

## Domestic suppliers' social obligations: 2007 annual report

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**Target Audience:** Suppliers, consumer organisations and other interested parties

### Overview:

This report summarises the information Ofgem collects from domestic suppliers on their performance in relation to their social obligations and broader trends affecting vulnerable customers.

Key trends for 2007 highlighted in this report include: the number of customers in debt has remained stable; small increases in the average debt per customer; overall disconnection levels have increased from 2006 but remain historically low.

Ofgem's Debt and Disconnection Best Practice Review published in January 2008 has had a positive impact on disconnection rates in the first quarter of 2008.

Ofgem will continue to closely monitor suppliers' performance in these areas and will take forward these and other issues identified in the report as part of its Social Action Strategy work plan for the coming year.

**Contact name and details:** Angela Bourke

**Tel:** 020 7901 7306

**Email:** [Angela.Bourke@ofgem.gov.uk](mailto:Angela.Bourke@ofgem.gov.uk)

**Team:** Consumer and Social Affairs

## Context

As part of its Social Action Strategy, Ofgem collects data from domestic suppliers on a quarterly and annual basis. The raw data which shows each supplier's performance is available on the Ofgem website at:

<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Pages/SoObMonitor.aspx>

This report considers some of the statistics to provide a more comprehensive overview of suppliers' performance in relation to their social obligations and areas where vulnerable customers may be affected. These include debt, disconnection and energy efficiency advice figures. The statistics help Ofgem to identify areas that need targeting and improving.

This report does not cover suppliers' activities under their social programmes which will be reported on separately in September.

## Associated Documents

- Ofgem's Social Action Strategy 2008-09 can be found at:  
<http://www.ofgem.gov.uk/SUSTAINABILITY/SOCACTION/Documents1/sapstrategbroa4july07.pdf>
- Suppliers provide statistics contained in this report in line with the guidance Ofgem provides in its document 'Monitoring suppliers' performance in relation to domestic customers' which should be read in conjunction with these statistics to ensure there is no misinterpretation of the data. This document is located at:  
<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Documents1/Monitoring%20Suppliers%20Performance%20Guidance.pdf>
- Monitoring Company Performance, Annual Report 2006 - Ref 161/07:  
<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Documents1/Monitoring%20Company%20Performance,%20Annual%20Report%2006.pdf>
- Monitoring Company Performance of Domestic Suppliers, Annual 2007:

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## Summary

Ofgem collects data from domestic suppliers on a quarterly and annual basis, which is used to review suppliers' performance in relation to their social obligations, including areas where vulnerable customers may be affected. This data includes information on debt, disconnection and energy efficiency advice. The statistics help us to identify areas which need targeting and improving and to help inform debate on important aspects of how suppliers respond to the needs of vulnerable customers.

Retail energy prices fell slightly during 2007 reflecting decreasing wholesale energy prices seen at the end of 2006 and in the first half of 2007. Whilst the overall number of customers in debt has remained relatively stable in 2007, we are aware that any change in debt levels generally lags behind changes in energy prices. As retail energy prices increased at the start of 2008 and are rising again, this is likely to result in further increases in the number of customers in debt over the coming year. Given this context, it is essential that suppliers retain a strong focus on this area and do all they can to assist their customers, particularly those who are vulnerable, to manage their energy bills.

2007 figures show that disconnections have increased from 2006 levels, although overall they remain at historically low levels. The number of electricity customers disconnected for debt increased from 1,258 in 2006 to 2,657 in 2007 and gas disconnections increased from 3,859 to 5,727 over the same period. Whilst these increases are marked, disconnection rates remain well below previous levels of around 17,000 in 2003. Suppliers have licence obligations which prohibit the disconnection of customers over the winter months (October to March) who are older, disabled or chronically ill. This licence obligation was strengthened under Ofgem's 2006 Supply Licence Review to ensure vulnerable customers have an appropriate level of protection.

In January 2008, we published our Debt and Disconnection Best Practice Review<sup>1</sup>. This review identified best practice among suppliers and set benchmarks for suppliers' performance in this area. It found that there had been real progress since the last review in 2003 but that some suppliers had progressed more than others. Notably, we found that npower had the most improvement to make to bring itself into line with the practices of other suppliers, particularly in terms of focussing on early resolution of debt to prevent the need for disconnection.

