Consumer Scotland
Luchd-Cleachdaidh Alba

Insights from latest Energy Affordability Tracker: Causes and impact of energy debt

Improving outcomes for consumers in Scotland

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Executive Summary

Household energy bills have fallen over the past 12 months. Ofgem's price cap for a typical household is £1,690 in the second quarter of 2024, down from £1,928 in the first quarter and from £2,100 in the first quarter of 2023.

Despite these welcome declines, one of the legacies of the past two years of high bills has been a growth of energy debt and arrears. Energy debt and arrears in the GB domestic market now exceeds £3bn – a record high level.

Moreover, whilst energy bills have declined somewhat from their peak in winter 2022/23, they remain substantially elevated on pre-2022 levels, posing ongoing challenges for households and exacerbating difficulties in getting back on track for those who have fallen behind with their payments.

Consumer Scotland has been tracking people's perception of the affordability of energy bills regularly since Spring 2022. This briefing note summarises the findings from the sixth wave of our energy tracker survey, fieldwork for which was undertaken between 25 January and 13 February 2024.

Key findings

Bills are becoming more affordable, and households' financial outlook is improving.

- The impact of energy bills on household budgets is easing. Just over one quarter (26%) of households say that it is difficult to keep up with energy bills, down from 35% in winter 2022/23, and lower than at any point since we started the tracker survey.
- People are becoming more optimistic about their financial outlook. The proportion of people expecting to feel worse off in three months' time has fallen from 60% in winter 2022/23 to 30% in January/February this year.

However, whilst we find that difficulties in affording monthly energy bills are less acute now than at any time since the start of the cost of living crisis in 2022, the impact of energy debt or arrears accumulated during the period of higher bills is becoming a growing source of concern.

Our key findings in relation to energy debt are:

More than one in twelve (9%) households in Scotland are in energy debt.

Our definition of energy debt is deliberately broad, and encompasses people who have borrowed from friends or family or taken out loans to pay for their energy bills, as well as those in arrears with their energy supplier. On this broader definition, the energy debt of GB households likely exceeds Ofgem's latest quoted figure for energy debt and arrears owed directly to suppliers of over £3bn.

Of those who told us they were in energy debt, there is a worsening picture in relation to the numbers experiencing debt recovery action in relation to arrears, with 20% reporting having debt of this nature in January / February 2024, compared to 10% in October 2023. Overall, 17% reported being put on a prepayment meter as a result of their energy debt. Looking ahead, the picture is not positive with almost half (48%) of consumers in energy debt not confident that they will be able to clear their debt or arrears.

The risk factors most associated with energy indebtedness are having a disability that limits a lot, having a health condition, and having a child under 5 in the household.

These factors are more strongly associated with energy indebtedness than low income itself.

Households that pay for their energy when the bill arrives or by prepayment meter are more likely to be in energy debt than those who pay by direct debit or standard credit.

Whilst this might not come as a surprise, it holds even after controlling for the fact that pre-payment and 'pay when it arrives' customers have lower incomes on average. One factor that may be behind the greater indebtedness of these customers is that they are unable to smooth their payments out across the year and so face more substantial outgoings during the winter months.

Customers who are in energy debt are substantially more likely to say that keeping up with energy bills negatively affects their mental and physical health than those not in energy debt.

This association remains substantial even after controlling for factors such as income, age and health.

Conclusions

In summary, our latest Energy Affordability Tracker finds some improvement in the affordability of energy bills, but this improvement coincides with a growing concern about the level of debt and arrears.

This finding mirrors recent Ofgem evidence which finds growth during 2023 in: the average levels of debt; the number of accounts where there is no arrangement to repay the debt; and the proportion of customers repaying a debt to their supplier using a prepayment meter.[1]

Energy indebtedness has significant impacts on the mental health and wellbeing of indebted consumers. It also has impacts on the broader market, including the costs of 'socialising' bad debt across all consumers.

Ongoing challenges around energy affordability and energy debt raise a number of key issues for policymakers and regulators. Consumer Scotland has continued to highlight an ongoing need for a more comprehensive and coherent approach to energy bill support for the most vulnerable consumers. The growth of energy indebtedness also reiterates how important it is that suppliers treat indebted customers fairly and with compassion through their debt management practices – as noted in a recent open letter from Ofgem and the UK's other main regulators - and that Ofgem continues to monitor suppliers' behaviour in this respect.[2]

In March, Ofgem published its Call for Input on affordability and debt in the domestic energy market, and Consumer Scotland welcomes this timely focus. Alongside providing general findings from the winter wave of our Tracker, this report also sets out high level priorities for consideration in this work including:

- Providing greater visibility and accessibility of energy debt and arrears statistics for Scotland to enhance understanding of the national level picture and the development of appropriate mitigations - particularly where the scope for this lies within devolved competency
- Reform of tariff structures to embed fairness in the future retail market
- Taking steps towards the development of an inclusive energy market which reflects the varying needs of consumers
- Working towards solutions that improve energy affordability for all households

Implementing these reforms will improve outcomes not only for those consumers in Scotland currently in energy debt, but also for the larger group of consumers who continue to deal with energy prices that remain higher than historic averages.

1. Introduction

1.1 Around this time last year, policymakers' response to unprecedented events in the wholesale energy market had entered its second quarter. Ofgem's price cap had exceeded £4,200 – a record high which was more than double the level of only six months previous. UK Government mitigations in the form of the Energy Price Guarantee, and the £400 discounts provided through the Energy Bill Support Scheme, had limited the typical annual energy bill to £2,100. Targeted cost of living payments formed part of the wider support package, and the Alternative Fuel Payment provided some relief to households not connected to the gas grid.

1.2 Despite these interventions, households still faced significant financial constraints. This was reflected in our Energy Affordability Tracker undertaken in Winter 2022-23.[3] This showed that over a third of households in Scotland were finding it difficult to keep up with their energy bills, and 68% reported rationing their energy use because of financial concerns – this represented a consistent level with the preceding Autumn, but an increase of 16% since Spring 2022.

1.3 This report provides an updated position on household finances, the affordability of energy bills, and has a specific focus on energy debt - a new feature of the Tracker since the Autumn 2023 wave.

1.4 The energy debt questions track whether respondents are currently in energy debt or arrears, and, if so, the nature and longevity of that debt. For the purposes of the survey, energy debt or arrears can mean being behind on energy bill payments, repaying debt to the supplier, paying debt recovery through a prepayment meter, or owing money to someone as a result of borrowing money to pay for energy costs.

1.5 The situation facing households has in some ways improved over the last twelve months. When the fieldwork for the most recent wave of the survey (Winter 2023-24) was conducted, Ofgem's price cap was £1,928 for a typical household. This is a consistent level since Autumn but still below the £2,100 typical bill 12 months ago, even when accounting for the lapse in UK Government support since that period.[4] Broader inflationary pressures have eased, and the Scottish Government's Consumer Sentiment Indicator has shown that consumer sentiment about household finances has improved, albeit from record lows in Autumn and Winter 2022-23.[5] The future situation for energy is also looking more positive; as of 1 April, the energy price cap is now at £1,690.

