

Debt and Disconnection Best Practice Review

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Target Audience: Gas and electricity suppliers and potential new entrants, consumer groups in particular those representing pensioners, the disabled, the chronically sick or people on low incomes, and all interested parties.

Overview:

In January 2003 Ofgem and energywatch jointly published good practice guidelines for suppliers on preventing debt and disconnection given the significant impacts this can have on low income and vulnerable customers. A joint review of how suppliers had progressed in implementing the guidelines was undertaken in March 2005. It found that the guidelines had been a driving force for action and resulted in improvements, although progress varied between suppliers.

Suppliers have a number of licence obligations in relation to debt and disconnection. The purpose of this review is to look at how suppliers have further progressed in this area and go beyond what is required to assist customers having difficulty paying their energy bills. A particular focus of this review is to examine how suppliers communicate with their customers, especially vulnerable customers, to ensure they are appropriately protected. As part of this project, we have undertaken a programme of consumer research to examine the consumer experience of debt and disconnection. We have also commissioned a review of suppliers' correspondence which identified a number of steps suppliers could take to ensure they are clear and easy to understand.

The report highlights the real progress suppliers have made in this area but notes that some suppliers have improved more than others. There is no room for complacency and businesses need to retain a strong focus in this area, particularly in light of the recent increases in energy prices. The report includes examples of best practice on which the businesses can draw to further improve the way they respond to and help consumers who face debt or the risk of disconnection.

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Context

Ofgem's Social Action Strategy describes how we seek to meet our social responsibilities and help Government to meet its targets for eradicating fuel poverty. This review is a corporate strategy deliverable and a key part of Ofgem's Social Action Strategy for 2007-08.

Ofgem identified the promotion of best practice within the energy industry as a key area for action under our Social Action Strategy. We consider a "best practice" approach delivers positive benefits for both suppliers and customers by allowing suppliers the freedom to innovate and differentiate themselves from their competitors, whilst seeking to ensure quality and a degree of consistency for customers.

Research is another key area of our Social Action Strategy and plays a vital role in informing our wider work and future plans.

Associated Documents

- Social Action Strategy update, Ofgem, June 2007 (Ref 162/07)
- Preventing debt and disconnection good practice guidelines, Ofgem and energywatch, January 2003
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=100&refer=Sustainability/SocAction/Publications>
- Preventing debt and disconnection – the review, Sohn Associates, March 2005 (Ref 90/05)
- Domestic suppliers: social obligations annual reporting for 2006, Ofgem, July 2007 (Ref 161/07)
- Ofgem's review of suppliers' voluntary initiatives to help vulnerable customers, Ofgem, August 2007 (Ref 203/07)
- Update: Ofgem's review of suppliers' voluntary initiatives to help vulnerable customers, Ofgem, October 2007 (Ref 235/07).
- Debt and disconnection consumer research report, Accent, December 2007.
<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Accent%20debt%20disconnection%20final%20report.pdf>
- Energy supplier letters: assessment report, Clear For All, November 2007.
<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Ofgem%20audit%20final%20summary%20report%20-%20Clear%20Consultants.pdf>

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Summary

The focus of this review has been to examine how suppliers deal with their customers, particularly low income and vulnerable customers, in relation to debt and disconnection to ensure they have an appropriate level of protection.

Overall levels of disconnection have fallen significantly since 2003, from over 17,000 disconnections per year to around 5,000 today. Despite rising energy prices and the wider context of increases in personal debt, the numbers of customers repaying an energy debt has remained relatively stable. There is however no room for complacency as past experience shows that debt levels can increase after the winter months. This review, which shines a light on best practice among suppliers and highlights areas for further improvement, is timely.

As part of this project, and working with energywatch, we undertook a review of energy suppliers' policies and processes on debt and disconnection. We met with all suppliers and found there has been real progress since the last review, although some have progressed more than others. Those suppliers who are leading the way have a clear management and organisational focus in this area. They are proactive, focussed on debt prevention rather than debt management, provide holistic solutions to customers, monitor their performance regularly, and periodically review their debt and disconnection policies to ensure they are effective and fit for purpose. We found that npower has the most improvement to make to bring it in line with the practices of other suppliers, particularly in terms of focussing on early resolution of debt to prevent the need for disconnection.

All suppliers recognise the importance of debt prevention and the value of taking action early to prevent customers building up unmanageable levels of debt. Linked to this, all suppliers understand that communication with customers is essential in preventing and managing debt and have revised their procedures to incorporate more and earlier proactive contact. Most suppliers are trialling different methods and channels of communication in an attempt to reach more customers.

We have seen increased efforts by suppliers to attempt to identify their vulnerable customers where they can. Most suppliers are using every contact with their customers as an opportunity to gather information on their circumstances to identify vulnerability and train their staff on this. All suppliers have developed tailored debt paths for their vulnerable customers, ensuring they are offered more holistic advice and a wider range of solutions. Our review highlights the Energy Retail Association (ERA) Safety Net is working well, with all suppliers requiring the completion of a vulnerability checklist and senior management approval before disconnections take place. We have also found that while all suppliers will adjust repayment rates to take account of ability to pay when asked, some suppliers could be more proactive in eliciting this information from customers when agreeing initial repayment rates.

While it is clear that practices have improved, there is still some scope for further improvement. Our review commissioned consumer research and an assessment of suppliers' communications with customers in debt and at risk of disconnection. This

work and the examples of good practice we have highlighted among suppliers will help to inform developing practice.

We appointed consultants to undertake a review of correspondence suppliers send to customers who have not paid their energy bills. The aim of this work was to identify how clear and easy to understand the letters were for the general public, including people with English as a second language, people with low basic skills, visual impairment, and people with mild learning disabilities. The review highlighted that suppliers' correspondence already incorporated a number of aspects of good practice. Our consultants have suggested a number of recommendations for further improving suppliers' letters in line with acknowledged best practice which suppliers should consider adopting. These are outlined in the main body of the report.

We commissioned a programme of qualitative consumer research, as part of our Consumer First initiative, to examine the consumer experience of debt and disconnection and in particular how well suppliers communicate with their customers. This highlighted that consumers' experiences in this area varied enormously. For most customers, suppliers seem to have robust debt and disconnection processes in place. However, for the significant minority who have had a poor experience this can result in considerable dissatisfaction and detriment.

The research highlighted some key barriers to contacting suppliers. Whilst telephone was the preferred method of contact, the time spent waiting and on hold and the associated cost implications for low income customers using prepaid mobile phones was a concern. Some customers felt that contact from suppliers was not always helpful, often too late and that they would only repeat what was said the last time. In a few instances, customers did not think suppliers were understanding about their circumstances, but most were satisfied in this area. Over 70 per cent of the customers interviewed had been able to agree a repayment arrangement for their debt and were satisfied with this. This is encouraging given the concerns about rising repayment rates. Prepayment Meters (PPMs) were generally seen as helpful for budgeting and controlling energy usage. Disconnection was understood to be part of suppliers' debt management cycle, although some customers rely on the possibility of this not happening.

Debt prevention is crucial and suppliers should continue to contact their customers early on in the debt process, using a variety of communication channels. Suppliers should continue efforts to identify vulnerable customers at every opportunity and ensure their circumstances are considered and they are offered holistic solutions. It is also important that suppliers signal the help that is available to customers, both in managing their energy bills and through suppliers' own social tariffs and support schemes where they apply.

This work, under Ofgem's Social Action Strategy, complements licence obligations on suppliers and Ofgem's wider work to meet its statutory duties relating to vulnerable customers. The review shares good practice and highlights progress made since 2005 and the scope for further improvements. It is clear that suppliers have an important role to play in providing direct and additional help to their customers, particularly their vulnerable customers, to manage their energy bills. With rising levels of debt, continuing upward pressure on energy prices and changes to consumer representation, it is important that suppliers retain a strong focus on this area and continue to make improvements in implementing the guidelines.

1. Introduction

1.1. In January 2003, Ofgem and energywatch jointly published good practice guidelines for suppliers on preventing debt and disconnection ("the good practice guidelines")¹. The good practice guidelines invited suppliers to develop strategies which focussed on six key areas:

- minimising billing errors;
- using incoming calls to identify consumers that are in difficulty;
- using consumer records to target energy efficiency improvements;
- demonstrating flexibility in debt recovery;
- offering sustainable solutions to consumers in extreme hardship; and
- helping consumers who are unable to manage their own affairs.

1.2. Following that, and in response to concerns raised regarding the Bates' case², the ERA, which represents the six largest domestic energy suppliers, developed a safety net procedure to prevent genuinely vulnerable customers from being disconnected. Since 2003 there has been a substantial decline in the number of customers being disconnected for non-payment of their energy bill. Further information on key debt and disconnection trends is discussed in Chapter 2. The ERA also has a debt policy group which comprises individuals from member companies experienced in debt management activities and issues. The group has a specific remit to share best practice in credit management including the measures to protect vulnerable customers. This has clearly been instrumental in prompting some of the improvements noted in this review.

1.3. Suppliers have a number of obligations set out in their licences to afford protection to customers regarding debt and disconnection. Suppliers have a duty to consider the needs of customers who may be having difficulty paying their bills due to individual circumstances or an inability to pay. Ofgem has previously set out that it expects suppliers to identify customers who might be struggling to pay their bills and offer them help and assistance as early as possible.

1.4. Suppliers also have a licence obligation which prohibits the disconnection of a customer's premises during the winter months (October to March) if the occupants include a person who is elderly, disabled or chronically ill. This licence obligation was strengthened as part of the recent Supply Licence Review to ensure vulnerable customers have an appropriate level of protection and to achieve consistency between the gas and electricity licences.

