

19 December 2006

Dear Colleague,

Token PPM customers and debt build up Statement on good practice

Summary

Currently there are almost 1.3 million customers on 'old style' token electricity pre-payment meters. When prices rise, as they have significantly over the last 2 years, suppliers need to visit customers homes to recalibrate their meter to charge the higher price.

These meters are old technology and all suppliers have programmes to replace these meters with 'smarter' ones that do not require visits to be recalibrated – the price can be re-set remotely. Ofgem welcomes these 'switch out' programmes and urges suppliers to do all they can to accelerate their plans. But we do accept that it will take time to replace over 1 million meters because of the practical logistics so we are encouraging suppliers to target their most vulnerable customers for the first phase of any replacement programme, where this is appropriate.

Meanwhile for some customers whose meters have not been recalibrated, charges will be building up. Most customers on pre-payment meters either choose them as a way of budgeting to avoid getting into debt, or have had these meters installed due to past problems with debt. We estimate¹ that around 25% of all PPM customers are living on incomes of less than £10,000. There is therefore scope for delays in recalibration to lead to significant harm to customers. This raises concerns for us, as well as for consumer groups who initially raised the issue, in particular in relation to vulnerable and fuel poor customers. That is why Ofgem has intervened.

Different suppliers approach this issue in different ways, some with greater urgency and awareness of customer considerations. SSE, EDF Energy and most recently British Gas have decided not to apply price increases until they have recalibrated the meter. We welcome this approach but acknowledge that it is not the only way to address the issue.

¹ reference Accent survey 2005

In our Supply Licence Review consultation we are proposing a new licence obligation on companies to force them to recalibrate meters following a price rise (or fall) within a reasonable time period and to ensure that customers who are unhappy with the service they receive in this area can switch to another supplier. It takes time to introduce a new licence condition. We have therefore taken action now and talked to the senior management at the suppliers whose performance is poor, to demand action. We are pleased that this action has led to commitments to improve the way token meter customers will be treated. We will continue to monitor carefully how the companies respond.

Each supplier varies in approach and performance but following our intervention ScottishPower, npower and Powergen have now all committed to further steps. We welcome ScottishPower's existing recalibration programme and its commitment to do more to help its customers. We also welcome the latest initiatives from npower and Powergen which we believe are steps in the right direction.

We do not propose a 'one size fits all' policy and we do not expect the companies to respond to their customers with one either - not every customer's circumstances are the same. This report shines a light on the practices and the steps that have and are being taken. It also sets out what we see as best practice.

Our message to customers is :

- if you are on a token PPM and haven't had a recent visit contact your supplier to organise one;
- if you have experienced delays and built up debt as a result of those delays ask your supplier for help with paying off any resulting debt;
- if you are not happy with your supplier's service you can look to switch supplier. This could also save you up to £130 a year on your bill; and
- contact energywatch for further advice on all of these issues.

Our message to suppliers at a time of high energy bills and in a fiercely competitive market is that you will be judged by your customers, other stakeholders and your shareholders on whether you treat your customers fairly, especially your most vulnerable customers.

The scale of the problem

Across ScottishPower, npower and Powergen, over 50% of token PPM customers are currently accruing debt. Many of these customers may not be aware that this is the case. While a short time lag in recalibrating the meter is to be expected, many of these token PPMs have not been recalibrated for over 6 months (ScottishPower 15%, npower 30% and Powergen 52%), with up to 15% not having been recalibrated for over 12 months.

According to our own estimates², an average customer who does not use electric heating and has not had their meter recalibrated since December 2005 will have built up debts of between £47 and £62. Customers who rely on electricity for heating or who have not had their meter reset for a longer period are likely to have accrued considerably higher debts.

What is good practice?

All suppliers are pressing ahead with **replacement programmes** with a view to having all token PPMs replaced with smarter technology within the next few years. We encourage suppliers to focus these where appropriate on homes that have been more difficult to

² Based on companies published price increase data over the last 12 months.

access or to customers who may be more vulnerable. In the meantime action is needed to address recalibration.