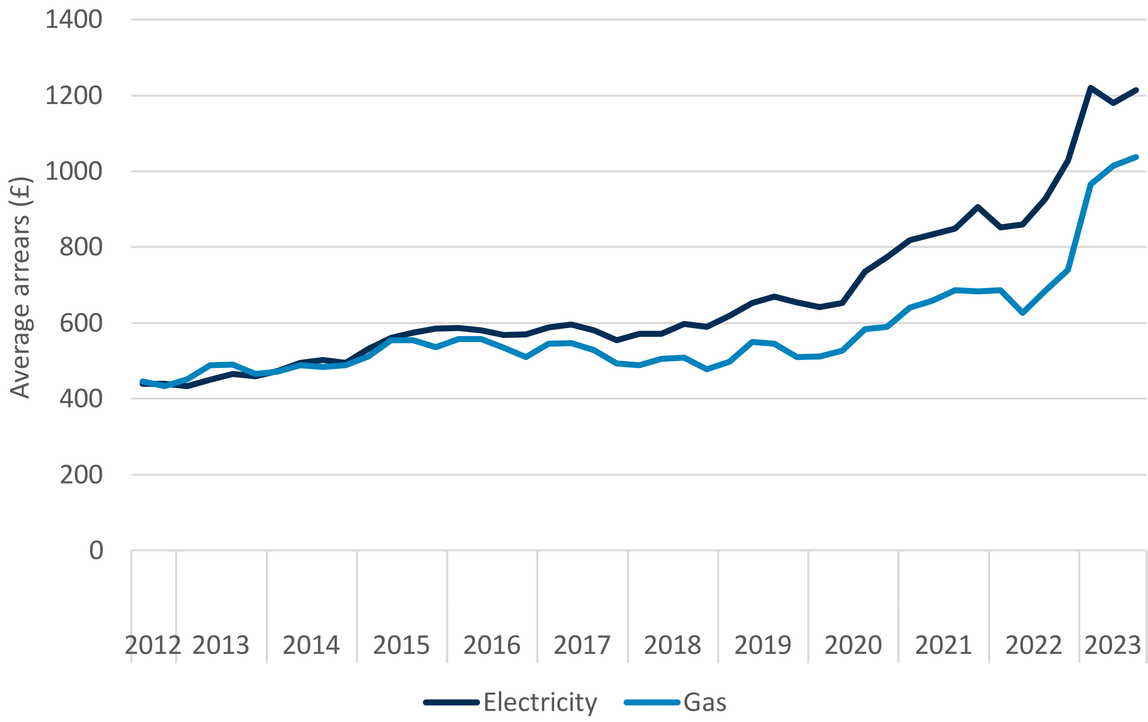
1.6 However, the headline price cap figure does not tell the whole story. Energy prices are still substantially higher than their historic levels, and energy debt levels - a legacy issue from the pandemic, the global gas crisis, and geopolitical factors - are becoming an increasing concern in the sector. Energy debt and arrears in the GB domestic market now exceeds £3bn – a record high level. In response, Ofgem confirmed that from April 2024 there will be a new allowance for bad debt (money owed by customers which is unlikely to be repaid) which will be funded by temporarily adding £28 per year onto the typical bill – almost double the level that the regulator originally consulted on.[6]

1.7 But what does this mean for consumers? We know that energy debt can be both a symptom and a cause of wider affordability pressures – debt accrues when a household struggles to pay for its ongoing consumption, and repaying energy debt can result in various harms and negative outcomes. We also know that consumers who are unable to safely reduce their energy consumption, and those who are unable to increase their income, are at heightened risk from the negative impacts associated with living in a cold and damp home. Or, for those on prepayment meters, the physical and mental health impacts, and developmental impact on children, of living without heat and/or power for persistent or extended time periods.

1.8 Figures from Ofgem reveal that, for those with a repayment plan in place, average debts are £851, and for those with no repayment plan in place, average arrears are £1,761 (Chart 1).[7] But is the GB-wide picture consistent with the experience of consumers in Scotland? There clearly are characteristics of consumers in Scotland that are no different to those in other parts of the country and, as part of a GB market, this will often result in a consistent experience for consumers.

Chart 1: Average energy arrears have risen substantially in the last few years

Average debt level (GB) where there is no arrangement to repay the debt (arrears)



Source: Ofgem. Information correct as of December 2023.

1.9 However, there are aspects of the consumer experience in Scotland that can present different challenges, and which may translate into different scenarios in the context of debt. On average, unsecured debt, excluding student loans, is higher than the UK average,[8] and Scottish dwellings tend to use more energy for heating than those in England and Wales, despite being generally more thermally efficient.[9]

1.10 In this context, it is important to understand how consumers' experience of energy debt, alongside perceptions of broader energy affordability, continue to evolve. Consumer Scotland has been tracking people's perception of the affordability of energy bills regularly since Spring 2022. The latest survey was undertaken in Winter 2023-24 with fieldwork taking place between 25 January and 13 February 2024. This represents the sixth wave of our Energy Affordability Tracker (Table 1).

1.11 The Tracker is administered as an online survey, delivered on our behalf by YouGov. Invitations to participate in the survey are emailed at random to participants in the Scottish element of YouGov's UK panel of adults until the survey quota and stratification target is reached. The responding sample is weighted to the profile of the sample definition to provide a representative reporting sample. Approximately 1,600 individuals have been interviewed at each wave.

Table 1: Dates and sample sizes of Consumer Scotland's Energy Affordability Tracker

Wave	Fieldwork date	Sample
1. Spring 2022	25 - 31 March 2022	2,012
2. Autumn 2022	27 Sept – 10 Oct 2022	1,586
3. Winter 2022-23	28 Nov – 13 Dec 2022	1,621
4. Spring 2023	2 – 23 March 2023	1,579
5. Autumn 2023	2 – 18 October 2023	1,589
6. Winter 2023-24	25 Jan – 13 Feb 2024	1,609

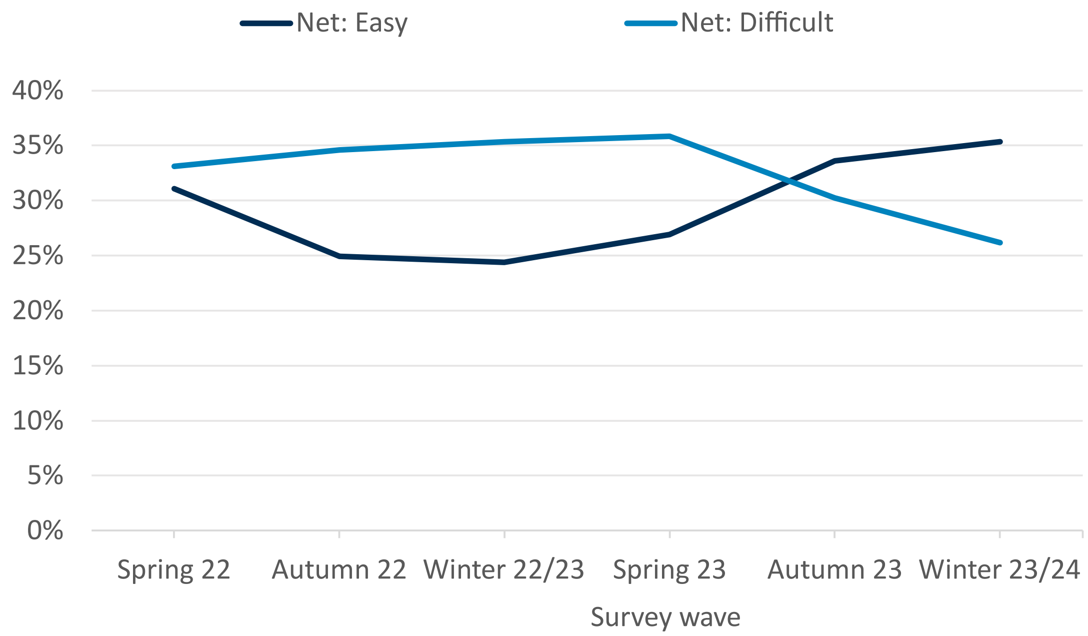
2. An improving picture

Trends in energy affordability

2.1 Our report on the previous wave of this survey[10], carried out in October 2023, set out how household financial security and the affordability of energy bills had improved compared to a year prior, but that there remained a large proportion of households that struggle with energy costs. The results of this most recent wave suggest that these pressures have continued to ease, with our main indicator of energy affordability suggesting that households are in the best position since the first wave of this survey in Spring 2022 (Chart 2).