1.5. In March 2005, Ofgem and energywatch commissioned a report on the progress made by the six main energy suppliers in implementing the good practice

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http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Preventing_Debt_and_Disconnection.pdf

² Mr and Mrs Bates, a pensioner couple, were found dead in their home in October 2003 after their gas supply had been disconnected in August for non payment of a bill.

guidelines³. The report highlighted that the guidelines had been positively received, resulted in improvements to suppliers' attitudes and service and had a positive impact in driving action in this area.

1.6. The report reviewed each of the six main suppliers' performance in this area and highlighted examples of best practice. It noted that whilst substantial effort and progress had been made, this varied between suppliers, with some doing more than others. Consumer research was also carried out as part of the review. This found a gap between the supplier view that they had effective communication channels in place for their consumers, and consumers' perceptions that suppliers do not always understand them, can be unsympathetic and are often difficult to contact.

1.7. This is the first review we have undertaken on debt and disconnection since the report by Sohn Associates in 2005. Ofgem's Social Action Strategy Review Group, chaired by Sir John Mogg, discussed the subject of debt and disconnection and the scope of this review at its meeting in September. This review aims to highlight principles of good practice which can be shared across suppliers to ensure that customers, particularly vulnerable customers, have an appropriate level of protection. In particular, when carrying out this review we have focused on how suppliers communicate with their vulnerable customers.

1.8. It should be noted that this review only looks at "live debt" where the customer is still with the supplier concerned and hence there are issues about potential disconnection from supply. For suppliers, the more significant financial risk element is with "historic debt", where a customer has moved house or failed to pay a final bill on change of supplier. Suppliers are able to recover these sums through other debt collection methods, such as the courts, and hence they are seen as much more of a commercial issue.

1.9. In carrying out this debt and disconnection review, we undertook three work strands. The first examined suppliers' debt and disconnection procedures and how these have progressed since the last review in 2005. We worked closely with energywatch on this and met with each supplier to discuss their policies and processes. We would like to thank energywatch for their expertise in this area and their valued work and contribution to this review.

1.10. The second strand was a review of suppliers' correspondence to customers who have not paid their energy bills, which was undertaken by Clear For All consultants. The purpose was to review how clear and easy to understand suppliers' letters are, against what is acknowledged more widely as best practice in communicating with vulnerable customers.

³ <http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/10096-9005.pdf>

1.11. Thirdly, we appointed Accent⁴ to undertake a programme of consumer research examining the consumer experience of debt and disconnection. The research was small scale and qualitative in nature. It comprised 15 in depth interviews with vulnerable customers that are in arrears with their energy supplier, 50 semi-structured telephone interviews and a further 7 interviews with Citizen Advice Bureau ("CAB") advisors with experience in handling energy debt cases. The research was spread across different geographic locations around Great Britain and included customers from each of the six major suppliers. It sought to examine how suppliers communicate with consumers and which methods are most effective and preferred by customers and to see how customers thought suppliers might be able to improve their practices. We would like to thank CAB for their assistance with this review, particularly in providing energy debt case studies which were used to inform our programme of consumer research.

1.12. We consider this debt and disconnection review timely given the broader context of rising levels of general consumer debt, discussed in more detail in Chapter 2, and the changes to consumer representation in the energy sector.

1.13. Ensuring energy accounts are billed in a timely and accurate manner can prevent problems with customers accumulating debt and potentially being threatened with disconnection. We have seen a number of changes in the energy sector which have focussed energy suppliers' attentions on improving their billing of customers' accounts. In particular, Ofgem's investigation into suppliers' billing practices following the super-complaint made by energywatch resulted in the establishment of the Energy Supply Ombudsman (ESO).

1.14. Every year suppliers issue 200 million energy bills across the UK and for most customers these bills tend to be the primary contact between them and their supplier. To ensure that energy bills are as accurate, timely and easy to understand as possible the ERA launched its Billing Code⁵ in July 2006, alongside the ESO. The Billing Code sets out what customers can expect from their energy supplier, including:

- clear, accurate, informative and timely bills and statements;
- support and advice on monitoring energy consumption;
- support and advice for those having difficulty paying their bills; and
- contact details for raising questions and issues with suppliers.

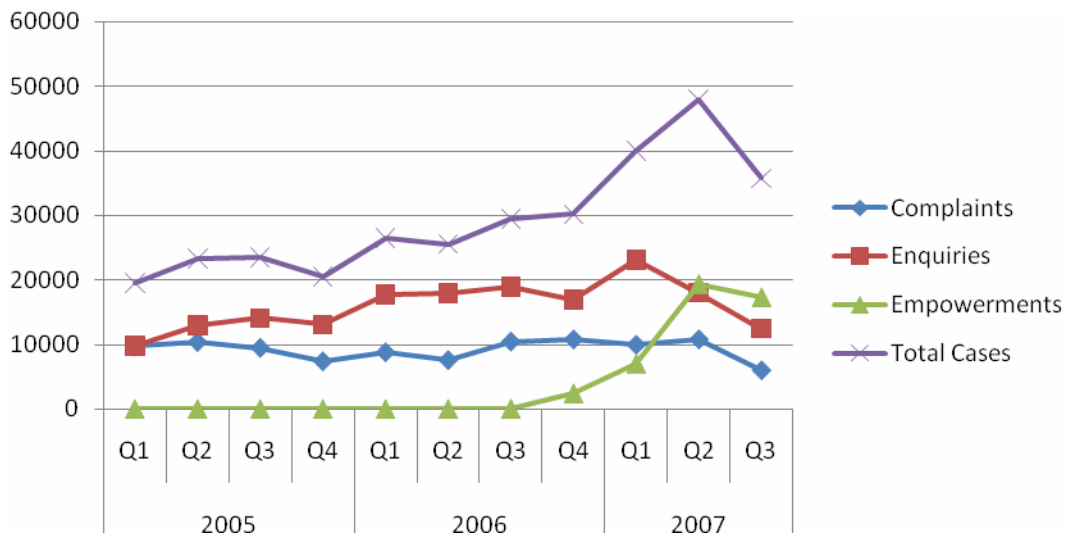
1.15. The ESO was launched at the same time to investigate and resolve billing and transfer disputes, where customers and suppliers had been unable to resolve it themselves.

⁴ Accent is a market research agency with experience in undertaking qualitative and quantitative research in the UK.

⁵ Five of the six main energy suppliers in the UK have signed up to the Code of Practice for Accurate Bills ("Billing Code"), namely British Gas, EDF Energy, E.ON, npower and Scottish Power. SSE has developed its own domestic energy charter which sets out how it will ensure customers receive clear and easy to understand bills.

1.16. Data on the total number of complaints, enquiries and empowerments⁶ received by energywatch about domestic billing and account issues is shown in Chart 1 below. The recent reduction in the number of contacts to energywatch in this area highlights the focus and improvements made by suppliers in this area.

Chart 1: Contacts to energywatch about domestic billing and accounts



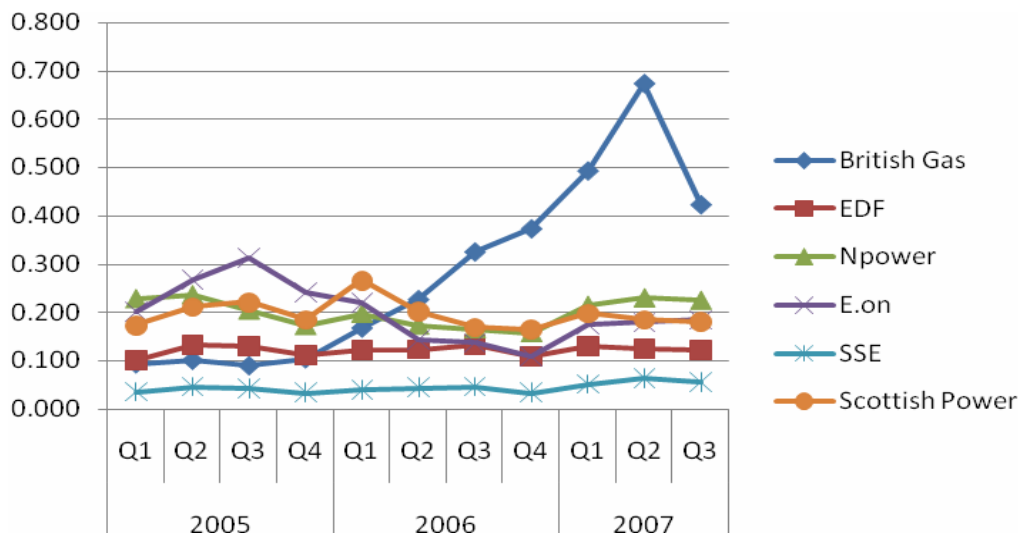
1.17. As highlighted in our Domestic Retail Market Report⁷ the total number of complaints received by energywatch has fallen steadily over the last two years for five of the six main suppliers. There was a significant increase in complaints made about British Gas which reflected the difficulties they had faced in transferring customers onto a new billing system. British Gas has undertaken a number of actions to resolve these transitional issues and since May 2007 complaint figures have dropped dramatically.

1.18. Chart 2 below shows the total number of complaints, enquiries and empowerments received by energywatch in relation to domestic accounts and billing for the six main suppliers. This again reflects the problems British Gas have experienced and their efforts to resolve these and that overall contact levels on account and billing issues have remained fairly stable, or decreased slightly, throughout 2007.

⁶ energywatch introduced an empowerment process in September 2006. In this process a customer who has called energywatch with a straightforward supplier complaint is referred by direct transfer to dedicated teams within suppliers (provided the customer is not vulnerable). A complaint is then recorded only if the customer comes back to energywatch with the problem still unresolved.