We wrote to the major energy suppliers seeking further information on how they intended to take forward the recommendations in the report to improve their debt and disconnection practices. An initial review of the statistics submitted by suppliers on the number of overall disconnections for the first quarter of 2008 shows a decrease of 16.4% when compared to the last quarter of 2007. Also, the number of disconnections carried out was lower than for any quarter in 2007, which is welcome. It is particularly pleasing to see the range of actions npower have taken in response to our Debt and Disconnection report which have led to a marked reduction in the number of their customers disconnected - down 43%. There is however no room for

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<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Debt%20and%20Disconnection%20best%20practice%20review.pdf>

complacency. We intend to continue to monitor suppliers' performance in this area closely and urge all suppliers to step up their work at a time of rising energy prices. We will not hesitate to take further action, including 'naming and shaming' suppliers, if this is required.

As noted in last year's report, the upward trend in average repayment rates for both credit and prepayment customers continued during 2007. In our January 2008 Debt and Disconnection Best Practice Review we highlighted suppliers' licence obligation to take all reasonable steps to ascertain a customer's ability to pay and to consider this when calculating repayment amounts. Our review found that some suppliers have done more than others to better understand and consider a customer's ability to make payments towards their arrears. We therefore emphasised that we expect suppliers to proactively explore a customer's ability to afford a repayment rate and not to simply rely on customers saying they cannot afford the repayment amount proposed by the supplier, particularly as they may not feel able to do so. This is an area where we will continue to monitor suppliers' performance closely. Whilst we understand that to some extent higher energy prices and higher debt levels may lead to increases in repayment rates, it is essential that suppliers adequately focus on customers' ability to pay, given their licence obligation.

The number of customers using Fuel Direct, a Department for Work and Pensions (DWP) scheme where deductions are made directly from a customer's benefit towards their energy bills to avoid them being disconnected, continued to decline. This is disappointing given the importance of Fuel Direct to low income customers and the help this can provide customers in receipt of benefits to better manage household energy bills. We will continue to highlight to suppliers and DWP the importance of Fuel Direct as a payment method.

The number of customers registered on suppliers' priority service registers (PSR) has not changed significantly compared to 2006. The number of free gas safety checks carried out by suppliers has decreased by 18% compared with 2006 which is in line with expectations given the changes made to the eligibility criteria in the gas supply licence conditions in 2007. This change ensured that free checks were better targeted at those most in need and widened the obligation on suppliers to provide information on gas safety to all customers. We will be publishing a full post-implementation review on gas safety checks in the autumn. We intend to continue to monitor PSR activity going forward given the benefits available to vulnerable customers and the potential impacts increased energy prices may have on these customers.

In addition to ongoing monitoring and reporting on debt and disconnection, Ofgem's latest Social Action Strategy update sets out our work plan for 2008-09<sup>2</sup> to address some of the issues raised in this report and other work to protect the interests of vulnerable consumers.

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<sup>2</sup> <http://www.ofgem.gov.uk/Sustainability/SocAction/Documents1/sapstrategbroa4july07.pdf>

## 1. Debt, disconnection and prepayment meters

### Chapter summary

This chapter looks at the issues of debt, debt repayment, disconnections and prepayment meters (PPMs). It analyses data related to these areas received from suppliers, highlighting key trends and developments.

### Overall debt picture

1.1. Suppliers have a duty under their licence to consider the needs of customers who may be having difficulty paying their bills due to individual circumstances or an inability to pay. Ofgem expects suppliers to identify customers who might be struggling to pay their bills and offer them help and assistance as early as possible. Suppliers have specially trained teams to help their customers who are in debt to manage their bills and all recognise the benefit of taking action early to avoid customers building up unmanageable levels of debt. Our January 2008 Debt and Disconnection Best Practice Review highlighted some examples of best practice in this area and is discussed more fully later in this chapter.

1.2. At the end of 2007, 5% of electricity and 3.7% of gas customers were repaying a debt<sup>3</sup>. For both fuels, half of those in debt were credit customers (0.6m electricity and 0.4m gas credit customers) and half were PPM customers. Approximately 18% of electricity prepayment meter customers (0.65m) and 16% of gas prepayment meter customers (0.4m) were repaying a debt.