Chart 2: Households are now more likely to report that it is easy rather than difficult to keep up with energy bills

Proportion of respondents finding it easy or difficult to keep up with energy bills, spring 2022 to winter 2023/24

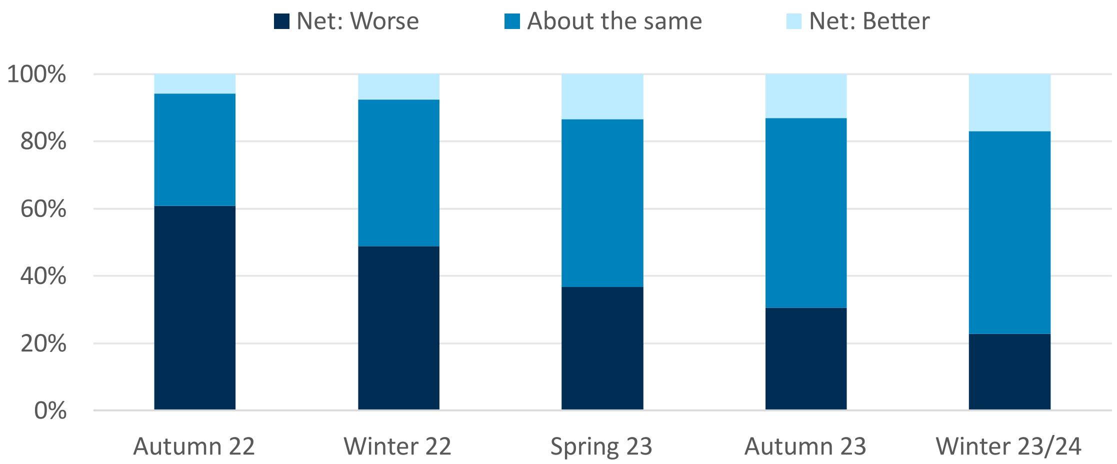


Source: Consumer Scotland Energy Tracker, AFF3: How easy or difficult is it for your household to keep up with your energy bills nowadays?

2.2 Looking forward, consumers are less likely to be pessimistic about their future financial well-being now than in previous waves of the survey. In autumn 2022 the majority of households expected to be worse off in three months' time. In our most recent wave the vast majority expect to be better off or about the same (Chart 3).

Chart 3: Most households now expect to be financially better off or about the same in three months' time

Financial wellbeing expectations by survey wave, autumn 2022 to winter 2023/24



Source: Consumer Scotland Energy Tracker, HF2: Thinking three months ahead, how do you expect you and your household will be managing financially compared to now?

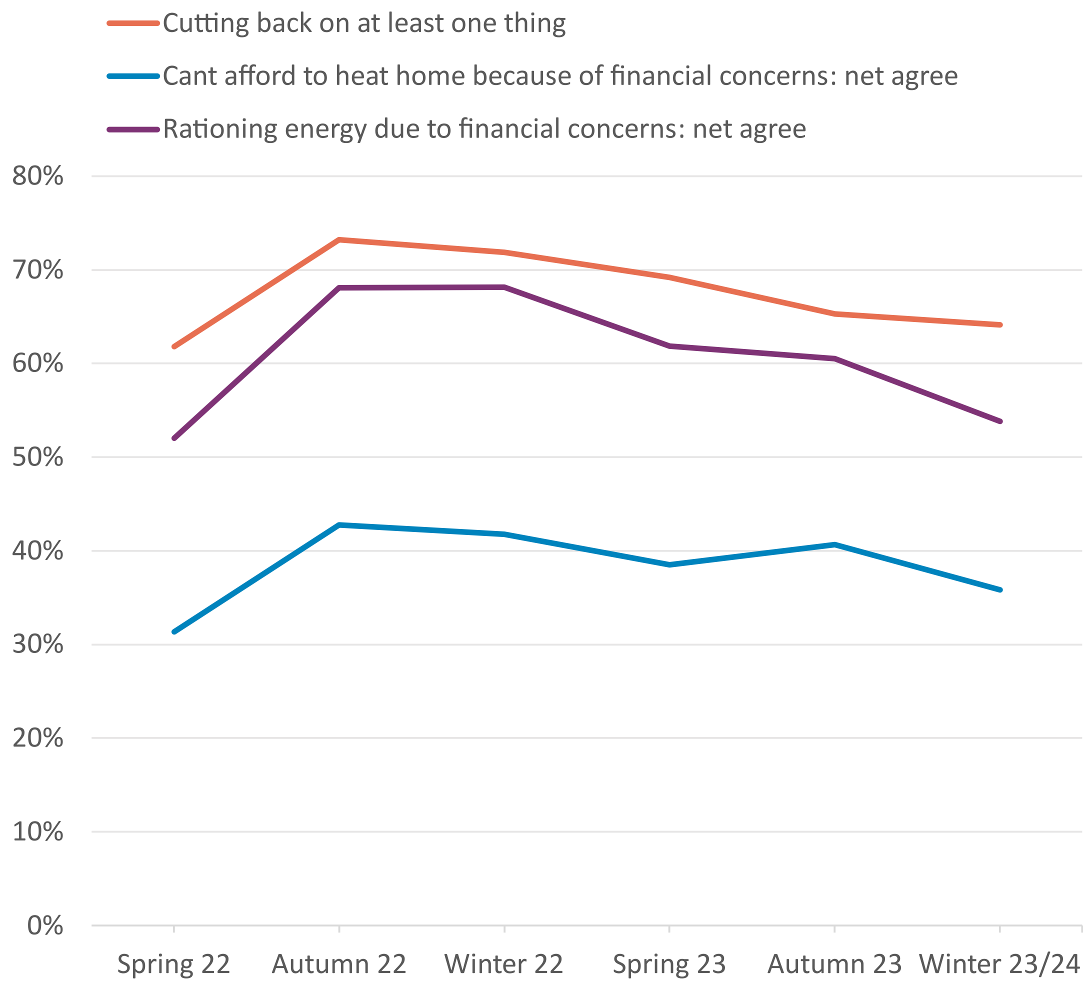
2.3 We asked participants about the extent to which they agreed with a series of statements about the impact of energy prices. Two of these – "We can't afford to heat our home to a comfortable level because of financial concerns" and "My household is rationing our energy use because of financial concerns" display the same trend over the six waves of our tracker survey, rising to a peak in Autumn 22, before declining slowly over the following waves (see Chart 4). This same trend is matched by the number of people who report that they are cutting back on at least one of a range of areas of household expenditure, including food and clothes shopping, other bills, and entertainment (again, see Chart 4).

2.4 In all three cases the figure from the most recent wave is just slightly above the figure from the Spring 2022 wave. For example, 64% of respondents are cutting back on other expenditure in the most recent wave, compared to 62% in Spring 2022, while the peak in Autumn 2022 was 73%. So while these indicators are still high – most households are rationing energy due to financial concerns – they are close to what they were before the energy price crisis hit.