As noted above SSE, EDF Energy and, from 1 December 2006, British Gas have policies of not charging any increase in prices until they have been able to recalibrate the meter. We welcome this as the most clear and direct way of protecting all those who would be disadvantaged by the imposition of a debt and ensuring that "pre-pay" lives up to its name.

Recognising that each suppliers' token PPM portfolio is different, in terms of size, demographic and geographical split as well as in the metering arrangements they may have in place, we do accept that suppliers can choose to implement price changes for token PPM customers immediately provided that they treat their customers fairly and follow the best practice set out below.

1. Customer communication

One of the key concerns is that many customers are not aware that they are even building up debts. Suppliers need to communicate with their customers much more proactively and effectively. Any policy to charge for debt built up due to delayed recalibration must be accompanied by clear communications which explain:

- that they are currently building up a debt which they will be required to repay;
- where appropriate, indicating how much that debt is likely to be (eg for every £5 you put on tokens you will now be spending an extra 90p we are not yet collecting);
- urging the customer to contact the supplier to arrange an appointment to re-set the meter; and
- offering help if there are problems with managing payments.

Companies should also be more proactive in communicating their policies effectively to agencies who act for consumers such as local Citizens' Advice Bureaus and energywatch.

2. Recalibration activity

Any period of debt accrual should be as short as possible and be supported by a proactive recalibration programme. Suppliers should visit each token PPM property at regular intervals following a price rise to attempt recalibration, leaving clear communications for the customer explaining why the meter needs to be reset and asking them to call for an appointment. Where customers respond, suppliers must provide an appointment within a reasonable period of time.

3. Debt and low income/vulnerable customers

Many token PPM customers are living on low incomes and for them any build up of debt can be a concern. Suppliers should probe to understand whether a customer is living on a low income or is otherwise vulnerable, and should be proactively offering additional help to the customer, including writing off debts from delayed recalibration where there is genuine hardship.

Suppliers should at all times handle debt issues with sensitivity. Repayment rates should be set taking account of ability to pay and should not exceed the Fuel Direct rates for low income customers.

4. Writing off old debt (back billing rules)

Where debts have been accruing for over 12 months they can amount to a considerable sum. Given the particular problems caused by delayed recalibration, it is our view that suppliers should look carefully at any cases where debt has been accruing for over 12 months. Suppliers should already be complying with the spirit of the back billing rules³ and writing off all debts which have been accruing for more than 2 years (or 12 months from July 2007).

5. Customer choice

Ordinarily we would expect customers who are not happy with the standard of service they receive to look to switch to another supplier. Token PPM customers who discover they have built up a debt through delayed recalibration (and are unhappy about the service that led to this) could be blocked from switching away from the supplier by virtue of that debt. This is not acceptable and the supplier should not object to the customer transfer request in such cases. Any monies still owed by the customer will need to be collected by that supplier through normal debt management arrangements.

Current supplier practices and proposed new action

We are proposing licence amendments, as part of our supply licence review proposals, to require suppliers to take all reasonable steps to recalibrate meters in a timely manner. We are also consulting on whether the arrangements which allow suppliers to block a customer switching supplier should be suspended where debt has arisen solely as a result of delays in recalibrating the meter.

The table in the attached annex summarises the current practices of each of the suppliers and explains what further actions suppliers are now intending to take as a result of our discussions with them.

Conclusion

Ofgem shares the concerns voiced by consumer groups and others about this issue. We have proposed licence changes and are calling on suppliers to take action in the meantime to ensure token PPM customers are treated fairly. Suppliers have responded positively with clear commitments on how they will improve customer service in this area.

We welcome the steps that each of the suppliers have taken. In particular we welcome British Gas's decision to stop charging customers increased prices until their meter has been recalibrated which is a clear and immediate action to stop customers suffering detriment due to delayed recalibration.

The three remaining suppliers (npower, Powergen and ScottishPower) who charge increased prices in advance of recalibration have all committed to improvements in this area. We support these steps but urge them to be proactive and look to do more

³ Following the billing supercomplaint Ofgem ruled that suppliers should cease backbilling beyond 2 years from 1 July 2006, reducing to one year from 1 July 2007. Suppliers responded by including backbilling rules for credit customers in their billing code. Although not explicitly covered by this Ofgem would expect suppliers to apply similar principles to PPM customers.

especially for their most vulnerable customers. We will continue to monitor how the companies are responding to customers' needs in this area.

