreed months in advance of their start date. A two-week cooling off period would not, in our view, assist a customer who has misunderstood the nature of a proposal they have verbally agreed to, as they are likely only to realise that the contract does not meet their requirements once it has started, which would be well outside any cooling off period. Our view is that there is a gap in transparency and information to the customer here rather than a timing issue, hence these will be the areas of focus when reviewing our rules and guidance on misselling.

Looking forward, Ofgem have been announced as the new regulator for Energy Brokers and we are waiting for Government to introduce the primary legislation to allow us to set up and confirm formal start dates for these responsibilities. We consider this a vital step in protecting business and domestic customers alike in this important market.

We are also undertaking work to look at reducing billing complaints. Billing issues can have significant negative impacts for businesses, taking time to resolve and can contribute to business debt. With this in mind, Ofgem has also undertaken work with suppliers to improve billing transparency. In our non-domestic best practice guide on billing transparency, we recommended non-domestic energy suppliers publish further information on the breakdown of non-commodity costs, for example, on their websites or in factsheets. Ofgem also provided recommendations for suppliers on best practices for bills to help improve transparency and understanding, following significant engagement with consumer groups and suppliers. We were pleased to see that many non-domestic suppliers implemented recommendations from the billing transparency best practice guide. Early findings from our 2025 survey show that business' understanding what makes up an energy bill and understanding of how the usage relates to a bill is now improving.

We continue to monitor the market through our non-domestic Request for Information (RFI) process and regularly engage with our non-domestic stakeholders, including the BBPA and other consumer representative bodies, energy suppliers, and trade associations to hear their concerns about the non-domestic market. We will take action where we see that there are issues in the market which we can resolve and work with Government on matters that require our joint cooperation.