2.5 Our data shows that the main impact of high energy prices, which affected households each month when another expensive energy bill needed to be paid, has largely passed as those monthly bills have come down. However there is increasing evidence that the legacy of the high bills of 2022 and 2023 is seen in increased levels of energy debt. We have tracked levels of energy debt in the two most recent waves of our survey, which allows us to look more closely at this emerging issue.

Chart 4: The impact of energy prices on households has nearly returned to the pre-crisis level, but not quite

Percentage of households cutting back, rationing energy, or unable to heat their home due to the cost of energy, spring 2022 to winter 2023/4



Source: Consumer Scotland Energy Tracker, AFF5: Are you having to cut back your spending on any of these things in order to afford to pay your energy bills nowadays?; AFF9_1: We can't afford to heat our home to a comfortable level because of financial concerns; AFF9_2: My household is rationing our energy use because of financial concerns (e.g. reducing heating, or avoiding using appliances)

3. Focus on debt

3.1 With energy prices falling and bills becoming more manageable, the problem of lingering energy debt or arrears has come more into focus for consumers and policymakers alike. Current monthly bills are now more affordable (albeit still higher than two years ago) but for some households, debt or arrears accumulated during periods of unaffordable bills have become the main source of concern.

3.2 Energy debt and arrears at their current level also poses a significant risk to the sector. Inability to recover these costs increases the likelihood of supplier failures and/or further socialised costs, and therefore it is necessary that with a downward trend in energy prices, the focus of policymakers now shifts towards tackling the debt burden.

3.3 In the two most recent waves of our survey, carried out in October 2023 and January/February 2024, we asked participants if they were in energy debt or arrears. The definition we used was broad in order to include cases where a consumer owes money to someone other than their energy supplier as a result of borrowing money to pay energy costs. As such our survey is able to capture wider issues around energy debt that may be masked by the narrower definition used by Ofgem in the energy debt figures they publish, where "energy debt" means money owed to an energy company by a customer. In addition to asking whether respondents were in debt or arrears, we also asked about the nature of their debt, how long it had been in place, and about their experience of and response to being in energy debt or arrears.

3.4 In order to be able look closely at this issue we pooled responses to these two most recent waves into a single dataset. Of this sample, 9% reported being in debt (after removing those who said they don't know or would prefer not to answer).

Table 2: Number and percentage of participants in energy debt

	Number	Per cent
Yes	239	9%
No	2516	91%
Don't know	82	-
Prefer not to answer	63	-
Total	**2901**	**100%**

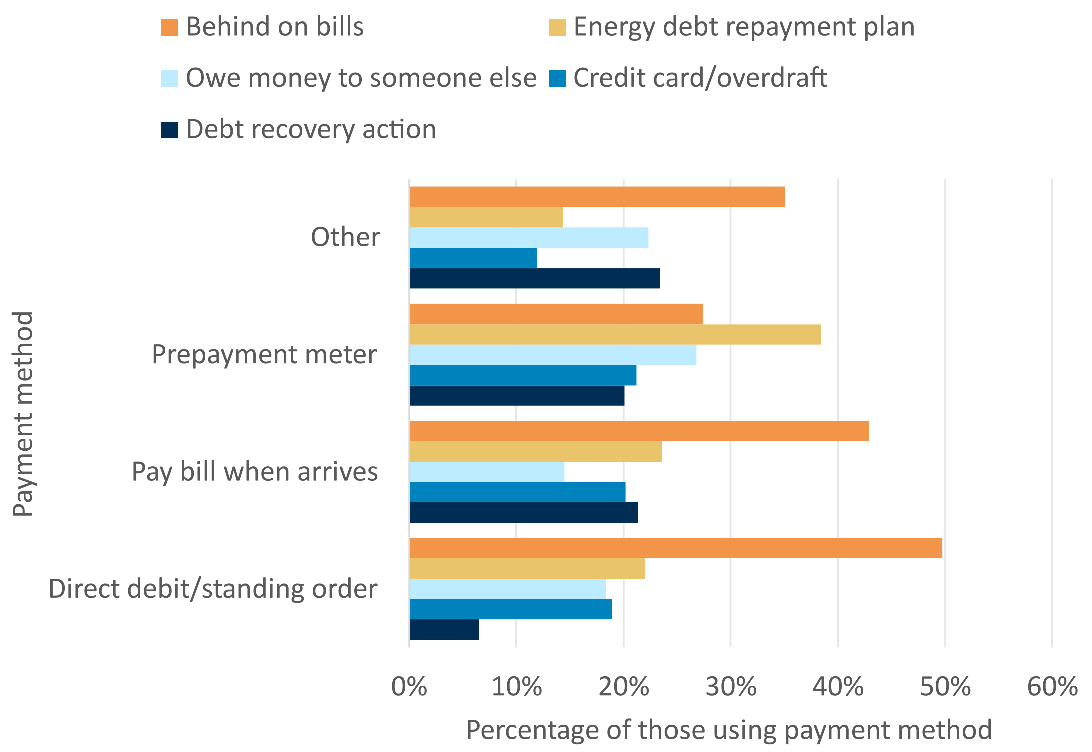
3.5 Just under half of those in energy debt are behind on their energy bills, and one third had more than one type of debt. Those who pay for their energy by direct debit or standing order –the vast majority of respondents – are most likely to report being behind on bills, but this is less common among pre-payment meter users, who are more likely to have debt being repaid through a debt repayment plan.

3.6 Prepayment meter users are also most likely to have informal energy debt – that is, owing money to someone other than their energy company – with 21% reporting they have credit card debt or overdraft as a result of paying for energy, and 27% owing someone else money as a result of borrowing for energy costs. This may reflect the fact that these users have no choice but to pay upfront in order to maintain their heating and power.

3.7 Those who pay by direct debit or standing order are least likely to have faced debt recovery action for energy arrears (7%), compared with 21% of those who pay their bill when they receive it, and 20% of those using a prepayment meter (Chart 5).

Chart 5 – Being behind on bills is the most common debt type but prepayment meter users are more likely to have an energy debt repayment plan

Energy debt type by energy payment method

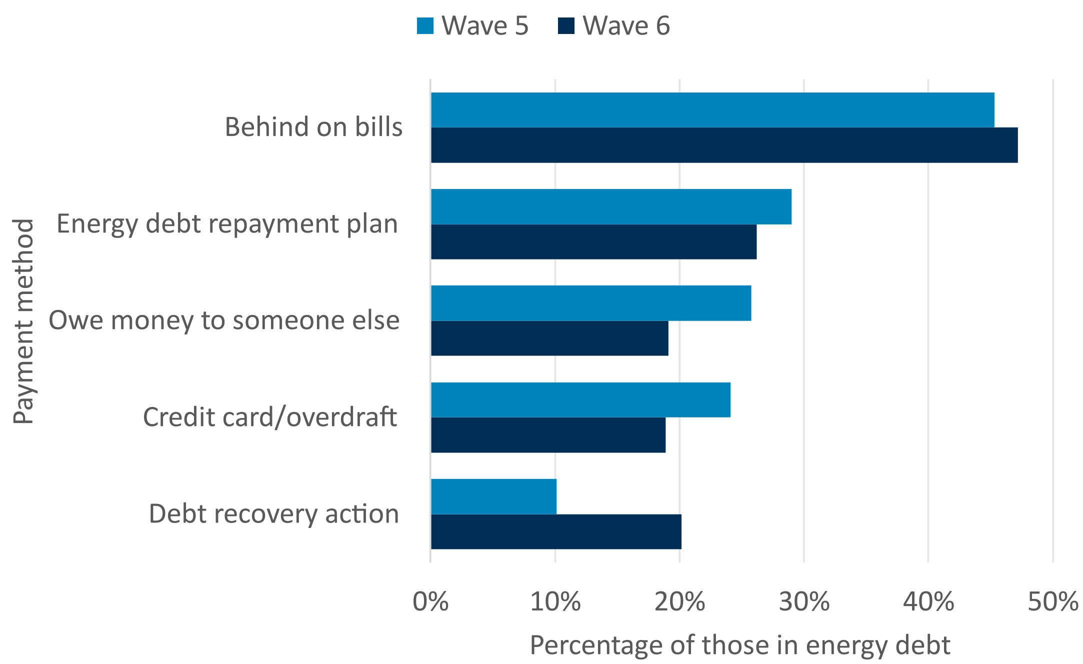


Source: Consumer Scotland Analysis of our Energy Tracker, AFF21: What is the nature of your energy debt or arrears? Please select all that apply. Analysis by payment method