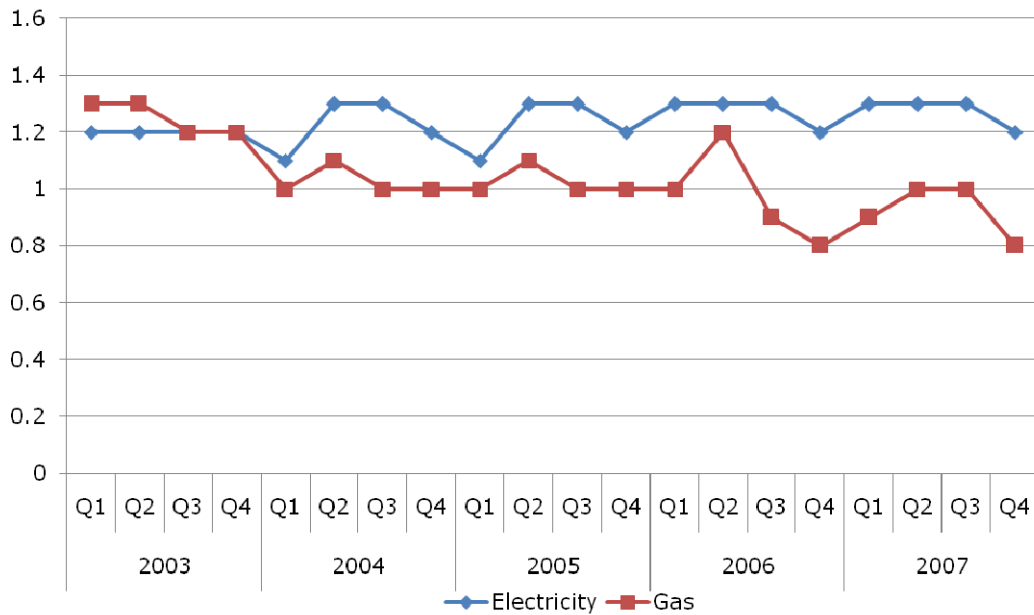
1.3. There continues to be a seasonal trend in debt figures with more customers falling into debt following the winter months as energy usage increases. As can be seen from Chart 1 below, the number of customers repaying a debt has remained relatively stable over the years with the seasonal trends recurring after each winter.

1.4. The figures for 2007 show that despite the wider context of increases in UK personal debt and credit problems across the economy, the overall number of customers repaying an energy debt has changed little.

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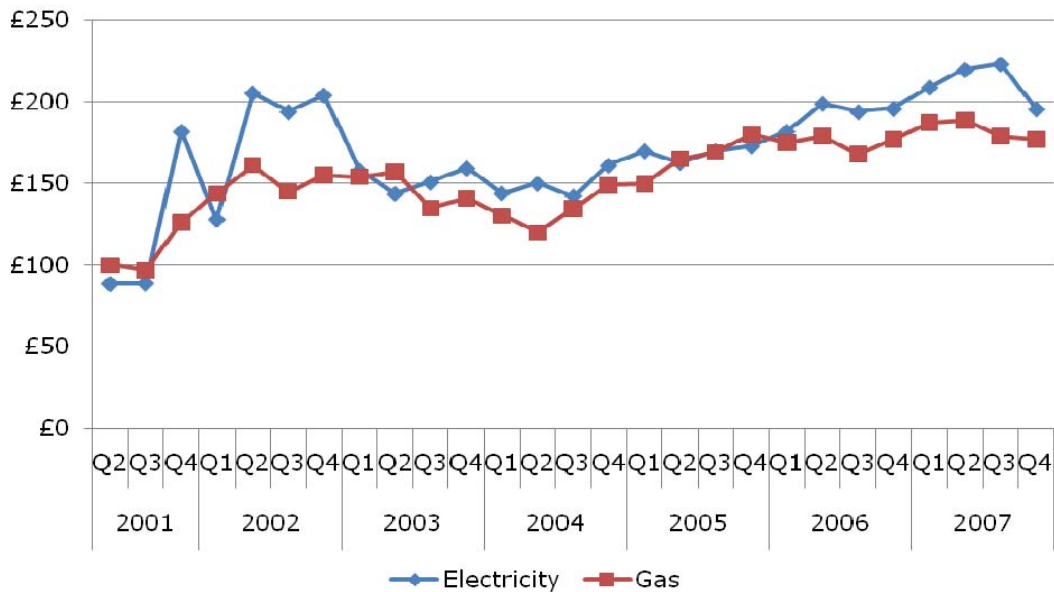
<sup>3</sup> The term 'debt' in this document refers to customers who either have their PPM set to collect a debt or customers who are on a debt payment arrangement scheduled to last longer than 91 days/13 weeks. A debt payment arrangement is a specific arrangement to repay outstanding arrears. The only Direct Debit customers to be included would be those who have specifically joined the scheme to repay a debt.

**Chart 1: Number of customers (millions) repaying a debt**



1.5. While the overall number of customers repaying a debt has remained relatively stable, the average amount of debt owed per customer has increased over time for both electricity and gas. Chart 2 shows that across the first three quarters of 2007 the average levels of debt for electricity increased and were noticeably higher than gas with this declining in the final quarter of 2007.