⁷ <http://www.ofgem.gov.uk/Markets/RetMkts/Compet/Documents1/DRMR%20March%202007.doc%20v9%20-%20FINAL.pdf>

Chart 2: Contacts to energywatch about domestic billing and accounts by supplier (per 1000 customers)



1.19. Since the establishment of the ESO, Parliament has introduced new measures through the Consumers, Estate Agents and Redress Act 2007 (the CEAR Act) which is expected to require all energy suppliers and network operators to be a member of an approved redress scheme to resolve all complaints from domestic and small business energy customers. The CEAR Act requires Ofgem to approve redress scheme(s) for the energy sector and to make regulations which set standards of performance for complaint handling for gas and electricity providers.

1.20. In addition to the above, the CEAR Act will also see energywatch, the current energy consumer organisation, replaced with a single point of contact for consumers covering all markets for information and advice (Consumer Direct) and a new consumer advocacy body (the new National Consumer Council (NCC)). These arrangements are due to be implemented in October 2008. Work is on-going to implement all of these changes and to ensure that the interests of energy customers are protected during this transitional period. It is therefore particularly important at this time that suppliers are proactive in contacting customers to manage their debt early and have appropriate processes in place to resolve customers' concerns about their bills and any difficulties they may be experiencing in affording their energy.

1.21. By sharing and highlighting elements of good practice in the area of debt and disconnection, we hope this review will enable suppliers to improve their policies and procedures. It will also highlight to consumers and their advisors, the help available for those who may need additional support in managing their energy bills.

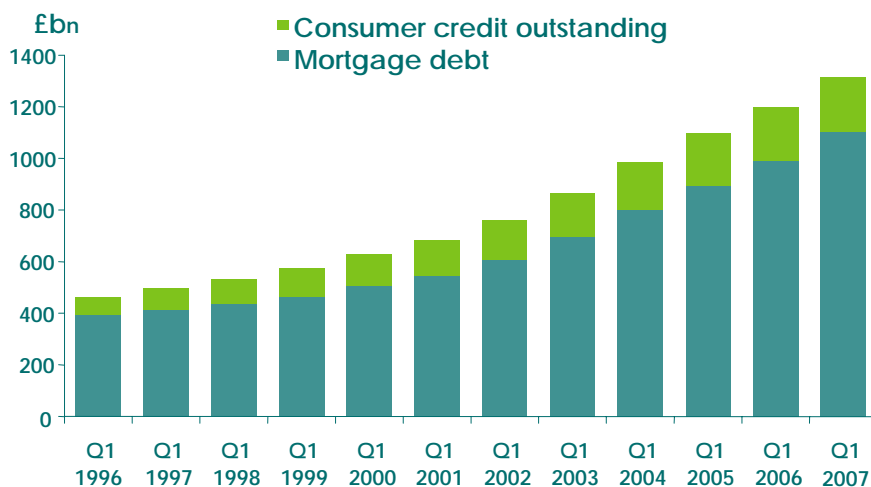
2. Key debt and disconnection trends

General consumer debt trends

2.1. Since the early 1980s there has been a significant increase in disposable incomes across the UK and the gap between the poorest and the richest has widened. In parallel, there have been key changes in consumer behaviour, particularly: high consumer spending; a decline in the savings ratio; higher levels of debt; and the decline in weekly and monthly budgeting⁸.

2.2. Chart 3 shows that total consumer debt has more than doubled since 1996, although the rate of growth is now slowing.

Chart 3: General consumer debt trends⁹



2.3. BERR's 2007 annual report on tackling over-indebtedness¹⁰ also indicated that the longer-term trend, on balance, suggests that debt is becoming a problem for an increasing number of households.

2.4. This trend is reflected in the 20 per cent increase in debt enquiries to CAB this year, totalling 1.7 million enquiries across England and Wales. CAB has advised that debt is now the number one issue advised on in its' bureaux, accounting for one in three of all enquiries. Whilst most of these enquiries related to credit card debt and unsecured loans, energy debt cases had also increased by a third. This shows that many people may be struggling not only to repay credit but also to meet their day to day living expenses.

⁸ "Towards understanding consumers' needs", FSA Consumer Research 35, June 2005.

⁹ "Consumer appetite for debt wanes", BBC 2006; Henley Centre Headlight Vision Economic Update, March 2006

¹⁰ <http://www.berr.gov.uk/files/file42700.pdf>

Energy debt trends

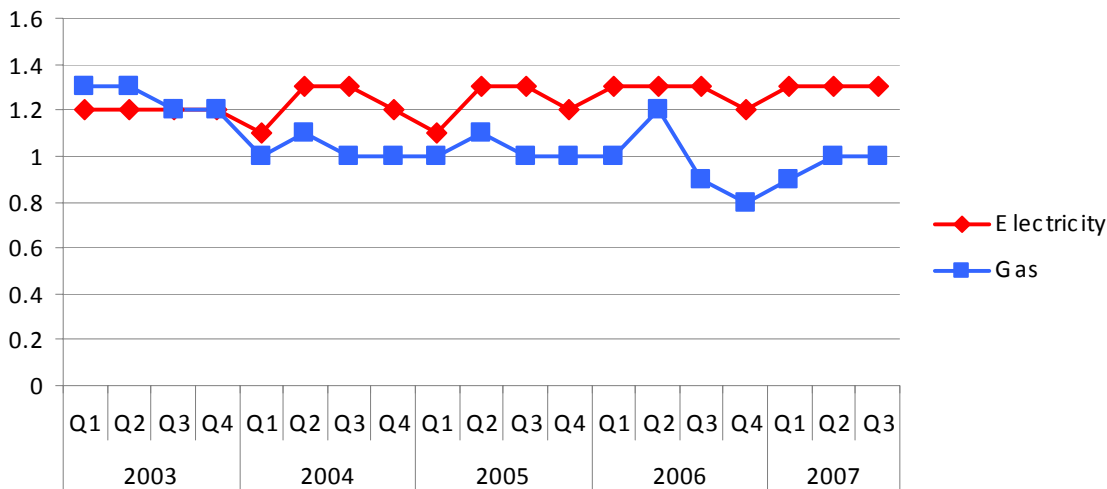
2.5. Against this background of increasing consumer debt, higher energy prices and increasing numbers in fuel poverty, our latest full year data¹¹ show that the number of customers repaying an energy debt remained relatively stable.

2.6. At the end of 2006, 5 per cent of electricity and 4 per cent of gas customers were repaying a debt¹². For both fuels, 61 per cent of those in debt were credit customers, paying by cash, cheque or card, when they received their quarterly bill and 39 per cent were PPM customers.

2.7. Approximately 0.7m electricity credit customers and 0.5m gas credit customers are on debt payment arrangements scheduled to last longer than 13 weeks. Approximately 13 per cent of electricity PPM customers (0.5m) and 14 per cent of gas PPM customers (0.3m) are repaying a debt through a PPM.

2.8. Our debt figures generally show seasonal variations, with more customers falling into debt following the winter months when energy usage increases. The figures to date for 2007 show that despite rising energy prices and the wider context of increases in UK personal debt, the number of customers repaying an energy debt has remained fairly stable.

Chart 4: Number of electricity and gas customers (millions) repaying a debt

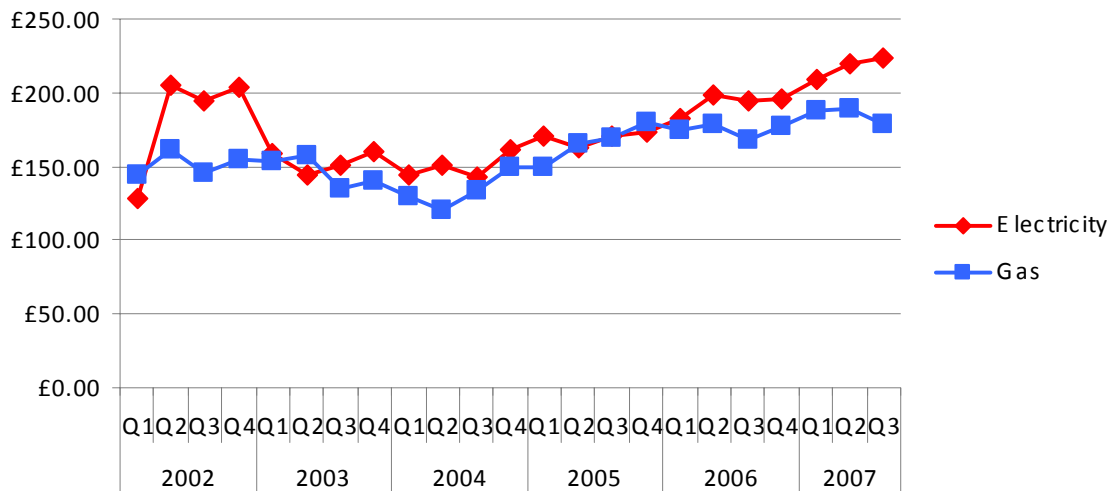


¹¹ Domestic suppliers: social obligations annual reporting for 2006, Ofgem, July 2007 (Ref 161/07)

¹² The term 'debt' in this document refers to customers who either have their PPM set to collect a debt or customers who are on a debt payment arrangement scheduled to last longer than 91 days/13 weeks. A debt payment arrangement is a specific arrangement to repay outstanding arrears. The only Direct Debit customers included under this definition would be those who have specifically joined the scheme to repay a debt.

2.9. While the number of customers in debt has remained fairly stable, the average level of debt for those repaying a debt has been increasing steadily as shown in Chart 5.

Chart 5: Average level of electricity and gas customer debt (nominal)



Repayment Rates

2.10. Suppliers have a licence obligation to take account of a customer's ability to pay when agreeing a debt repayment rate. A customer may contact a supplier to change the repayment rate if they are struggling to pay it or wish to pay more. The best practice guidelines issued by Ofgem and energywatch recommend that suppliers set repayment rates no higher than the Fuel Direct level (currently £2.90 a week) for customers on benefits or low incomes.