3.8 However, there has been some change in the results between the two waves in which we asked participants about energy debt (Chart 6). Between the fieldwork in October 2023 and January/February 2024, the percentage of respondents in energy debt who are facing debt recovery action doubled from 10% to 20%, while the percentage who report having informal energy debt – credit card or overdraft balances, or owing money to someone else – has dropped. While these findings are based on limited data, an increase in debt recovery action is something that might be expected at this point, as debt built up during the energy crisis and not yet repaid becomes a key issue for suppliers.

Chart 6: Debt recovery action for energy debt is twice as common in the most recent survey wave

Type of energy debt reported in waves 5 and 6 of our Energy Affordability Tracker Survey



Source: Consumer Scotland Analysis of our Energy Tracker, AFF21: What is the nature of your energy debt or arrears? Please select all that apply. Analysis by wave

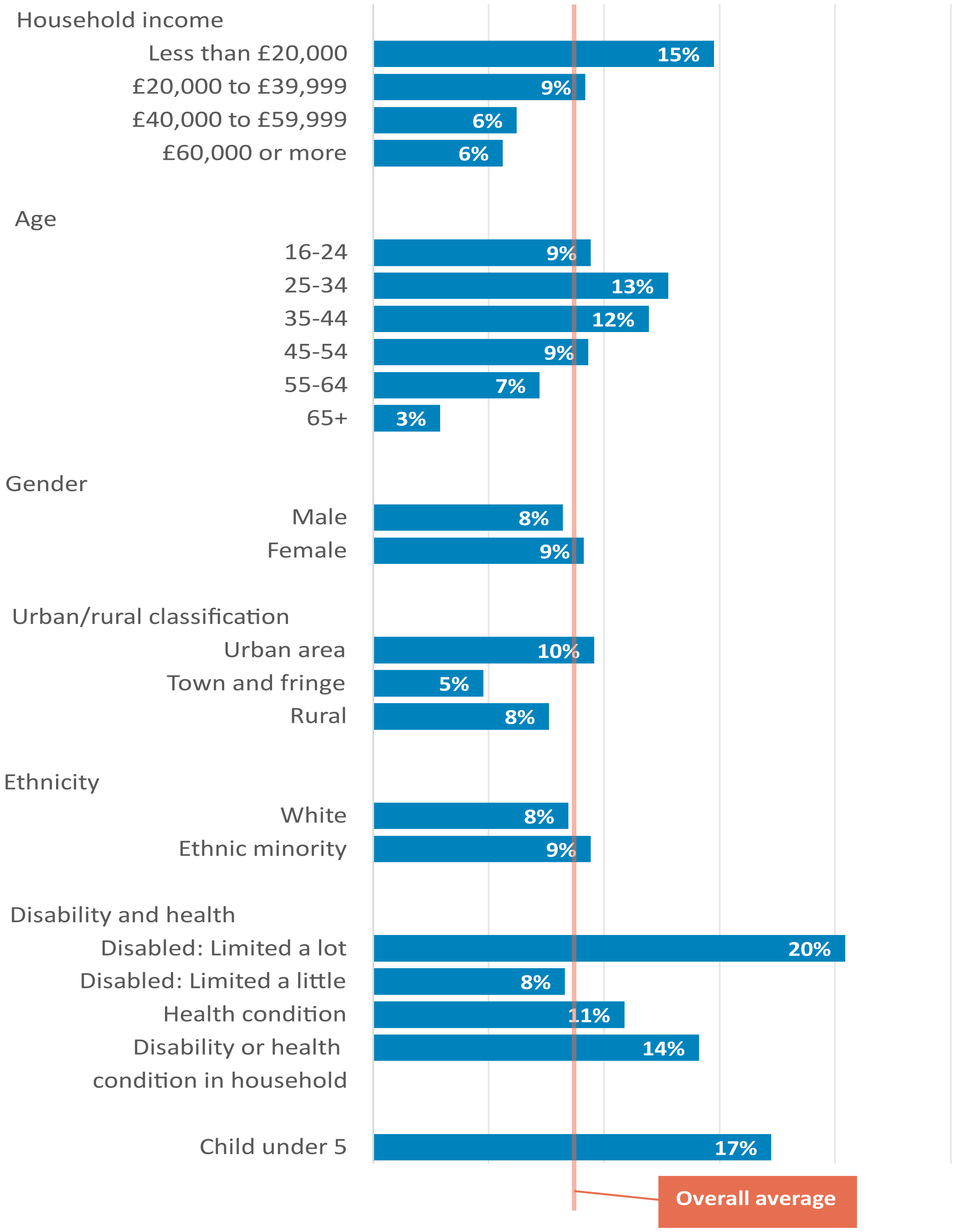
3.9 Of those who told us they were in energy debt, nearly half (48%) said they were not confident that they will be able to clear their debt or arrears, while 44% said they were confident they could. Around one in six (17%) have been put on a prepayment meter as a result of their energy debt. These are concerning indications of the level of 'bad debt' (debt that is unlikely to be repaid) - the cost of which is ultimately borne by all consumers, and which will be recovered from April through the addition of a temporary £28 a year levy on the typical home fuel bill.

Groups more likely to be in energy debt

3.10 As part of trying to understand what the drivers of energy debt are, it can be helpful to start by asking whether households with certain characteristics are more likely to experience energy debt. Chart 7 shows the rates of energy indebtedness across a range of demographic characteristics. The highest rates of energy indebtedness are among those who have a disability that limits them a lot, households with incomes below £20,000, and those with a child under the age of 5. It is important to note that while household income and the presence of a child under 5 are characteristics of the respondent's household, responses about disability were in relation to the respondent themselves. However we also asked about the presence of someone with a disability, medical or mental health condition, or sensory impairment in the household – of households for which this was true 14% were in energy debt.

Chart 7: Disability, young children and low income are most associated with energy indebtedness

Percentage of respondents in energy debt by demographic characteristics



Source: Consumer Scotland analysis of our Energy Tracker, AFF20. Are you in energy debt or arrears? By this we mean behind on energy bill payments, repaying debt to your energy supplier, paying debt recovery through a prepayment meter, or owing money to someone else as result of borrowing money to pay for energy costs. Analysis by selected demographic characteristics

3.11 It is no surprise that household income affects the likelihood that a household will be in energy debt. Households with an income below £20,000 were almost three times as likely to be in energy debt as households with an income of £60,000 or more. There is also an association with age, which is likely related to the link to household income, as older respondents were less likely to be in debt – in line with the tendency for income to be higher and costs lower later in working life. Additionally, households in 'town and fringe' locations were less likely to be in energy debt than those in urban areas.