**Chart 2: Average level of customer debt owed over time (nominal)**



1.6. Whilst the majority of customers owe under £100 (see Chart 3 below), we have seen a gradual increase in the average amount of debt owed over time in recent years reflecting increased energy prices (Chart 2 above). As Chart 3 shows, approximately 83% of gas customers repaying a debt owe £300 or less with 64% owing less than £100. Approximately 82% of electricity customers repaying a debt owe £300 or less with 64% owing less than £100. This has been a relatively consistent pattern over time with between 60 – 70% of customers owing under £100 each quarter.

**Chart 3: Amounts owed by customers on a debt payment arrangement**



## Debt repayment rates

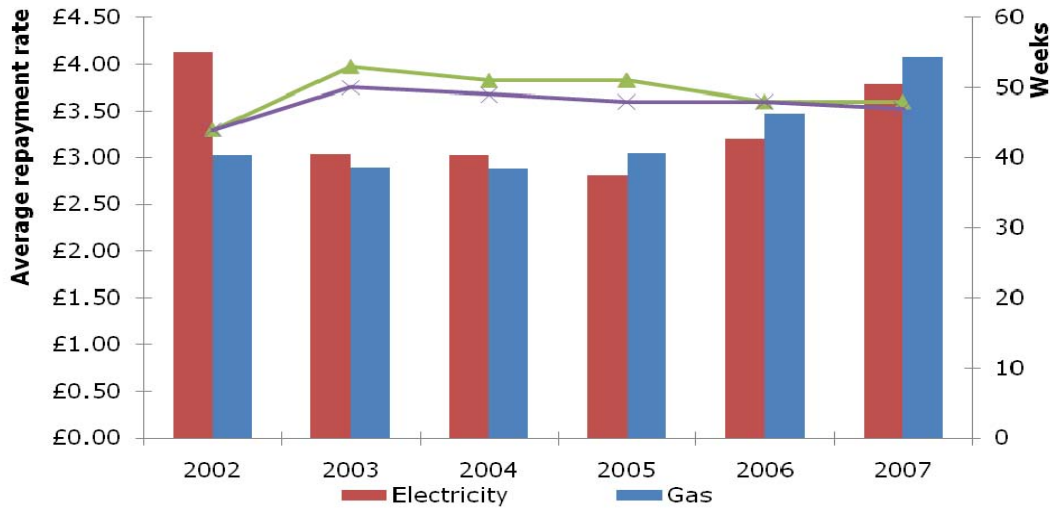
1.7. As can be seen from Charts 4 and 5 below, repayment rates have increased for both credit and prepayment customers. Average weekly repayment rates for credit customers are £3.79 for electricity and £4.08 for gas, this represents an increase of 16% and 15% respectively compared with 2006. Average repayment rates for prepayment customers are considerably higher than this however at £6.53 for electricity and £6.92 for gas customers<sup>4</sup>.

1.8. For PPM customers, the average repayment rate to recover a debt has seen a slight increase during 2007, most significantly for electricity PPM customers. Over time, there has been an increase in the number of weeks for electricity and gas PPM customers to pay off a debt, mostly likely due to the higher levels of debt.

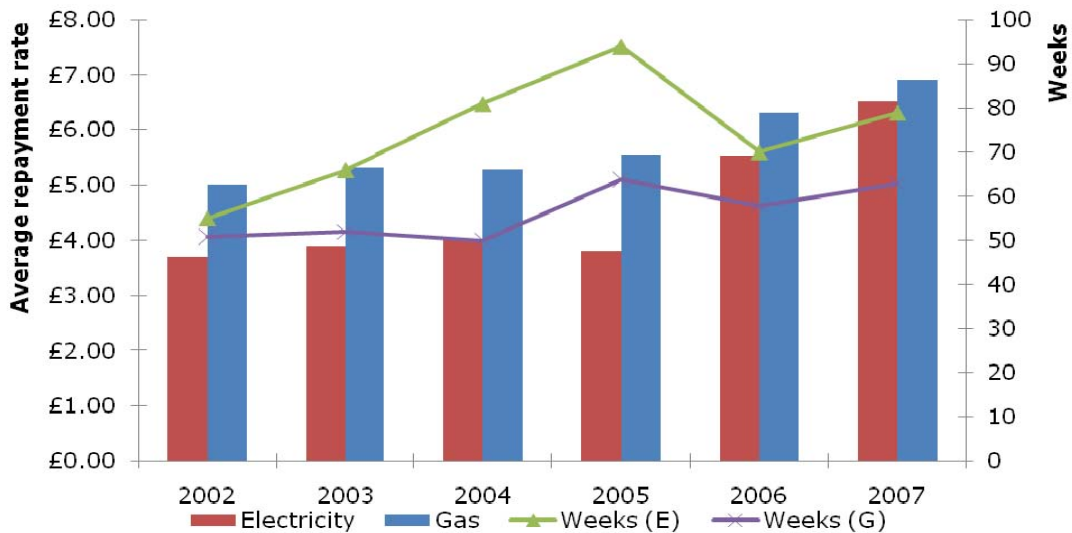
<sup>4</sup> It should be noted that npower has had to estimate some figures as part of its Annual 2007 data return. This is a result of its billing system migration process and has affected the data it submitted in relation to domestic debt payment arrangements. npower has advised that the data submitted has been based on pro-rata data for Q1 2008. npower has provided assurances that these issues are now resolved and that it will be able to report this data accurately going forwards from 2008.