2.11. As can be seen from Charts 6 and 7 below, increases in repayment rates have occurred for both credit and PPM customers. The charts also show that repayment rates are higher for PPM customers than for credit customers. This is likely to reflect the fact that for many customers a PPM meter is installed as an alternative to disconnection when other payment arrangements have failed. These customers are therefore likely to have higher levels of debt to repay. Chapter 3 sets out suppliers' licence obligations for considering customers' ability to afford repayment rates, our expectations in this area and some examples of good practice amongst suppliers. We also explored customers' satisfaction with the repayment rates they had agreed with their supplier as part of our programme of consumer research, as discussed in Chapter 5.

Chart 6: Electricity repayment rates (nominal)

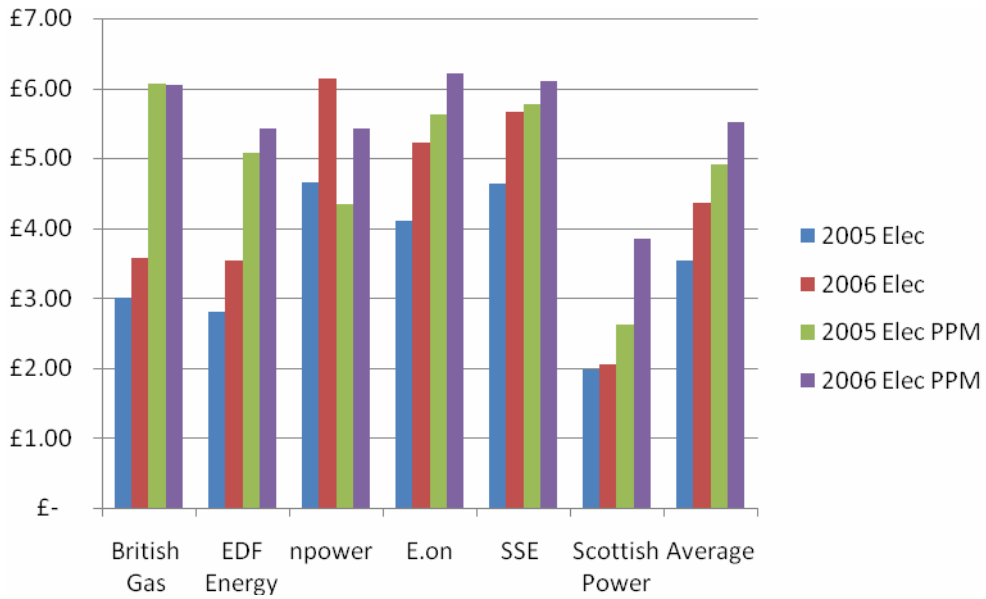
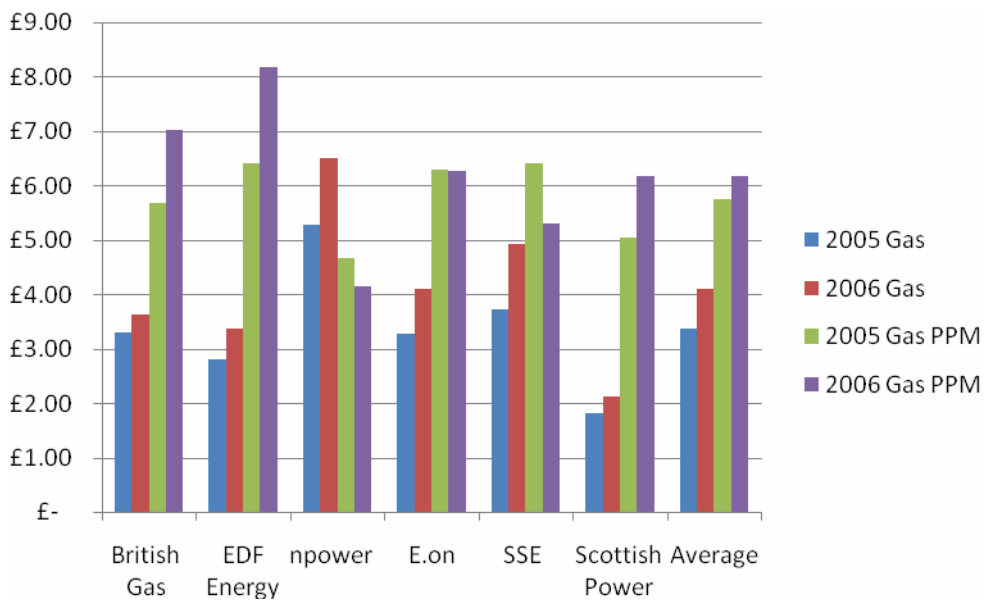


Chart 7: Gas repayment rates (nominal)

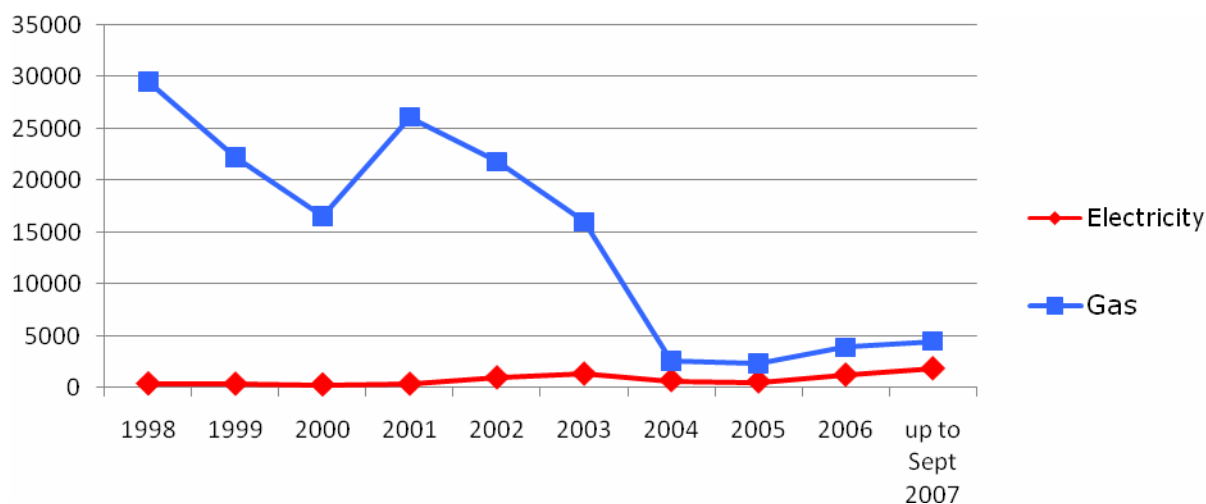


Disconnection rates

2.12. From 2001 until 2005, the total number of customers disconnected for non-payment of their energy bill decreased sharply, as highlighted in Chart 8. There are a number of factors behind this trend including:

- pressure on suppliers to only disconnect customers as a last resort;
- suppliers increasing the number of PPMs installed to recover debt as an alternative to disconnection;
- the voluntary safety net introduced by suppliers to not disconnect vulnerable customers; and
- the decision by British Gas to temporarily stop disconnecting customers.

Chart 8: Total number of electricity and gas disconnections



2.13. The figures for 2006 showed a slight increase in the number of disconnections, with 3,859 gas customers and 1,258 electricity customers being disconnected, compared with 2,309 and 604 (respectively) in 2005. The figures also show that disconnections in gas remain higher than in electricity. This may be in part be due to the inability to install gas PPMs in some instances, as an alternative to disconnection, because of safety reasons.

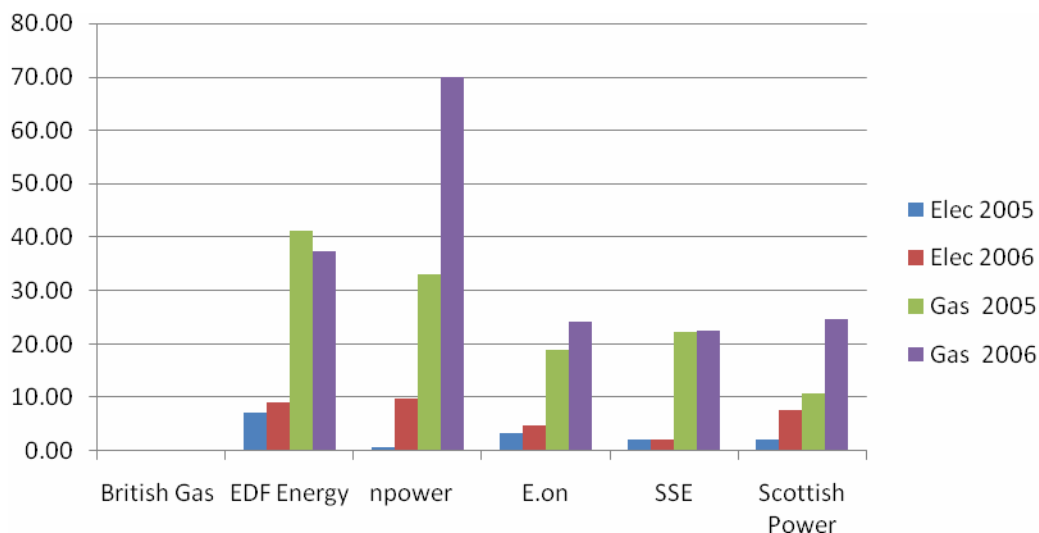
2.14. Suppliers have advised that the increase in the total number of disconnections is because they are more confident in the debt and disconnection processes they have in place. This should ensure they are only disconnecting those customers who refuse to pay bills after all attempts to resolve a debt issue have been exhausted and who are not vulnerable.