3.12 The fact that age and income are linked is one example of potential associations between these demographic characteristics themselves. For example, a greater proportion of older people have a disability or health condition, and respondents with a child under five are far more likely to be younger in age. Hence it is necessary to control for other factors when trying to identify the particular contribution that any of these characteristics makes to the likelihood of a household experiencing energy debt.

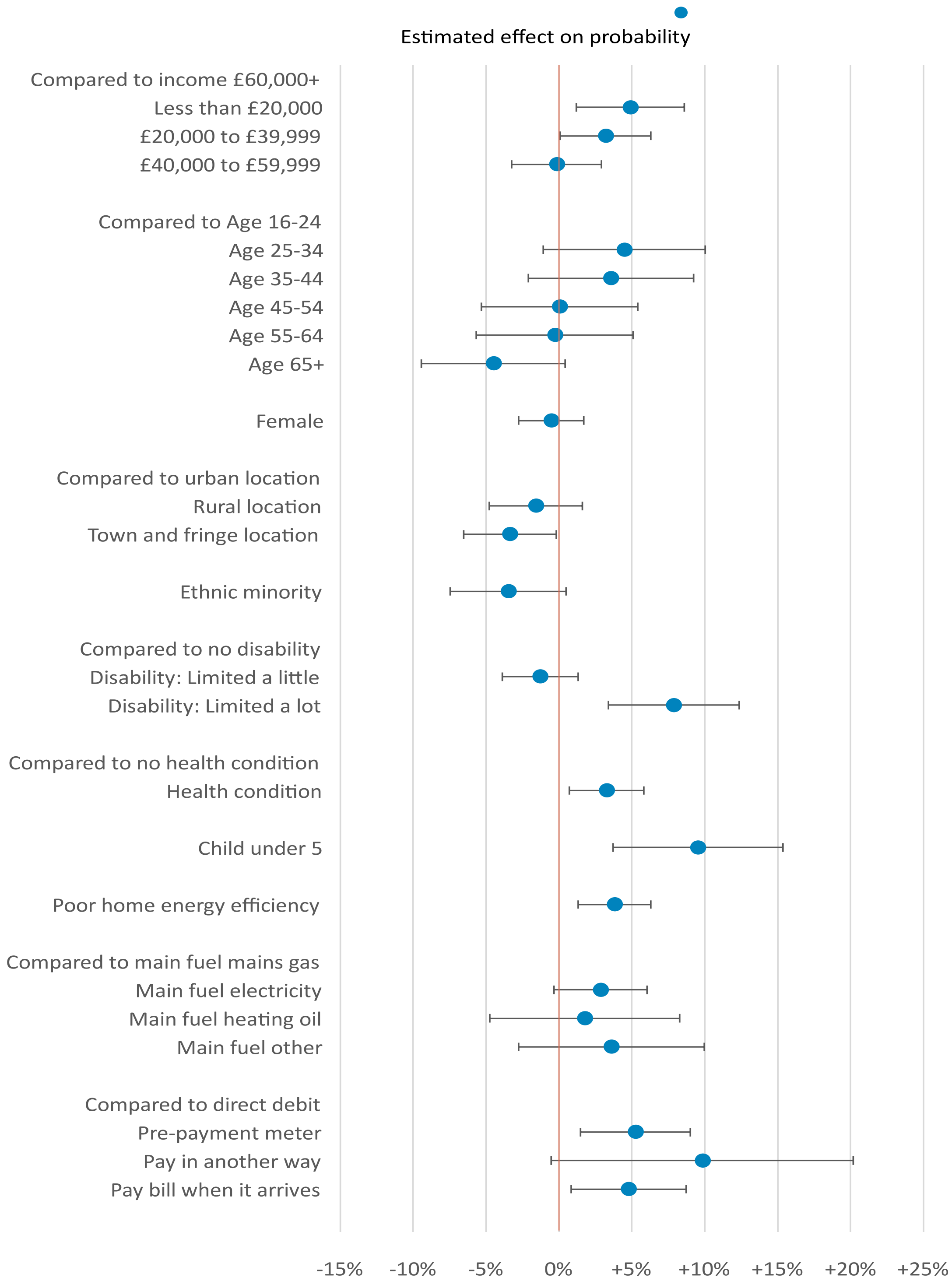
3.13 Chart 8 shows the results of modelling the probability of a respondent being in energy debt as a function of a range of explanatory variables. The figures indicated on the chart represent the difference in probability (that a respondent is in energy debt) attributable to each category when compared to a reference category (the reference category is provided where there are more than two categories in the variable).

3.14 The results of this analysis show that:

- Having a household income under £40,000 per year is associated with an increased probability of energy debt, with households whose income is less than £20,000 per year being 5% more likely to be in energy debt than a household with an income over £60,000, controlling for the other variables included.
- The association between age and probability of being in energy debt is not statistically significant when controlling for other factors.
- Households in town and fringe locations are 3% less likely to report being in energy debt, while associations with gender and ethnicity are not statistically significant.
- The strongest associations with energy debt come from having a child under 5 in the household (10% more likely), having a disability that limits a lot (8% more likely), and having a health condition (3% more likely).

Chart 8: Disability, ill health, poor energy efficiency and young children are associated with higher risks of energy debt.

Results of logistic regression on probability of being in energy debt



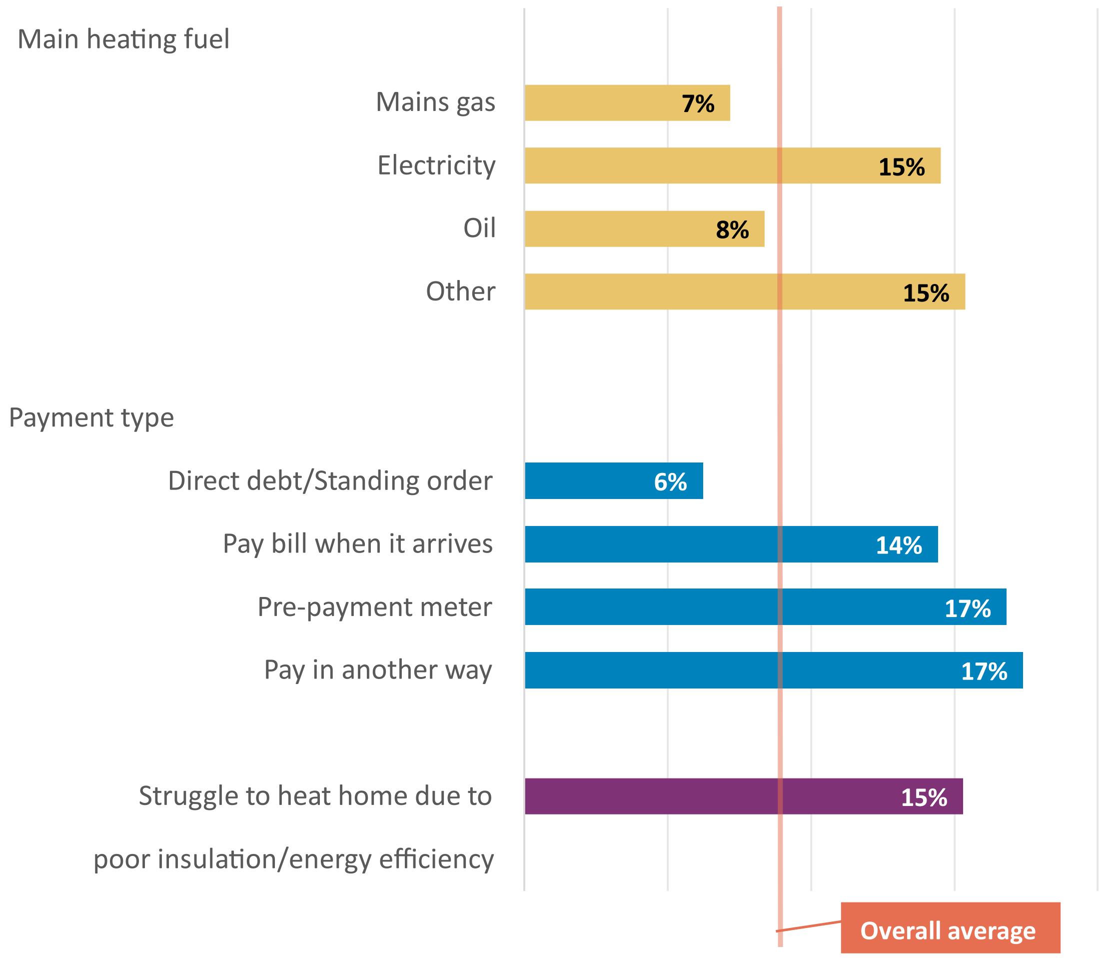
Source: Consumer Scotland analysis of our Energy Tracker, AFF20: Are you in energy debt or arrears? By this we mean behind on energy bill payments, repaying debt to your energy supplier, paying debt recovery through a prepayment meter, or owing money to someone else as result of borrowing money to pay for energy costs. Logistic regression analysis