**Chart 4: Average repayment rates for credit customers**



**Chart 5: Average repayment rates for prepayment customers**



1.9. Suppliers have a licence obligation to take account of a customer’s ability to pay when agreeing the debt repayment rate. Current guidelines<sup>5</sup> recommend that

<sup>5</sup> Preventing debt and disconnection: good practice guidelines, Ofgem and energywatch, 2003. [http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Preventing\\_Debt\\_and\\_Disconnection.pdf](http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Preventing_Debt_and_Disconnection.pdf)

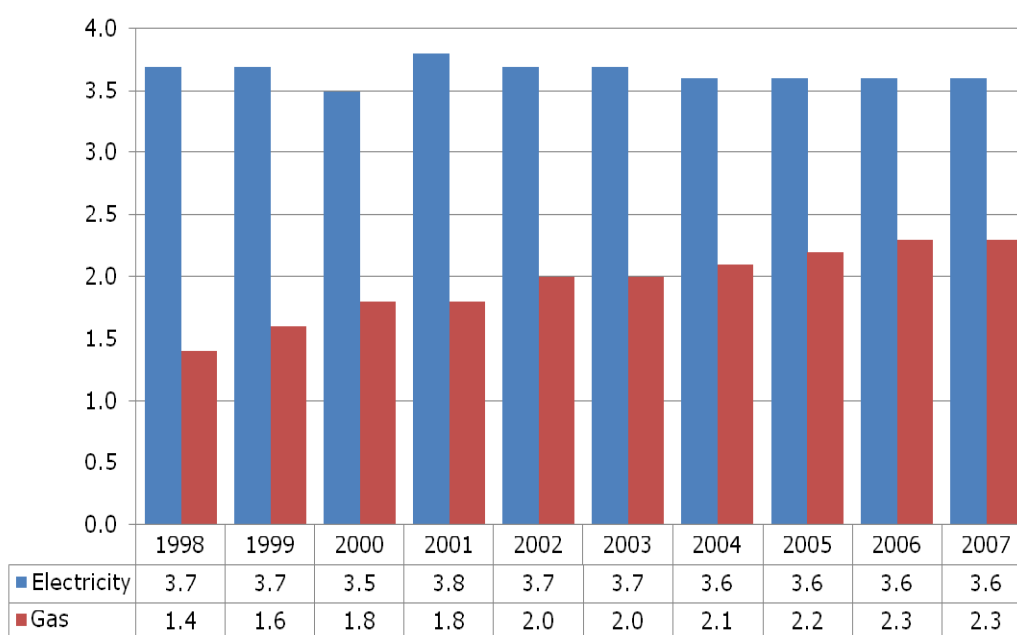
suppliers set repayment rates no higher than the Fuel Direct level (currently £3.05 per week) for customers on benefits or low incomes.

1.10. Our January Best Practice Review found that some suppliers have done more than others to better understand and consider a customer's ability to make payments towards their arrears. We have highlighted that we expect suppliers to proactively explore a customer's ability to afford a repayment rate and not to simply rely on customers saying they cannot afford the repayment amount proposed by the supplier, particularly as they may feel inhibited to do so. We also expect suppliers to be sympathetic to requests to change repayment levels if the customer asks subsequently. In our review, some suppliers noted this was easier with more modern PPMs which are increasingly being used. This is an area where we will continue to monitor suppliers' performance closely. Whilst we understand that to some extent higher energy prices and higher debt levels may lead to increases in repayment rates, it is essential that suppliers adequately focus on customers' ability to pay given their licence obligation in this area.