One of the key areas for action for ScottishPower, Powergen and npower is in customer communications. ScottishPower has committed to reviewing its customer communications, with a view to further improving its access rates and to ensure that affected customers fully understand this issue, its possible impact and the help that is available. Powergen and npower have similarly committed to improving their communications and also to improving their performance on recalibration. ScottishPower has committed to write to its affected customers in the first half of January and Powergen will also be writing early in the new year. We expect npower to act equally quickly in getting this important message out to their customers. Where customers seek recalibration appointments we expect all suppliers to respond quickly.

Each of the suppliers commit to providing help to customers who may struggle to repay any debt they have built up. We urge suppliers to be proactive in identifying customers who may need such help. Clear and direct customer communication will be paramount here and close working with agencies who act for consumers (including CABs and energywatch) will help.

Alistair Buchanan
Chief Executive

Annex : Current supplier practices and proposed new action

Supplier and number of token PPMs	Key elements of company practice as at November 2006	New commitments (December 2006)
<p>Scottish Power (340,000)</p>	<p>Charge in advance of recalibration</p> <p>Replace all token PPMs by 2009</p> <p>Quarterly visits - approx 85% of meters recalibrated within last 6 months</p> <p>Discretion to write-off debt where there is genuine hardship and set low repayment rates</p> <p>£50 payment to all PPM customers on PSR in July 2006</p>	<p>Re-focus replacement programme to prioritise meters where there has been no access</p> <p>Improve customer communications to explain risk of debt build up and offer special visits to recalibrate</p> <p>Specific mail-out to all affected token PPMs customers on this issue in January 2007</p> <p>No debt blocking where debt is under £50</p>
<p>Powergen (213, 000)</p>	<p>Charge in advance of recalibration</p> <p>Intensive replacement programme –all replaced by October 2008 (85% by end of 2007)</p> <p>Arrangements vary across areas - approx 48% of meters recalibrated within last 6 months</p> <p>Discretion to write-off debt in individual circumstances and set low repayment rates</p>	<p>Speed up replacement– programme now targeting completion by end 2007</p> <p>Meter replacement activity will target all customers not recalibrated within the quarter</p> <p>More proactive communication with customers to explain risk of debt build up and offering special visits for recalibration</p> <p>Specific mail-out planned to all affected token PPMs customers early in the new year</p> <p>No additional debt will accrue after 31 March 2007 (although customers will need to repay debt accrued up until that point)</p>

	No debt blocking where debt due to delayed recalibration	Will write-off debts where meters have not been recalibrated for two years
npower (210,000)	<p>Charge in advance of recalibration</p> <p>Replace all token PPMs by 2011.</p> <p>Performance targets for meter operators drive frequency of visits – approx 70% of meters recalibrated within last 6 months</p> <p>Discretion to write-off debt in individual circumstances (through trust fund) and set low repayment rates</p>	<p>Speed up replacement programme. 'Out of area' by July 2007 and 85% 'in area' within 2 years with all completed by end 2009.</p> <p>Commitment to increased recalibration activity</p> <p>Improve customer communications: explain risk of debt build up and what customers can do</p> <p>Maximum debt due to delayed recalibration will be limited to £70</p>
British Gas (208,000)	<p>Charge in advance of recalibration</p> <p>Write off debt if no recalibration for 12 months</p> <p>All token PPMs to be replaced by Q3 2007 (excluding a small number of hard access cases)</p>	<p>Do not charge until recalibrated</p> <p>From 1 December 2006 will not charge higher prices until meter has been recalibrated</p>
EDF Energy (10,000)	<p>Do not charge until recalibrated</p> <p>EDF has no specific replacement programme for token PPMs which are currently owned and managed by external agents</p>	
Scottish & southern Energy (297,000)	<p>Do not charge until recalibrated</p> <p>All token PPMs to be replaced by March 2010 (interim target of March 2009 in Scotland)</p>	