2.15. Chart 9 below shows the number of disconnections carried out by each of the six main energy suppliers per 100,000 customers during 2005 and 2006. These

charts show that of the six major energy suppliers British Gas has disconnected the fewest customers and npower the most. It also shows that in 2006 all suppliers, with the exception of British Gas, disconnected more customers than in 2005. For some suppliers this increase was significantly higher than others. npower in particular disconnected significantly more customers in 2006 than in 2005 and when compared to other suppliers. Whilst the ERA Safety Net ensures no vulnerable customer is knowingly disconnected, we encourage npower to look hard at what more they could do to proactively manage customers in debt at an earlier stage to limit the numbers who end up disconnected and to bring them in line with other suppliers' practices. npower has advised it is trialling a pro-fit gas PPM programme which should help to reduce the number of gas customers disconnected.

2.16. As mentioned previously, at the end of 2003 British Gas decided to temporarily stop disconnecting customers and hence it has negligible disconnection rates. British Gas has advised that it intends to review all of its debt and disconnection policies over the next three years. As part of this work, British Gas has indicated it may be resuming disconnection activity but not until they are confident that their processes in this area are robust and this is unlikely to be before the end of 2008.

Chart 9: Number of disconnections per 100,000 customers



2.17. Overall it is positive that disconnections remain at a low level with around 5,000 being carried out each year across both fuels. This level of disconnection activity remains significantly below the historic levels of around 25,000 disconnections and indicates that the supplier "safety net" arrangement to prevent disconnection of vulnerable customers continues to work well.

Installation rates for PPMs

2.18. Suppliers have a number of licence obligations with regard to PPMs. Specifically, they are required to offer a choice of payment methods, including using PPMs. In particular when they become aware that a domestic customer is experiencing payment difficulties, they are required to offer the facility for paying for their energy through a PPM as an alternative to disconnection.

2.19. Until this year installation rates for PPMs, for both fuels, had been falling over time, driven by a reduction in the number of PPMs installed for customers without a debt. In 2006 there has been an increase in installation levels, reflecting the fact that installations for debt are at a five year high.

Table 1: Reasons for installation of PPM by fuel and by year¹³

Reason for installation	2002	2003	2004	2005	2006
Electricity					
Customer debt	157k	154k	109k	118k	165k
No debt	224k	213k	148k	106k	98k
Total	381k	367k	257k	224k	263k
Gas					
Customer debt	129k	109k	134k	146k	169k
No debt	111k	99k	73k	60k	71k
Total	240k	208k	207k	206k	240k

¹³ It is important to note that with these figures some suppliers include recalibration of meters for debt as installations. Therefore the figures may include as installation, customers on PPM who have fallen into debt (such as token PPM users who faced delayed recalibration) as well as those customers new to PPM who are transferring to this payment method to pay off a debt.

3. Review of suppliers' debt and disconnection policies

3.1. We worked closely with energywatch to review the debt and disconnection policies of the six main energy suppliers. Each supplier submitted information on their procedures and how they considered they had progressed in this area since the last review. All suppliers also met with Ofgem and energywatch to discuss this information.

3.2. There were a number of key common elements which suppliers included in their debt paths and disconnection procedures. These are highlighted in Figure 1 below.

Figure 1: Key elements of suppliers' debt paths

New customer/ first bill team	<ul style="list-style-type: none"> •Only EDF Energy and SSE •Account monitored until first bill issued
Bill issued	<ul style="list-style-type: none"> •Day 1
Reminder notice	<ul style="list-style-type: none"> •Day 10 - 28
Second reminder notice	<ul style="list-style-type: none"> •ScottishPower only issue one reminder •Day 20 - 40
Outbound call	<ul style="list-style-type: none"> •Day 21 - 70
Final demand notice	<ul style="list-style-type: none"> •Day 28 - 68
Pre-disconnection letter	<ul style="list-style-type: none"> •Day 35 - 92
Human rights letter	<ul style="list-style-type: none"> •Day 48 - 104
Warrant	<ul style="list-style-type: none"> •Day 60 - 132
Pre disconnection visit	<ul style="list-style-type: none"> • All suppliers
Disconnection	<ul style="list-style-type: none"> •Day 80 - 180
Post disconnection follow-up	<ul style="list-style-type: none"> •Some suppliers only •3-10 days after disconnection

3.3. This overview of the key elements of suppliers' debt paths demonstrates the way that suppliers make multiple attempts to contact customers about arrears with their

energy account over a period of time before firmer debt follow-up measures are pursued.

Overall findings

3.4. The information and meetings with suppliers highlighted that since the last review in 2005, there has been an increased focus on debt and disconnection issues by all suppliers. It also demonstrated that some suppliers have continued to progress more in this area than others.

3.5. Best practice among suppliers is where the businesses had a clear management and organisational focus in this area. They are proactive, focussed on debt prevention rather than debt management, provide holistic solutions to customers, monitor their performance regularly, and periodically review their debt and disconnection policies. Some suppliers have not progressed as much as others. British Gas has focussed in the first instance on improving the robustness of their billing and customer management systems but have committed to significant plans to review their debt and disconnection procedures going forward. Whilst npower demonstrated some elements of good practice, as set out below, it has the most improvement to make to bring its practices, and disconnection rates, in line with those of other suppliers.

3.6. All suppliers recognise the importance of debt prevention and the value of taking action early to prevent the build up of debt, however the effort and effectiveness of suppliers' activities in this area varies. Linked to this, all suppliers now recognise that communication with customers is essential and have revised their procedures to incorporate more and earlier proactive contact e.g. outbound calling. This is highlighted in Figure 1 above which shows that suppliers' have further developed their debt paths to include multiple attempts to contact customers about arrears with their energy account before firmer debt follow-up measures are pursued. Most suppliers are also trialling different methods and channels of communication in an attempt to reach more customers e.g. telemessaging, text messaging, hand written envelopes etc.

3.7. Suppliers have also recognised the importance of identifying vulnerable customers. Some suppliers are using all opportunities for contact with their customers (e.g. telephone contacts, meter reading visits etc) as opportunities to gather this information and have trained their staff on the characteristics and circumstances that identifies a customer as vulnerable. All suppliers have also developed tailored debt paths for their vulnerable customers ensuring they are offered more holistic advice and a wider range of solutions. The review has highlighted that the ERA Safety Net is working well, with all suppliers having a clear vulnerability checklist and senior management signoff before disconnections take place.

3.8. We have highlighted a number of 'principles' of good practice in the area of debt and disconnection and have summarised some examples from suppliers in each of these areas.

Examples of good practice

Getting billing right

3.9. Minimising billing errors was one of the key areas for action highlighted in Ofgem and energywatch's joint guidance for best practice on preventing debt and disconnection in 2003. The introduction of the Billing Code and establishment of the ESO as mentioned previously has further focused suppliers' attention in this area and all suppliers have undertaken action to improve the way in which they bill customers for their energy.

3.10. Most suppliers have reviewed the format, content and layout of their bills to ensure that they are easy to understand. Suppliers have sought to ensure that important information such as the amount owing, what customers have been charged for and the type of meter read on which the bill is based is clear. Most suppliers have used feedback or research from customers to inform their bill redesigns.

3.11. Some suppliers, such as **SSE**, are placing greater emphasis on obtaining more actual meter reads on which to base customers' bills to improve their accuracy and prevent customers accumulating debt on their account as a result of underestimated bills. **SSE** also proactively monitor the accounts of customers who have complained about a bill for 12 months to ensure that the matter is resolved and the customer is kept fully informed.

3.12. **E.ON** are also trialling monthly bills which have a number of benefits for low income and vulnerable customers. In particular, the bills will be smaller, provide clearer visibility of their energy consumption and enable earlier management of any debt issues that may arise.

3.13. **EDF Energy** and **SSE** have also implemented 'new customer/first bill' teams. These teams ensure that new customers are correctly registered and set up on their billing systems upon acquisition and their accounts are monitored until the first bill is issued to ensure there are no problems during this initial period. They can also provide advice to ensure that customers are on the best tariff and most suitable payment method.

Early, proactive and varied contact with customers to prevent debt build up

3.14. All suppliers recognise the importance of contacting customers early in the debt process and as such have included multiple attempts to contact customers in arrears into their debt paths and policies. All suppliers currently undertake proactive outbound calling to customers with arrears on their energy accounts. Many suppliers are looking to increase their current levels of outbound calling as it is proving effective in engaging with customers about their energy arrears.

3.15. In particular, outbound calling can provide suppliers with further opportunities to discuss customers' individual circumstances; prevent customers further accumulating debt; facilitate earlier repayment of arrears; and to provide advice on other help available such as social tariffs, energy efficiency or a referral to a third party organisation. This can in turn prevent the need for more serious and costly debt collection activity later. Some suppliers, notably **Scottish Power**, use all possible opportunities to obtain a range of contact details for customers to facilitate outbound contact should it be needed subsequently and have specific initiatives in place to capture these customer details. **E.ON** proactively contact those customers who attempt to switch supplier but are blocked as a result of the level of debt on their account. This provides an opportunity for the debt issue to be resolved which will then enable the customer to switch.

3.16. All suppliers are innovative and trialling different communication channels in an attempt to reach more customers. Most suppliers have trialled the use of text messages, **EDF Energy** in particular targeted their trial at customers with hearing impairments. **Scottish Power** undertake proactive outbound voice messaging to all customer with arrears of less than £150 on their account and arrange debt advisory visits for their customers with a debt greater than £150 that has been outstanding for around 50 days.

3.17. All suppliers are able to provide information to customers in a range of formats, such as large print and Braille and have interpreter or translation services available for people whose first language is not English etc. Some suppliers, for example **British Gas**, advise of their interpreter service in a number of languages on the information they send out. In particular, their debt advice leaflet, which is sent to all customers who proceed beyond day 28 of the debt path, includes debt advice, energy efficiency information and a budget planner. It also signposts customers to third party debt agencies such as National Debt Line and CAB and advises, in the six most widely spoken languages in the UK, that it has an interpreter service available. **British Gas** has also jointly produced with National Debt Line and CAB a 'Bills Piling Up' booklet which is actively promoted in debt advice agencies and a 'Paying Your Bills' document aimed at providing assistance to people with learning difficulties which was developed with Mencap and the Employers Forum for Disability.