### Prepayment meter (PPM) customers

1.11. Historically prepayment meter (PPM) use has been higher in electricity as it was more difficult to install a gas PPM given the safety issues involved and the need to gain access to the property. However Chart 6 below shows that the number of customers paying by gas PPM is increasing gradually over time. This may reflect an increased readiness by some suppliers to fit gas PPMs instead of disconnecting (where the safety issues can be managed appropriately).

**Chart 6: Number of customers using PPMs (in millions)**



1.12. Our research shows that some customers favour the PPM payment method as it helps with budgeting and to avoid getting into debt. However, a key concern with PPMs is the price differential between this payment method and other payment methods such as direct debit. As part of its ongoing monitoring of the energy supply markets, Ofgem has undertaken further research into the different prices charged to PPM and standard credit (SC) customers compared to those that pay by direct debit (DD)<sup>6</sup>. The average differential between PPM and DD of the six main suppliers has increased from around £80 at the beginning of 2005 to around £125 now – an increase of more than 50%. Over the same period, the average differential between SC and DD increased from around £40 to £80 – an increase of 100%.

1.13. It is generally recognised that PPM customers are more expensive for suppliers to serve. Based on discussions with suppliers, in June 2007 we published information indicating that the estimated additional cost of serving PPM gas and electricity customers compared to those paying by DD and SC was around £85 and £60 respectively. Our Energy Supply Markets Probe is undertaking further analysis of suppliers' costs to better understand the full cost differences. However, based on our initial estimate, a number of suppliers' price differences are considerably above our £85 estimate of the difference in cost of supplying PPM customers compared to those that pay by DD. This raises the question of whether such differentials do indeed now reflect costs. There is also evidence of PPM customers switching (probably unknowingly) to more expensive providers. As part of our Probe, we will be reviewing the evidence in these areas and considering whether any further action is required when we report our initial findings in September.

1.14. It is important to highlight that PPM usage is not a good proxy for fuel poverty, with only around 25% of PPM customers in fuel poverty<sup>7</sup>. However despite this PPMs are more commonly used by customers on low incomes and it is therefore particularly important they are on the best deal. Our Fuel Poverty Action Programme<sup>8</sup>, arising out of our Energy Summit in April, identified a number of actions and commitments to better help more vulnerable customers, including PPM customers, to participate more effectively in the energy market.

#### *Installation rates for PPMs*

1.15. While the overall number of customers using prepayment meters has remained relatively stable during 2007 for both gas and electricity, Table 1 and Chart 7 show that there has been an increase in the number of PPMs installed both for customers with and without debt.

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<sup>6</sup>

<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Tariff%20differentials%20summary%20FINAL.pdf>

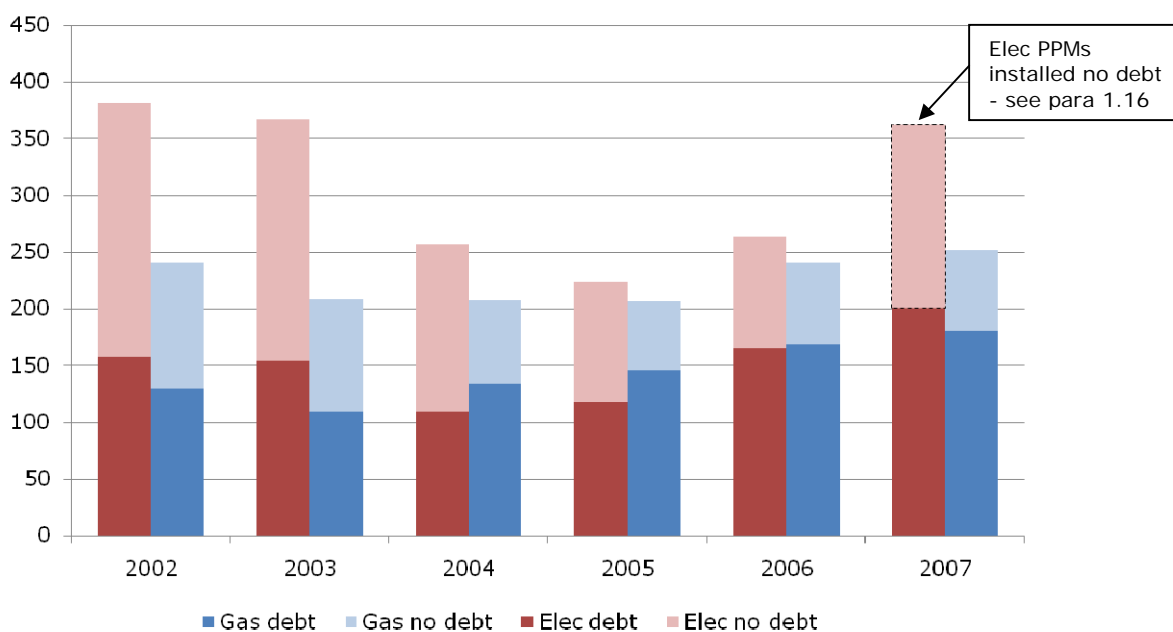
<sup>7</sup> <http://www.ofgem.gov.uk/Markets/RetMkts/Compet/Documents1/12882-2406b.pdf>