3.15 Chart 8 also shows the effects of factors directly related to energy consumption – fuel type, payment method and self-reported poor home insulation or energy efficiency. To better understand what these mean we should first look at the simple relationships between these variables and the likelihood that a household is in energy debt. Chart 9 shows the percentage of respondents in energy debt across each of these categories.

3.16 Of those who have mains gas heating 7% are in energy debt or arrears – the lowest proportion of all main heating fuel types. In contrast those whose main heating fuel is electricity are twice as likely to be in debt or arrears as those who use mains gas. However when considering the results of the regression analysis in Chart 8, where household income is controlled for, the effect of heating fuel on the probability of being in energy debt or arrears is no longer statistically significant. This may be due to the fact that electric heating is more common among low income households.

Chart 9: Certain heating fuels and payment types are associated with higher likelihood of energy debt

Percentage of respondents in energy debt across energy consumption characteristics.



Source: Consumer Scotland analysis of our Energy Tracker, AFF20: Are you in energy debt or arrears? By this we mean behind on energy bill payments, repaying debt to your energy supplier, paying debt recovery through a prepayment meter, or owing money to someone else as result of borrowing money to pay for energy costs. Analysis by select energy consumption characteristics

3.17 It is evident from both Charts 8 and 9 that, even when controlling for other factors, the method households use to pay for their energy is linked to the probability that they are in energy debt or arrears. All payment methods other than direct debit or standing order (which is the most common by far) show higher rates of energy indebtedness. This may be due to the seasonal variation of energy consumption, which tends to be smoothed out across the year when paying by direct debit but is not for prepayment meter customers or those who pay their bill when it arrives.

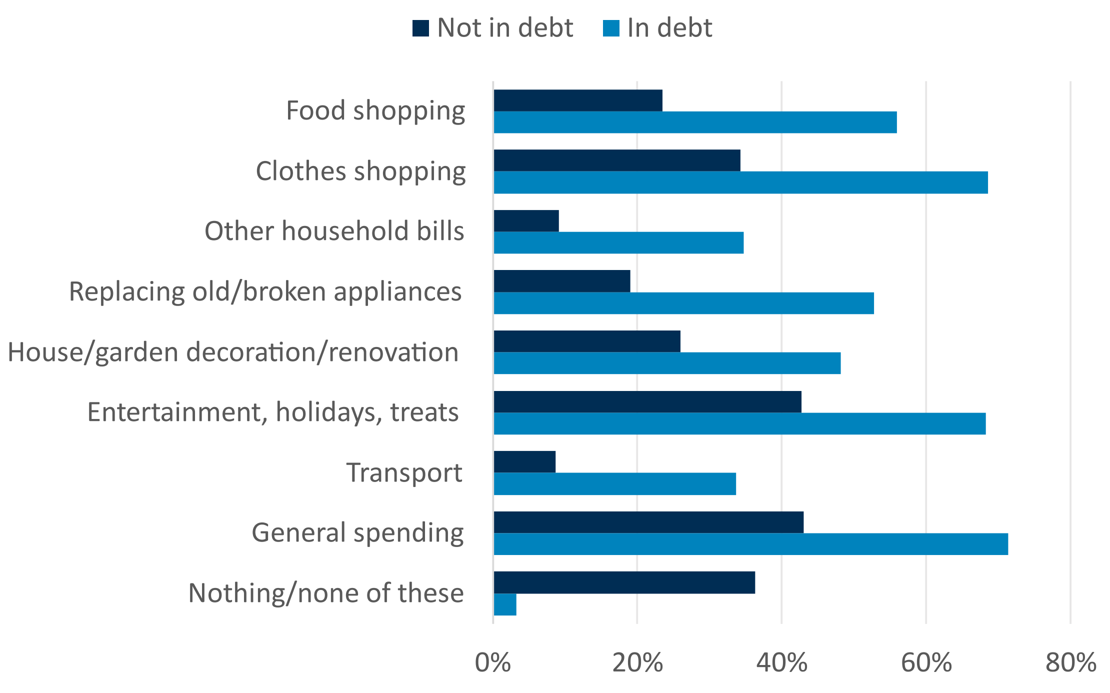
3.18 Unfortunately our data does not include variables that record the type of property respondents live in or the amount of energy they use. However we do know that there is some evidence that poor energy efficiency in the home may be one part of the reason households fall into energy debt. Half (50%) of those in energy debt reported that they have difficulty heating their home to a comfortable level because of poor home insulation or energy efficiency, compared to 26% of those not in energy debt.

The impact of energy debt

3.19 Those in energy debt are much more likely to be cutting back on spending in other areas in order to afford energy bills. Only 3% of those in energy debt reported that they were not cutting back on any of the spending areas queried in our survey (Chart 10).

Chart 10 – Most consumers in energy debt are cutting back on spending in other areas

Percentage of respondents cutting back on spending in order to afford energy bills, by type of spending and presence of energy debt



Source: Consumer Scotland analysis our Energy Tracker, AFF5: Are you having to cut back your spending on any of these things in order to afford to pay your energy bills nowadays? Please tick all that apply. Analysis by indebtedness

