



*Promoting choice and value for
all gas and electricity customers*

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Dear Colleagues,

Domestic suppliers' quarterly debt and disconnections – Quarter 1 2011

Ofgem collects and monitors data from domestic suppliers on their performance in areas of operation including debt and disconnection and the use of prepayment meters. Effective monitoring of licensees' performance in these key areas is an important part of our work in protecting vulnerable customers. Where our analysis of the data identifies issues of concern with supplier performance, we take action, either through discussion with individual suppliers or by instigating further policy work.

This letter gives a summary of supplier performance during Quarter 1 (January to March) 2011. Full analysis of supplier performance in relation to debt and disconnection and suppliers' other social obligations for 2010 was set out in our annual report, published in June 2011¹.

In addition to our regular monitoring, last year we conducted a review of the data we collect to ensure that it remains fit for purpose and that we are monitoring key developments. We will report on the changes we intend to make shortly.

Supplier data for January to March (Q1) 2011ⁱ

Attached to this letter are the data reports collected for Q1 2011. A full analysis of supplier performance will be set out in our annual report for 2011. The key points drawn from the Q1 2011 data are summarised below.

Disconnections

For both fuels, the number of disconnections for debt fell compared to the same quarter in 2010. Electricity disconnections decreased by 89% from Q1 2010 and gas disconnections were 82% lower than in Q1 2010.

In previous quarters, we have noted disproportionately high numbers of electricity disconnections by EDF Energy and disproportionately high numbers of gas disconnections by Scottish Power compared with other suppliers. We described in the annual report the action taken to address these issues.

Scottish Power suspended its disconnection activity between November 2010 and January 2011. In Q1 2011 Scottish Power did not disconnect any gas customers, and the company's electricity disconnections decreased by 86% compared to Q1 2010.

¹[Domestic suppliers' social obligations: 2010 Annual Report](#), June 2010 (Ref: 78/11)

Similarly, in Q1 2011 EDF Energy's did not disconnect any gas customers and its electricity disconnections fell by 99% compared with Q1 2010. EDF Energy has extended its moratorium on electricity disconnections where it has been unable to install a PPM for safety reasons.

Whilst the continuing overall fall in disconnections is encouraging, it is important that this trend is supported and maintained by all suppliers. In particular, EDF Energy has approached the Energy Retail Association (ERA) to instigate an industry working group to help resolve the safety issues it has encountered regarding the installation of electricity PPMs in communal cupboards and intake rooms. We encourage all ERA members to participate fully in this ERA group to identify solutions to the problems that EDF Energy has encountered.

Debt levels

The number of electricity customers repaying a debt fell by 4.5% in Q1 2011 compared with the same quarter last year, whilst the number of gas customers repaying a debt increased by 6%. However, compared to the last quarter the total number of customers repaying a debt is relatively stable.

The number of customers entering into new debt repayment arrangements increased in Q1 2011 compared with the same quarter in 2010 for both fuels: by 25% for electricity and by 20% for gas. The number of electricity PPM customers repaying a debt in Q1 2011 fell by 17% compared to the same quarter in 2010, and by 2.7% in gas.

The average level of debt per electricity customer has fallen slightly compared to the same period last year, from £312 to £309. In contrast, the average debt per gas customer has risen from £306 in Q1 2010 to £320 in Q1 2011.

There was an increase in both fuels in the number of customers with debts between £300 and £600 compared to Q1 2010; by 15% for electricity, and 17% for gas. The number of gas customers with debts over £600 was also 7% higher than the same quarter in 2010. In electricity however there was a 7% decrease in the number of electricity customers with debts over £600.

Our previous work on debt and disconnection has highlighted the importance of suppliers taking early action to prevent the build up of debt. With the continuing difficult economic conditions and recent increases in energy prices, we expect suppliers to deal sympathetically with customers who are struggling to pay bills. We urge suppliers to proactively identify those customers who are experiencing difficulty and work with them to tackle debt at an early stage and find an appropriate solution to avoid the build up of unmanageable levels of debt.

Debt repayment rates²

The average weekly amount towards debt across the six main suppliers in Q1 2011 was higher for credit customers than in the same quarter of the previous year, but lower for PPM customers. We note that there has been a noticeable increase in npower's credit repayment rates compared to Q1 2010. Compared to Q1 2010, average credit repayment amounts across the six main suppliers increased by 6% in electricity and 7% in gas, whilst average electricity PPM repayment amounts across the six main suppliers fell by 12% in electricity and 7% in gas.