<sup>8</sup>

<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Documents1/Fuel%20Poverty%20Summit%20Action%20Programme.pdf>

**Table 1: Reasons for installation of PPMs by fuel and by year<sup>9</sup>**

Reason for installation	2002	2003	2004	2005	2006	2007
<b>Electricity</b>						
Customer debt	157,000	154,000	109,000	118,000	165,000	201,000
No debt	224,000	213,000	148,000	106,000	98,000	161,000
<b>Total</b>	<b>381,000</b>	<b>367,000</b>	<b>257,000</b>	<b>224,000</b>	<b>263,000</b>	<b>362,000</b>
<b>Gas</b>						
Customer debt	129,000	109,000	134,000	146,000	169,000	180,000
No debt	111,000	99,000	73,000	60,000	71,000	72,000
<b>Total</b>	<b>240,000</b>	<b>208,000</b>	<b>207,000</b>	<b>206,000</b>	<b>240,000</b>	<b>252,000</b>

**Chart 7: Installation of prepayment meters (thousands)**

1.16. Whilst the increases in the installation of gas PPMs are small, the figures for 2007 show a more marked increase in the installations of electricity PPMs, both for debt (up almost 22%) and no debt (up 64%). A significant factor behind the increase in electricity PPMs installed for no debt is the substantial increase reported by E.ON (formerly Powergen). In 2006 E.ON installed 38,595 electricity PPMs with no debt compared to 118,327 in 2007. E.ON has advised that in reporting their 2007

<sup>9</sup> 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 facing delayed recalibration) as well as those customers new to PPM who are transferring to this payment method to pay off a debt.

figures they have relied on industry data flows and these are likely to include meters which were replaced as part of their accelerated token PPM replacement programme and hence the number of new installations is overestimated. As part of this programme, E.ON replaced 147,000 gas and electricity token PPMs in 2007. E.ON has advised that they have introduced new reporting arrangements in this area from 2008 to ensure that the information on PPM installations is more accurately reflected going forwards.

1.17. We also note that 138,000 electricity and 96,000 gas prepayment customers switched their payment method in 2007. Given the price differentials discussed above it is important and pleasing to see that many prepayment customers are taking up this opportunity.

#### *Token PPMs*

1.18. Token prepayment meters are older technology meters which require visits to the customer's premises to access the meter to recalibrate it on a price change as they cannot be re-set remotely by the supplier. Suppliers have programmes to replace these older meters with newer technology prepayment meters. Following concerns about the level of debt build-up resulting from delayed recalibration, Ofgem obtained commitments from all suppliers on actions they would take to ensure these customers were treated fairly and introduced a new licence obligation requiring the timely recalibration of these meters. All suppliers have also committed to accelerated programmes of token meter replacement. We continue to monitor suppliers' performance in this area closely and have seen significant reductions in the number of these meters and improvements in how suppliers manage and prevent the build up of debt for customers using these meters. Ofgem intends to publish a further update on suppliers' performance in this area later in the year<sup>10</sup>.

#### *Debt assignment protocol and debt blocking*

1.19. Since the permanent introduction of the debt assignment protocol, very few PPM customers with a debt have successfully transferred supplier using the protocol. From our monitoring of the procedures we can see that customers have tried to switch but very few have completed the whole process. For example, in 2007 over 151,000 supply point objections were issued due to an outstanding debt on a PPM.

1.20. As part of our Energy Supply Markets Probe, we will revisit suppliers' practices of blocking switching among customers who are in debt, including prepayment customers, and review the use of the debt assignment protocol.

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<sup>10</sup> For more information on token prepayment meters, see Ofgem's website:  
<http://www.ofgem.gov.uk/Sustainability/SocAction/Publications/Pages/Publications.aspx>

### PPM Regulations

1.21. In 2006, Regulations were introduced to extend the range of payments that can be collected through a PPM. This enables customers (in agreement with their supplier) to repay through a PPM a debt from a previous address. It also enables an electricity supplier to collect ongoing gas charges and/or gas debt through an electricity PPM with the customer's agreement. Currently the number of customers using these Regulations is very small.