Using all customer contacts to identify vulnerability

3.18. Since the introduction of the ERA Safety Net, suppliers have also focussed on improving ways in which they can identify customers who may be vulnerable. All suppliers now regard every point of contact with their customers as an opportunity to gain further information about their customers and their circumstances. This can include inbound calls from the customer or outbound calls made by the supplier. Some suppliers also use meter read visits or other home visits as further opportunities to identify whether customers are vulnerable.

3.19. Most suppliers also have the ability to flag or highlight on their systems those who either identify themselves as being vulnerable or those who the supplier deems to be vulnerable. As noted above some suppliers, particularly **Scottish Power**, have

specific initiatives to increase the quality and quantity of information they have for each customer's account during their regular contact with customers.

3.20. All suppliers have also incorporated training for their front line staff on ways to identify vulnerability from this contact with customers and have checklists in place highlighting some key characteristics which may indicate vulnerability. Most suppliers also ensure that those customers who may be on other specific schemes because of their vulnerability, for example a suppliers' social tariff, are flagged automatically as vulnerable customers.

3.21. All suppliers use their visits to customer's homes as an opportunity to identify vulnerability when, for example installing energy efficiency measures or as a part of the debt process for disconnection.

Provide holistic advice and wide range of solutions

3.22. All suppliers have also demonstrated ways in which they provide holistic advice and a wide range of solutions to their customers through their debt paths. All suppliers have tailored debt paths for their vulnerable customers to ensure they are not threatened with disconnection. Most suppliers have established specialist teams to handle contact with their vulnerable customers in debt. This ensures that staff in these teams have appropriate training, skills and authority to offer the additional support and solutions that may be required. It aims to ensure that the most skilled staff work on the most difficult of debt collection cases and that the customer is handled by a team that can best support their needs. **E.ON** has tailored debt paths which are dependent on customers' payment history and circumstance, for example whether they are vulnerable, have first time payment difficulty or are a persistent defaulter.

3.23. All suppliers have in place processes for third party referrals where vulnerable customers may need broader assistance and advice, for example with social services. All suppliers also have referral pathways in place with a number of general, money and debt advice agencies (such as energywatch and CAB) providing access to escalated teams using a freephone helpline.

3.24. It is also welcome that all suppliers have close links between their debt and credit management teams and their energy efficiency and social initiative programmes. This should ensure that vulnerable customers and customers who are struggling to manage their energy bills are offered much broader support and advice. This usually includes information on ways to reduce their energy consumption, suppliers' social tariffs, how to access energy efficiency measures, and benefits entitlement checks and may also include financial support through suppliers' trust funds. **Scottish Power** proactively mail out information on energy efficiency to a number of their customers with arrears each month. **EDF Energy** trains all staff on its trust fund and their analysis shows that they are targeting awards at the right group with 78 per cent of awardees remaining debt free after 12 months. A number of suppliers also provide funding for debt advisors in the community through their trust funds.

3.25. **npower** has a 'SAFE' team (Solutions Available For Everyone) which provides assistance for those customers struggling to manage their bills but who are not eligible for their social initiative programme. This team provides a one to one account management relationship with the customer and coordinates any referrals to external third parties.

3.26. As mentioned earlier all suppliers use home visits as an opportunity to identify whether their customers are vulnerable or not. Some suppliers also use these home visits to better assess these customers' needs and tailor services to meet them. **Scottish Power** has had their home visits accredited by the International Standards Organisation (ISO). Their team of Customer Liaison Officers also undertake these home visits to assess customers' circumstances, provide advice on a range of matters (including energy efficiency and tariff options) and help manage debt through this one to one support.

3.27. Many suppliers also use an external agency, Fieldcall, to visit customers' premises to provide further support and a more holistic debt counselling and advice service. **SSE** have implemented an initiative called 'Value on every visit' where meter readers spend time with customers to identify and resolve any supply issue they may have such as billing concerns, energy efficiency queries etc. **EDF Energy** have a similar initiative where meter readers are provided with additional information so they have the latest information on the services and products available to customers and can provide this advice to them in their homes.

Setting appropriate repayment rates

3.28. Suppliers have a licence obligation to take all reasonable steps to ascertain customers' ability to pay and consider this when calculating repayment amounts. In our annual monitoring report on suppliers' social obligations we flagged concerns about rising repayment rates, particularly for PPM customers and said we would look closely at this issue as part of this review. Some suppliers have done more than others to better understand and consider customers' ability to make payments towards their arrears.

3.29. For some suppliers, the starting point for calculating repayment rates is the recovery of debt within a set period of time (for example by the next bill or over 12 months). With higher energy prices this has led to higher repayment rates and a concern that this does not adequately focus on the customers' ability to pay. However, for vulnerable customers and where customers indicate the suggested repayment rate is not affordable, all suppliers then take further action to ascertain how much the customer can afford to pay and offer more flexible arrangements, such as setting repayment rates at the Fuel Direct level (£2.90 per week). All suppliers are flexible if a customer comes back to them subsequently and says they are having difficulty affording what was agreed. **Scottish Power** noted that their programme of accelerated replacement of token meters was helpful in this regard as with key meters the repayment rate can be readily adjusted without the need for a visit to the customer's home. **EDF Energy** monitors and incentivises their call centre staff to set up successful repayment arrangements rather than focus on the recovery

of debt within certain time periods. The basis on which staff are incentivised in this area can also be important in ensuring the customer's position is taken into account.

3.30. Given their licence obligation, Ofgem expects suppliers to proactively explore a customers' ability to afford a repayment rate and not simply to rely on customers saying they cannot afford what is proposed as they may feel inhibited in so doing. **E.ON** has looked carefully at how best to do this and recognise there is a trade-off between how accurate the information is and how intrusive the interrogation. They have found that by simply asking the customer about key areas of their circumstances (for example, employment, household, unusual expenditure) they can obtain suitably accurate information to set an affordable repayment rate.

Disconnection as a last resort

3.31. All suppliers only disconnect customers supply as a last resort and will offer customers a number of alternative payment arrangements or the installation of a PPM in order to avoid disconnection and maintain supply to the customer. Most suppliers are also trialling a new process to install gas PPMs at warrant stage where the customer is not at home during the visit. Rather than disconnecting the customer, a blanking disc will be left in the outlet pipe once the PPM has been fitted. The customer will then be left contact details so when they return they can arrange for a CORGI engineer to remove the disc and complete the purge and relight of their appliances. Suppliers also have a follow up process in place if they do not hear from the customer to ensure their health and safety are not being compromised.

3.32. All suppliers have implemented a number of safeguards to ensure that they do not knowingly disconnect any vulnerable customers, in line with their commitment under the ERA safety net. This typically includes the completion of a vulnerability checklist and senior management authorisation before any disconnection is actioned. Many suppliers also have a prescribed disconnection follow up and review procedure in place. This ensures that once a customer has been disconnected, they are contacted to discuss the reasons for disconnection and to arrange the reconnection of their supply. Some suppliers also review why a PPM was not fitted as an alternative to the disconnection. In some instances, where there has been no prior contact with the customer and a disconnection has taken place, some suppliers, such as **Scottish Power**, undertake a post-disconnection visit to double check for signs of vulnerability and if appropriate will then contact social services.

Research to understand customers and improve / tailor services

3.33. All suppliers undertake consumer and market research as a matter of good practice. Suppliers have demonstrated a wide range of options which they use to gain this consumer insight including the use of external market research agencies, customer satisfaction surveys, internal customer analysis, call profiling, benchmarking, customer segmentation, and debt profiling. Suppliers have provided a number of examples of the research they have undertaken and how they have used this to inform and improve their business processes. For example, **npower** undertook qualitative research in May 2007 to explore the reasons why some

customers end up with an energy debt and how contact with these customers can be encouraged to prevent the debt becoming unmanageable. npower were able to use this research to improve the way in which they bill their customers and set repayment rates.

3.34. These themes or principles of best practice mirror and build on those set out in the original joint guidance we published with energywatch in 2003. They reflect changes in this area and the increased focus on ensuring that vulnerable customers are afforded appropriate protection.

4. Suppliers' debt and disconnection correspondence

4.1. We appointed Clear For All consultants¹⁴ to review the letters which suppliers send to customers who have not paid their bills to see whether they are clear for the general public including people with English as a second language, people with low basic skills, visual impairment, and people with mild learning disabilities.

4.2. Given that there are significant numbers of customers who fall into these categories, it is essential that communication on critical issues such as threatened disconnection can be readily understood.

4.3. A number of standards for making information easy to understand were proposed by Clear For All and suppliers' letters were then assessed against these standards. The agreed standards were taken from the Plain English Campaign, Norah Fry Research Centre Guidelines and the Mencap Let's be Clear Campaign Guidelines which are widely acknowledged as best practice in this area.

4.4. Primarily, the letters were reviewed to assess:

- how well suppliers organise the letter including the order and how they break up the information;
- the words and sentences including how easy the words are and how short and clear the sentences are;
- the use of pictures to support important information such as company logo, address, phone, gas, electricity bill;
- layout and design including clear fonts, size of fonts, size, and colour of paper; and
- extra information such as the sender, date, contact details, and how to get information in other formats.

Key findings

4.5. Clear For All found a number of aspects of good practice. Most suppliers organise information well, only include what people want to know, usually in short sections and in a sensible order.

4.6. Most letters use a heading at the top of the letter. However the clearest letters have more headings throughout to help the reader understand what each section is about.