A combination of an increase in average credit repayment rates and a decrease in average PPM repayment rates has resulted in a slight narrowing in the divergence between the two

² Since 2007, we have not included small suppliers' repaying rates in our analysis because their inclusion potentially distorts the overall picture. The average repayment rates are therefore calculated using only data from the major six energy suppliers.

payment types. However, we remain concerned about some individual suppliers' repayment rates and the continuing divergence between their credit and PPM repayment rates, with PPM customers of those suppliers paying more per week on average despite them being more likely to be on low incomes. The exceptions to this trend are E.ON and npower which have lower average weekly repayment rates for customers on a PPM compared to credit customers.

We have already highlighted this divergence to suppliers and we intend to explore further with them the reasons for the divergence between credit and PPM repayment rates. Suppliers have made progress in introducing the key Principles for ability to pay and we are encouraged with the development of new initiatives to assist customers in debt. Nevertheless, we remind suppliers that it is essential that they take customer's individual circumstances into account when determining their ability to repay debt.

The length of the average repayment period for both fuel types has remained static for credit customers since Q1 2011. For PPM customers, the average number of weeks to recover debt has decreased very slightly for electricity customers but has increased significantly for gas PPM customers (from 77 in Q1 2010 to 95 in Q1 2011).

Prepayment meters

The percentage of gas and electricity customers paying by PPM has increased slightly compared to the same quarter in 2010.

9% of electricity PPM customers and 10% of gas PPM customers were repaying a debt in Q1 2011 compared to 11% and 11% respectively in the same quarter in 2010.

Scotland and Wales

Echoing the broad pattern seen in Great Britain as a whole, the number of electricity customers repaying a debt has decreased in Scotland by 8% and by 12% in Wales compared to Q1 2010. Similarly, the number of gas customers repaying a debt has increased in Scotland by 3% in Scotland and 1% in Wales.

The number of PPM customers in debt in Scotland and Wales has fallen significantly since Q1 2010. The number of electricity PPM customers in debt fell by 21% in Scotland and by 24% in Wales, greater than the decreases seen across Great Britain as a whole. In Scotland the number of PPM gas customers in debt has fallen by 1%, whilst in Wales, the number of PPM gas customers in debt fell by 36%, more than that seen across Great Britain as a whole.

The number of disconnections in Scotland and Wales remains low. One electricity customer and two gas customers were disconnected in Scotland Q1 2011, whilst eight electricity and four gas customers were disconnected in Wales.

Conclusion

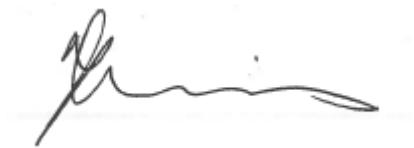
It is encouraging to see continuing improvements in areas such as disconnections and PPM repayment rates. The protections Ofgem has put in place through licence conditions and the measures industry has taken with Ofgem to strengthen the ERA Safety Net have resulted in significant reductions in disconnections over recent years. It is important that all suppliers work to ensure that these trends are maintained.

We are particularly concerned by the increasing number of gas customers repaying a debt and entering into new debt repayment arrangements, along with the increase in average gas debt and large gas debts. This indicates that there continue to be signs that the recession and high energy bills are having a significant impact on customers. In the current economic climate, increasing pressure on household budgets and rising energy costs, we urge suppliers to do all they can to proactively assist their customers, particularly those who are vulnerable.

We will continue to monitor suppliers' performance, paying particular attention to the level of debt, the level of suppliers' disconnections, and repayment rates - particularly the divergence in repayment rates between credit and PPM customers.

If you have any questions regarding this letter, please contact Helen Harper at helen.harper@ofgem.gov.uk or on 020 7901 3073.

Yours faithfully,



Jude Cummins
Associate Partner, Sustainable Development

ⁱ Note concerning EDF Energy's Q1 2011 data and reminder of reporting deadlines

EDF Energy is currently undergoing a system migration which has affected their data for section 2 of the Q1 2011 Social Obligations Report. For the Q1 2011 submission and analysis, EDF Energy's figures for section 2, Q1 2011 have been calculated using extrapolated figures. EDF Energy will provide the usual data submission for Q2 2011, including retrospective updates to their Q1 2011 figures.

Suppliers are reminded that the requirement to report on performance is an enforceable licence obligation under SLC 32. Quarterly returns must be submitted to Ofgem no later than 28 days after the end of each quarter (i.e. 28 January, 28 April, 28 July and 28 September). The annual return must also be submitted by 28 January.

Companies that do not submit accurate and timely information as required may therefore be in breach of their licence and may be subject to appropriate action to be determined by the Authority. Delays to, and inaccuracies in, reporting can cause unnecessary delay to the publication of quarterly and annual reports. Where suppliers face unavoidable problems in meeting reporting deadlines, we urge them to contact Ofgem in advance of the prescribed deadlines.