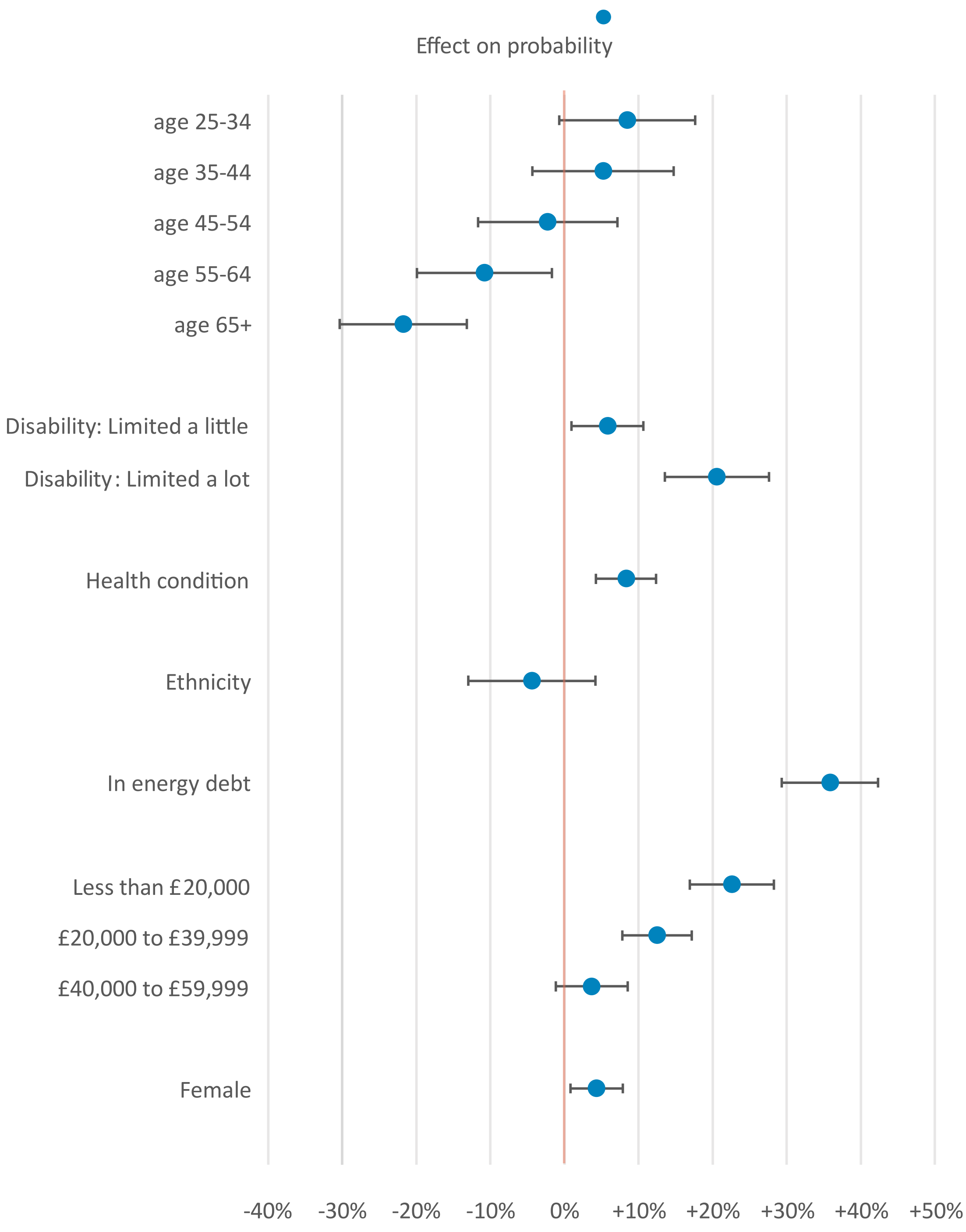
3.20 Being in energy debt is associated with a substantially elevated rate of impact on physical and mental health in our survey data. Of those in energy debt, 31% report that keeping up with energy bills impacts their physical health a lot, and 45% report that it negatively affects their mental health a lot. This compares to 4% and 7% respectively of survey respondents who reported that they are not in energy debt.

3.21 As we've already seen, households in energy debt are more likely to experience a range of other factors – for example low income or having a disability or health condition – which might themselves be causes of stress and negative mental health outcomes. In order to account for this and focus on the particular contribution of energy debt to negative mental health, we modelled responses to our question about the impact of keeping up with energy bills on mental health as a function of energy debt status and a range of other relevant factors. The results are shown in Chart 11.

3.22 The results show that, controlling for the other factors listed, being in energy debt has the biggest effect on the probability of reporting a negative mental health impact of keeping up with energy bills. Those in energy debt are 36% more likely than those not in energy debt to report this, controlling for age, ethnicity, gender, disability, health condition, and household income. This is over and above the impact of low income and having a disability or health condition, both of which also increase the likelihood of negatively impacted mental health.

Chart 11: Being in energy debt is predictive of negative mental health impacts

Results of logistic regression on the probability of reporting negative mental health impact from keeping up with energy bills.



Source: Consumer Scotland analysis of our Energy Tracker, AFF17a_1: To what extent, if at all, is your mental health being negatively impacted by keeping up with your energy bills? Logistic regression analysis

4. Conclusion

4.1 Our latest research on the impact of the energy crisis shows a mixed picture. On the one hand prices have dropped from the extreme highs of 2022 and consumers are generally finding bills more affordable. On the other hand, bills remain higher than the historical average, a significant minority are still finding energy bills difficult, and the legacy of the crisis continues to affect households in the form of energy debt, built up as a direct result of high energy prices. The debt issue is less widespread but is no less concerning, affecting some of the most vulnerable consumers, and bringing with it significant negative impacts, including on physical and mental health.

4.2 Our research shows that 9% of consumers in Scotland are in energy debt. Our definition of energy debt includes consumers who are behind on bills, or who owe money to someone other than their energy supplier as a result of borrowing to pay energy costs. This is broader than the definition used by Ofgem. Using this broader definition implies that GB household's energy debt may exceed the headline figure of over £3bn[11] for energy debt and arrears.

4.3 A little less than half of those in energy debt are behind on their bills, and one third had multiple debt types. We also found that the nature of debt varies depending on how energy bills are paid. For example, what we've called informal debt – owing money to someone other than your energy supplier due to paying for energy costs, was higher among prepayment meter customers with 21% reporting having incurred credit card debt, and 27% as owing money to someone else.

4.4 There are indications that much of the total debt may be 'bad debt', with 48% saying they were not confident of being able to clear their debt or arrears. Similarly concerning is the fact that the proportion of those in debt facing debt recovery action doubled since Autumn 2023, now sitting at 20%. These will be concerning results for the industry and the regulator, with concerns around supplier solvency as well as the ultimate cost to consumers.

4.5 Our analysis shows that, as would be anticipated, low household income is a primary reason that people end up with energy debt. However, when we modelled the likelihood that respondents reported energy debt as a function of a range of explanatory variables, we found that certain other characteristics were importantly predictive of energy debt, even when controlling for income and other demographics. Those with a disability – particular one that limits them a lot – or a health condition, or those with a child under 5 in the household, were more likely to report energy debt. The same is true of households that pay for their energy by a method other than direct debit.

4.6 Despite limitations to the analysis, these findings suggest that patterns of energy consumption and payment methods are important determinants of household energy indebtedness.

4.7 The latter finding suggests that interventions that assist all customers to balance their energy payments across a 12-month period may be successful in helping to reduce the chance of becoming indebted.

4.8 Our analysis also found that those in energy debt are significantly more likely to report poor mental health than those without energy debt, even after controlling for other relevant determinants of wellbeing.

4.9 Overall, this research serves as a useful warning against complacency now the acute nature of the energy affordability crisis is reducing. It indicates that a chronic debt problem may be appearing as the legacy of the crisis, and highlights the negative impacts of energy debt, particularly on mental health.

4.10 Energy debt can be both a symptom and a cause of broader affordability challenges, and Ofgem's Call for Input on affordability and debt presents an opportunity to start working towards making energy, as an essential for life service, affordable for all.

4.11 To assist in the development of policy, greater visibility and accessibility of energy debt and arrears statistics for Scotland would be a positive step. This would help stakeholders to better understand the national level picture and better inform mitigations - particularly where the scope for this lies within devolved competency.

4.12 We would also welcome a reform of tariff structures to embed fairness in the future retail market and the development of an inclusive energy market which reflects the varying needs of consumers, as solutions with the potential to improve energy affordability for all households.

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