4.7. Most suppliers also use no abbreviations at all in their letters and are clear about times and dates, using the 12 hour clock and writing numbers as numbers and not as

¹⁴ Clear For All are consultants with expertise in helping communicate well with people with learning disabilities and with other groups that have difficulty communicating. Their consultants provide advice on how to make information clear and easy to understand.

words. The letters are usually well spaced out and on white, A4, non glossy paper which makes the writing easier to see. Most letters include who sent the information, a date and contact details.

Recommendations

4.8. Clear For All made a number of recommendations as to how suppliers could improve the clarity of their letters.

4.9. Most suppliers use a lot of hard words and long and passive sentences. Suppliers could improve by explaining hard words, such as "right of entry warrant", "personal credit rating", "debt collection agency". There are also a number of other hard words (such as "obtaining", "execute", "liable", "settle", "incurred") which suppliers use in their letters where they could find more everyday words to use instead. Suppliers could consider keeping a list of common hard words with explanations. It was also recommended that sentences should be 20 words or less and not be in the passive tense.

4.10. All letters should use more headings throughout to help the reader understand what each section is about and these should be in bigger and bold writing. A font size of at least 14 should be used and block capitals, italics or underlining should be avoided as it makes words harder to read. Lines should also be shorter, containing no more than 60 letters or spaces.

4.11. Clear For All found that most letters only use a company logo but little other graphics to support the information. Two suppliers also use symbols for phone and address and one uses a symbol for a bill and these pictures were clear and easy to see. Letters could include more symbols to represent the most important ideas. This will enable people who do not read at all to recognise and understand the basic subject of the letter. A central resource of symbols used by all suppliers would ensure consistency and make them easier for consumers to recognise.

4.12. No suppliers made reference in their letters to supplying the information in other formats. This means that fewer people who need this service are likely to know about it in order to request it. Suppliers should inform customers in the letter that they can give this information in other ways. Clear For All suggested that including a symbol to indicate availability of the information in other formats would be ideal.

We have also asked Clear For All to provide individual feedback reports to each supplier about ways in which their own correspondence can be further improved. These high level recommendations made by Clear For All are recognised and accepted as best practice that suppliers should consider adopting.

5. The consumer experience of debt and disconnection

5.1. We commissioned Accent to undertake a programme of consumer research examining the consumer experience of debt and disconnection. The research was small scale and qualitative in nature. It comprised 15 in depth interviews with vulnerable customers who were in arrears with their energy supplier and had had significant contact with their supplier about their arrears, 50 semi-structured telephone interviews with customers also in arrears with their energy supplier and a further 7 interviews with CAB advisors with experience in handling energy debt cases. The research included a spread of geographic locations across Great Britain and included customers from each of the six major suppliers. The full report summarising this research has been published alongside this document.

5.2. It sought to examine how suppliers communicate with consumers, which methods are most effective and preferred by customers and to see how customers thought suppliers might be able to improve their practices.

5.3. The key areas we sought consumers' views on included:

- Why they would or would not contact their supplier regarding an energy debt and/or disconnection; who they would or did contact instead (e.g. debt advice centres, CAB etc) and why; and who initiated contact;
- How accessible suppliers are to contact (e.g. the variety of ways in which to contact, cost/convenience to customers, 0800 numbers, long waiting times etc);
- The communication with suppliers (both oral and written) throughout the debt and disconnection process (e.g. helpful, sympathetic/empathetic, clear, easy to understand etc);
- The reasons behind energy debt and/or disconnection (e.g. billing error, estimated read, switching issue, inability to afford outstanding amount or repayment arrangement, other etc);
- The accessibility and quality of the help and assistance provided by suppliers regarding energy debt and disconnection (considered circumstances, ability to pay, referred to other advice agencies, handled by special team, offered other assistance with energy efficiency, fuel direct etc);
- Satisfaction levels with the communication and assistance offered by their supplier; and
- What worked well and what could have been improved.

Key findings

5.4. A key finding of the qualitative research was that consumers' experiences varied enormously. For most customers, suppliers seem to have robust debt and disconnection processes in place: *"They are very accessible"*. However, for the significant minority who have had a poor experience this can result in high levels of dissatisfaction and considerable detriment: *"I hate them. They've put me through hell"*.

5.5. As expected, there were some differences in satisfaction with suppliers between the fifteen in depth respondents and those taking part in the telephone survey (50 Computer-Aided Telephone Interview (CATI) respondents). This could be explained by a higher degree of vulnerability among the in depth respondents and the fact that they had been selected for having substantial contact with their supplier about their arrears. This would indicate that the nature of their problem is likely to be more complex to resolve which is also reflected in the higher incidence of threatened disconnection amongst these respondents. While the majority of CATI respondents were on low incomes and earned less than £20,000, most (78%) had no disability and only one had been threatened with disconnection. The in depth respondents were, with two exceptions, unemployed; nine had a disability and seven of them had recently been threatened with disconnection.

5.6. This suggests that while suppliers have robust debt and disconnection processes in place for their dealings with the majority of customers in arrears, there is still some more work to be done and scope for improvement where more vulnerable and hard to reach customers are concerned. As noted above all suppliers have increased their focus in this area but the results of the consumer research show that there are some customers who are not being adequately captured by suppliers' processes.

Causes of debt

5.7. Energy debt was mostly caused by not having enough money to go round (26%) or by a change in personal circumstances (24%). Incorrect billing was cited as a cause of arrears by 20% of respondents. Vulnerable customers and CAB advisors found suppliers difficult to deal with where there were queries on a bill. Respondents felt that suppliers can often be reluctant to check their own figures and can take a long time to respond to billing queries.

5.8. The same causes of debt were found among the in depth respondents alongside poor literacy and poor money management skills. Early contact is very important for these vulnerable customers. CAB advisors have seen an increase in fuel debt over the past twelve months as a result of the delayed recalibration of token PPMs¹⁵ and say that gas and electricity arrears are a large part of household debt.

Contacting the supplier

5.9. Respondents were satisfied with the clarity of information given (3.62 mean score out of 5), the overall helpfulness of staff (3.55 mean score out of 5), the helpfulness of information given (3.46 mean score out of 5), and communication with the supplier (3.23 mean score out of 5). The more vulnerable in depth respondents were more dissatisfied with the helpfulness of staff and communication with their supplier.

¹⁵ Ofgem's statement on good practice regarding token prepayment meters and debt build up: http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents/1/16521-218_06.pdf

5.10. Just under half of the respondents (49 per cent) were satisfied overall that their supplier had contacted them in good time regarding their arrears (3.17 mean score out of 5). Early communication is very important in preventing debt accumulating and this was the main area identified by respondents for improvement. Most felt that waiting for three months (a quarterly billing cycle) was too long and by that time the level of their arrears was likely to be difficult to manage.

5.11. Respondents, including CAB advisors, were dissatisfied with the length of time suppliers take to answer their call (2.67 mean score out of 5). Respondents mostly call their supplier on 0845 numbers from landlines and incur little cost as a result of this. However respondents were still dissatisfied with these costs (a mean score of 2.98 out of 5). Customers calling from mobile phones typically face higher call charges when calling 0800 or 0845 numbers. Low income customers are typically more likely to use a Pay-As-You-Go (PAYG) mobile phone and less likely to have a landline¹⁶. For these customers being left on hold for significant periods of time, particularly when they have little credit remaining, can be of concern given the costs involved. They may end a call if it appears to be costing them too much.

5.12. Only two respondents had been offered a home visit to discuss ways of clearing their arrears, although there was some support for this (46 per cent were in favour). In depth respondents also showed some support for a home visit, particularly if it was carried out early on, was free of charge and was scheduled by appointment.

5.13. Six respondents said their supplier had given them a dedicated team or person to contact to discuss their arrears. One respondent had been advised to speak to energywatch and one to contact a debt helpline.

Understanding of individual circumstances

5.14. Respondents were satisfied that staff were understanding regarding their personal circumstances (a mean score of 3.62 out of 5) but considered this an area where suppliers could improve. In depth respondents and CAB advisors were less satisfied that suppliers were understanding of individual circumstances. Their perception that energy company staff are repetitive and speak as though reading from a script reinforces the view that they do not know their customers, do not take account of individual circumstances and are not listening to their customers.

5.15. CAB advisors can find some energy companies difficult to work with. They feel that suppliers start from a negative point of view, assuming that customers in arrears are simply being difficult. They also feel that call centre staff are not actually empowered to enter into any negotiations regarding affordable repayment levels and

¹⁶ Research undertaken by Ofcom shows that managing finances was important to almost all low income consumers and this had a strong influence on take-up of mobile phones, particularly PAYG mobile phones as this was seen as the most effective way of keeping on top of costs. As a result the use of PAYG mobile phones is widespread among low income customers, including many of the over 60s. The Consumer Experience: Low income consumers and the communications market, Ofcom, November 2007.

that they therefore have to escalate a query in order to speak to more senior personnel to agree an outcome.

5.16. CAB advisors need to speak to the supplier in their client's presence in order for the client to give their permission for their account to be discussed. This is sometimes difficult, particularly as it can take a while to get through. There is some frustration among CAB advisors that, once they have got through, suppliers then cite the Data Protection Act (DPA) as a reason not to discuss a client's case.

Information given by supplier

5.17. Most respondents said they had not been given any information that might help them to reduce their gas or electricity bills. Six had been given energy saving advice and one had been given information regarding tariffs. One had been given information regarding Fuel Direct which he had subsequently taken up.

5.18. There was no evidence among the in depth respondents of suppliers offering energy saving advice or of suggesting Fuel Direct as a way of paying. Neither was there any evidence of suppliers asking whether or not customers were in receipt of benefits.

Prepayment meters

5.19. Around half (51 per cent) said they had been offered PPM but respondents had mixed views as to whether they thought they were helpful as a means to clear arrears: 42 per cent thought they were helpful compared to 37 per cent who thought they were not.

5.20. In depth respondents were similarly divided in their views of PPM. A couple of respondents were unhappy at having to have PPMs installed to avoid disconnection because they would not easily be able to top them up. Conversely, a couple of respondents said they had requested a PPM but this had been refused.

