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value for all customers*

Your Ref:
Our Ref:
Direct Dial: 020 7901 7291
Email: maxine.frerk@ofgem.gov.uk

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Dear Colleague,

Token PPM customers and debt build up

Last December Ofgem published a statement on the recalibration of token pre-payment meters (token PPMs). In that statement we:

- announced plans to consult on licence changes to put obligations on suppliers for timely recalibration and to bar debt blocking in this area. These new licence obligations came into effect on 1 August 2007;
- set out the best practice steps that suppliers must take to ensure that their customers are treated fairly, noting that different approaches could be taken¹;
- set out the commitments we had obtained from Scottish Power, npower and Powergen to improve performance in this area; and
- committed to monitoring suppliers' progress.

Ofgem has previously published updates for January to March highlighting recent action by suppliers to tackle this problem. This letter provides an **update for April to June 2007**.

Update on progress

The monthly returns received from the suppliers for April, May and June 2007 show that at the end of June the number of token PPMs accruing debt was around **115,000** – down from **409,000** when Ofgem first took action in December 2006, and down from **149,000** when we last reported.

¹ http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/16521-218_06.pdf

The returns submitted for April to June 2007 also show progress on the replacement of token PPMs. Over 79,000 token PPMs were removed – with the remaining stock for the three suppliers (Scottish Power, npower and Powergen) standing at just over 552,000.

Scottish Power

Scottish Power's update on their progress in replacing token PPMs with key meters confirmed that it is installing around 4,000 key meters a week. They expect to have replaced 240,000 meters by April 2008 and to have replaced all token meters by September 2009.

In the monthly returns (see attached annex), Scottish Power has provided Ofgem with separate "in area" and "out of area" reports and an update on their progress to date. In respect of "in area" sites, Scottish Power sent out 53,000 letters in January prompting a 25% response rate, and a further 35,000 letters were sent in May with a 14% response rate. Scottish Power will be contacting customers shortly by telephone who have not responded to their letters, and have been undertaking weekend installations and recalibrations since May 2007.

In their "out of area" sites, Scottish Power relies on the host Meter Operator to carry out PPM reset visits only. Recalibration of the PPM requires a second visit to the site. Letters were sent to 24,000 sites in January providing an 11% response rate, and further letters and a telephone campaign will follow shortly. Scottish Power has confirmed that an assessment of their recalibration debt position for "out of area" sites will be carried out between August and November this year.

Scottish Power has also confirmed that price change letters were sent to customers during June reinforcing the importance of having meters recalibrated.

Npower and Powergen

Recent figures show that npower and Powergen are continuing to make progress in reducing the number of token PPMs accruing debt – reductions of over 185,000 and 147,000 respectively since December 2006 - and both have arrangements in place to limit the overall level of debt any customers will have to pay. This is in addition to the commitments that all suppliers have given Ofgem that they will write off debt in cases of genuine hardship and at all times treat these customers fairly.

Npower has continued to carry out their account reassessment and debt write-off process and, to date, has processed 17,900 accounts in total of which 15,700 have been identified for debt write-off totalling £1,035,000 (an average of £66 per customer). Npower has sent explanatory letters to customers and customer account statements will reflect the reassessments applied.

Powergen provided additional information in its May report, advising it exchanged 13,874 token PPMs to key meters during that month bringing the total number of meters exchanged then to 93,998. Powergen has also reviewed their customer facing processes in order to maximise the rate of meters successfully exchanged by encouraging visits to properties outside of normal working hours and engaging in dialogue with customers to encourage a meter exchange. One of the ways in which it has encouraged this is by

translating a message on the withdrawal of token meters in one particular area into 15 different languages explaining why the meters are to be removed and replaced.

Price decreases

Ofgem asked suppliers to provide a statement in respect of the action they are taking in relation to the recalibration of meters as a result of the recent fall in prices. All five suppliers who have reduced PPM prices confirmed that these decreases will be backdated on meters when they are recalibrated and customers will benefit from lower prices from the date on which they were introduced. Npower have not reduced their PPM prices.

A detailed summary of the progress by suppliers for April to June 2007 is attached to this letter.

When we started monthly monitoring in this area we said we would do so for six months, up to June 2007. Overall, we are pleased that suppliers are continuing to put the necessary focus on this issue in line with the commitments given. In light of this, we are currently considering future monitoring and reporting requirements from suppliers' on their progress in this area.

Yours sincerely

Maxine Frerk
Director Governance, Consumer and Social Affairs

PROGRESS REPORT ON TOKEN PPMs – April to June 2007April 2007 returns

| April 2007 | Number of token PPMs in place | Number of recalibrations within month | Number of token PPMs accruing debt | |
|-------------------------------|--------------------------------------|--|---|---------------------|
| Scottish Power (IN AREA ONLY) | 224,211 ² | 23,475 | 29,565 ³ | 25,047 ⁴ |
| Powergen | 142,183 | 1,079 | 68,532 ⁵ | |
| npower | 210,000 ⁶ | 6,000 | 30,000 | |
| TOTAL | 576,394 | 30,554 | 128,097 | 123,579 |

May 2007 returns

| May 2007 | Number of token PPMs in place | Number of recalibrations within month | Number of token PPMs accruing debt | |
|-----------------|--|--|---|---------------------|
| Scottish Power | 211,432 (In area) 24,065 (Out of area) ⁷ | 26,164 (In area) 587 (Out of area) | 23,449 ⁸ 14,471 | 19,149 ⁹ |
| Powergen | 132,440 | 6,127 | 56,141 ¹⁰ | |
| npower | 210,000 ¹¹ | 1,800 | 28,200 | |
| TOTAL | 577,937 | 34,678 | 107,790 | 103,490 |

² Number of token PPMs at premise level.

³ Number of token PPMs at premise level – including vacant sites.

⁴ Number of token PPMs at premise level – excluding vacant sites.

⁵ None of these customers are currently accruing debt as from 31 March 2007. PPM customers who have not had their meter recalibrated by 31 March will not build up any more debt, subject to customer making reasonable endeavours to give access.

⁶ npower has confirmed the transfer of data to new database will be completed by the end of May 2007.

⁷ Dependency on host Meter Operator and different working practices and processes add to complexity of managing out of area PPMs. See letter for further information.

⁸ See footnote 3.

⁹ See footnote 4.

¹⁰ See footnote 5.

¹¹ See footnote 6.

June 2007 returns

| June 2007 | Number of token PPMs in place | Number of recalibrations within month | Number of token PPMs accruing debt | |
|------------------|---|--|---|----------------------|
| Scottish Power | 198,000 (In area) 25,978 (Out of area) | 51,636 (In area) 492 (Out of area) | 19,526 ¹² 10,443 | 15,465 ¹³ |
| Powergen | 118,313 | 14,352 ¹⁴ | 65,615 ¹⁵ | |
| npower | 210,000 ¹⁶ | 4,100 | 24,100 | |
| TOTAL | 552,291 | 70,580 | 119,684 | 115,623 |

¹² See footnote 3.

¹³ See footnote 4.

¹⁴ Powergen identified some discrepancies with the data reported in May - this figure includes some meters that were not reported in May.

¹⁵ May figures in this category were reported inaccurately by Powergen and therefore the correct figure as at the end of June is higher than that reported in May. Powergen are continuing to identify and remedy these errors.

¹⁶ Figures from npower have been compiled from actual data (where available) or estimates derived from internal data or from agents' information.