5.21. CAB advisors emphasised that, although PPMs and the associated higher tariff are accepted by customers, this is because they feel they have no choice. Social tariffs that allow a customer with a PPM to pay the same tariff as those paying by direct debit were praised.

Repayment amounts

5.22. Among those who agreed repayment amounts with their supplier, nearly three quarters (73 per cent) were satisfied with the level agreed and 62 per cent said it had been easy to agree repayment amounts. Those who were dissatisfied with the agreed repayment amounts mostly cited affordability and being in receipt of benefits as key issues.

5.23. In contrast, in depth respondents were frustrated at suppliers' unwillingness to be flexible in terms of setting affordable repayment levels. There were cases where respondents had offered to pay but their suppliers did not consider the amounts to be sufficient and had repeatedly refused to accept a lower amount.

5.24. CAB advisors supported in depth respondents' views that suppliers do not take individual circumstances into account when setting repayment amounts and they often have to work hard to negotiate affordable repayment levels for their clients. Advisors see agreeing unaffordable repayment amounts as counter-productive as it may cause their clients to default on other payments. Eventually, when another creditor becomes more demanding, the client will then default on their energy repayments, thereby perpetuating the cycle of debt.

Disconnection

5.25. Most respondents were not told that their gas or electricity might be disconnected and only a couple were given any information regarding disconnection. One respondent had been disconnected and was without electricity for one week until the repayment was settled by holding back on other bills. Of those respondents who were not disconnected, most agreed repayment terms with their supplier.

5.26. There was more experience of threatened disconnection among the in depth respondents, where seven of the fifteen had recently been threatened with disconnection. They felt that the tone of the letter threatening disconnection is intimidating, although it may be the case that some customers in debt wait for the threat of disconnection before paying (as was the case for one depth respondent). A couple of in depth respondents indicated that the additional costs incurred by disconnection and, subsequently, reconnection present an additional burden.

Switching

5.27. In depth respondents were aware that they could switch supplier in order to get a more competitive energy tariff. However, those who had switched had not done so because they themselves had compared charges. Instead, they had either switched because another supplier representative had persuaded them that they offered a lower tariff, because of poor customer service or because they wanted to have one supplier for both fuels. The attraction of having one supplier was simpler administration rather than a dual fuel discount, of which there was limited awareness.

Accent's Recommendations

1. Energy companies should be encouraged to be more proactive in getting to know their customers. Customers fall into arrears for a range of reasons and different customers respond positively to different debt recovery activities. While some undoubtedly respond to messages such as the threat of disconnection, most, particularly early on in their energy debt, are more likely to respond to a

reasonable, flexible discussion. In particular, suppliers should explore how better to communicate with vulnerable, hard to reach customers.

2. Energy companies should be encouraged to be more flexible in their approach to customers, taking into account individual circumstances and accepting lower repayment levels in order to encourage regular payment patterns and avoid the build-up of debt. This may require additional training for frontline staff and a review of the extent to which they are empowered to negotiate repayment levels.
3. Energy companies should be encouraged to identify and communicate with customers about potential problems earlier on. For customers on limited incomes the level of arrears that can build up over a quarter can be unmanageable. There is also value in checking accounts promptly to ensure all is well where, for example, a previously regular payment pattern has been broken or a direct debit fails from the start.
4. While it can clearly be difficult to make contact with some customers, energy companies should be encouraged to explore all options including text messages and to offer home visits, by appointment, at no cost to the customer.
5. The length of time taken to get through to a supplier on the telephone is currently too long and presents a barrier to contact. Since some customers need very little persuading not to make contact it should be a priority for suppliers to make contact as easy as possible for their customers and cut down waiting times. The industry should explore the potential for minimising the cost of mobile phone users calling 0800 and 0845 numbers which would particularly assist low income customers who use PAYG mobile phones.
6. Suppliers should be encouraged to improve communications with other third party advice agencies, such as the CAB, both in terms of the ease of getting through on the telephone and of the actual tone of contact. Given their expertise in this area, suppliers should be guided by these agencies in terms of setting affordable repayment levels. For example, CAB advisors are likely to have gone through a financial statement with their clients before contacting the supplier and will have a very good idea of what constitutes an affordable repayment level.
7. The DPA should not be used by suppliers as a reason not to discuss a customer's situation with third party advice agencies. Energy suppliers should be encouraged to review staff understanding of the DPA, if necessary in consultation with the Information Commissioner's Office.

6. Conclusions and future work

6.1. This review shares elements of good practice and highlights the real progress made since the last review in 2005. It is clear that suppliers have a role to play in providing direct and additional help to their customers, particularly their vulnerable customers, to manage their energy bills. With rising levels of debt, continuing upward pressure on energy prices and changes to consumer representation, it is important that suppliers retain a strong focus in this area. In particular, we have highlighted that further effort is required from npower to better manage customers with debt earlier to prevent disconnection and bring their practices in line with other suppliers.

6.2. Debt prevention is crucial and suppliers should continue to contact their customers early on in the debt process, using a variety of communication channels. Suppliers should continue efforts to identify vulnerable customers at every opportunity and ensure their circumstances are considered and they are offered holistic solutions. It is also important that suppliers signal the help that is available to customers, both in managing their energy bills and as part of their social initiatives.

6.3. We would also encourage those suppliers who do not already do so to look at how they can satisfy themselves that repayment rates are being set by proactively taking into account customers' ability to pay and taking account of advice from third party representatives.

6.4. The review highlights a number of key areas where all suppliers can make further improvements, particularly those highlighted by Clear For All regarding written communications with customers and those by Accent to improve their service to particularly vulnerable and hard to reach customers.

6.5. Ofgem will continue to monitor how suppliers perform in this area through their social obligations reporting. We have committed to looking at the issue of debt blocking, where customers are prevented from switching supplier because of their energy arrears, and will be taking this work forward in 2008. We will also explore further the issue raised by CAB advisors about the DPA preventing suppliers from discussing clients' cases and seek guidance from the Information Commissioner on this issue.

6.6. energywatch will be taking forward work in this area with suppliers as part of their company performance work.

Appendices

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Appendix 1 – The Authority’s Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority (“the Authority”), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority’s powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.¹⁷

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly¹⁸.

1.4. The Authority’s principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- The need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- The need to secure that all reasonable demands for electricity are met;
- The need to secure that licence holders are able to finance the activities which are the subject of obligations on them¹⁹; and
- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.²⁰

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

¹⁷ entitled “Gas Supply” and “Electricity Supply” respectively.

¹⁸ However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

¹⁹ under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

²⁰ The Authority may have regard to other descriptions of consumers.

-
- Promote efficiency and economy on the part of those licensed²¹ under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
 - Protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity;
 - Contribute to the achievement of sustainable development; and
 - Secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- The effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- The principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- Certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation²² and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

²¹ or persons authorised by exemptions to carry on any activity.

²² Council Regulation (EC) 1/2003

Appendix 2 - Glossary

B

[BERR](#)

(Department of) Business, Enterprise and Regulatory Reform

C

[CAB](#)

Citizens Advice Bureau

[The Consumers, Estate Agents and Redress Act \(CEAR\) 2007](#)

The Consumers, Estate Agents and Redress Act 2007 is designed to create a new, stronger and more coherent consumer advocacy body, introduce redress to the energy, postal services and estate agency sectors and improve regulation of estate agents and doorstep selling.

E

[energywatch](#)

energywatch is the gas and electricity consumer council set up under the Utilities Act 2000 to represent the interests of gas and electricity consumers.

[Energy Retail Association \(ERA\)](#)

The Energy Retail Association is a trade association representing the interests of the six major domestic energy supply companies – British Gas, EDF Energy, npower, e.on, Scottish Power, and SSE.

[ERA Safety Net](#)

The ERA set out a series of procedures that would be followed in order to ensure that vulnerable customers were not disconnected but offered the help most appropriate to their needs. Those customers captured by the safety net may also receive benefits health checks, repayment and metering options and a referral to local charities and advice centres. Where a vulnerable customer is assessed to be at risk, social services will be informed.

[Energy Supply Ombudsman \(ESO\)](#)

The Energy Supply Ombudsman was launched in July 2006 to investigate and resolve billing and transfer disputes, where customers and suppliers had been unable to resolve it themselves.

F

[Fuel Direct](#)

This is the scheme administered by the Department of Work and Pensions to allow for payment to gas and electricity suppliers from sums which are deducted at source from social security benefits.

N

[National Consumer Council \(NCC\)](#)

The Consumers, Estate Agents and Redress (CEAR) Act will see the creation of new arrangements for consumer representation in the energy sector. Under the new arrangements there will be a new consumer advocacy body which will bring together energywatch, postwatch and the National Consumer Council. This will be called the 'National Consumer Council'.

P

[Prepayment Meters \(PPM\)](#)

Prepayment meters currently use electronic tokens, keys or cards to enable an amount of energy to be bought by the consumer to be used. The consumer needs to be provided with a network of outlets where tokens can be purchased or card and keys can be charge up. This network of outlets needs to be linked to a payment settlement system for suppliers.

S

[Supply Licence Review](#)

This was a comprehensive review by Ofgem of all supply licence conditions which was implemented in August 2007.

V

[Vulnerable Customer](#)

Citizens who are disabled or chronically sick, of pensionable age, or living on low incomes.

Appendix 3 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

- Does the report adequately reflect your views? If not, why not?
- Does the report offer a clear explanation as to why not all the views offered had been taken forward?
- Did the report offer a clear explanation and justification for the decision? If not, how could this information have been better presented?
- Do you have any comments about the overall tone and content of the report?
- Was the report easy to read and understand, could it have been better written?
- Please add any further comments?

1.2. Please send your comments to:

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