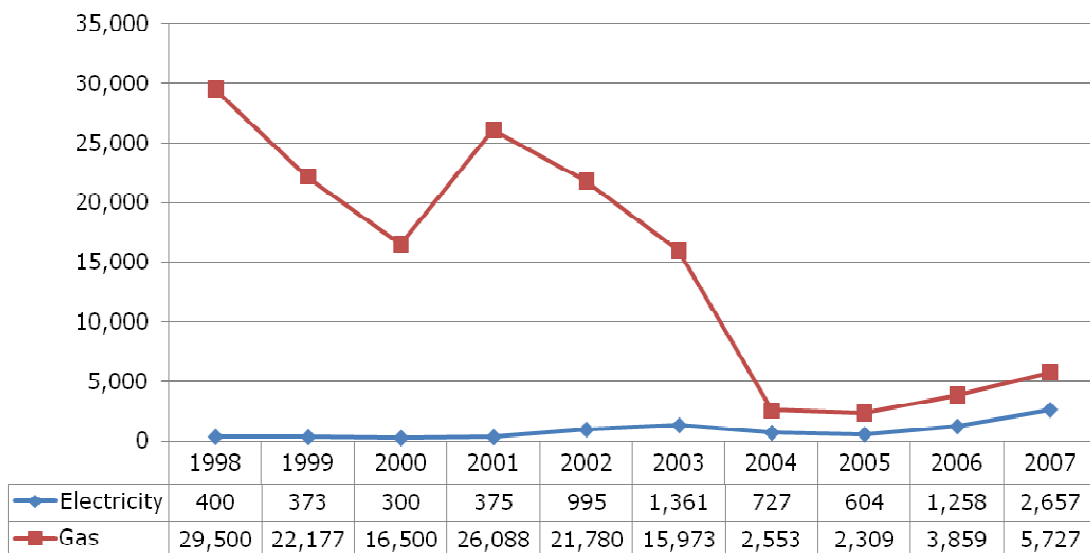
### Disconnection for non payment of debt

1.22. 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.

1.23. The figures for 2006 and 2007 show increases in the overall numbers of customers disconnected.

**Chart 8: Number of disconnections for debt over time**

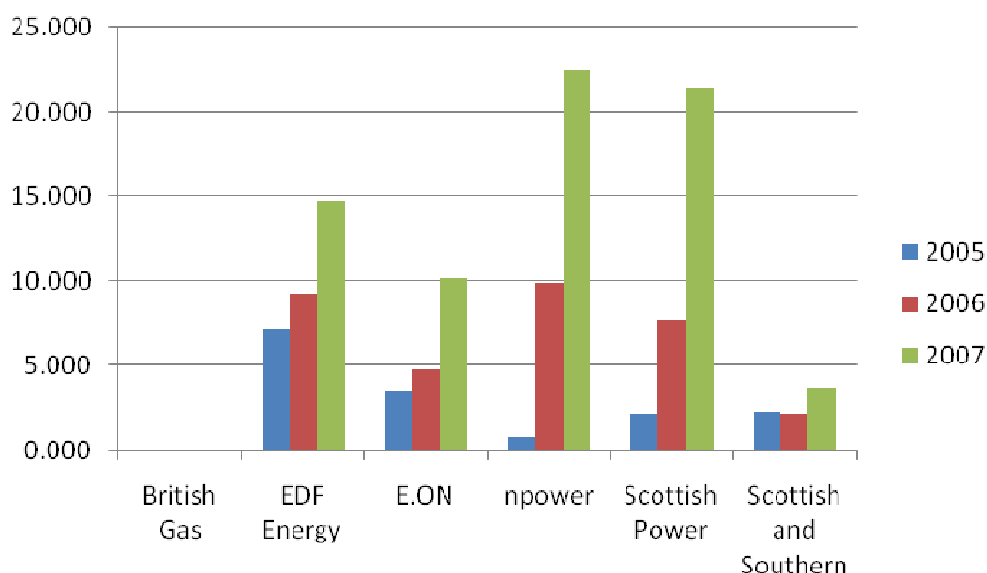


1.24. In 2007, a total number of 8,384 customers were disconnected. This is an increase of 64% on the number of disconnections carried out during 2006. The number of electricity disconnections doubled in 2007 (from 1,258 in 2006 to 2,657 in 2007) and in gas they increased by 48% (from 3,859 in 2006 to 5,727 in 2007).

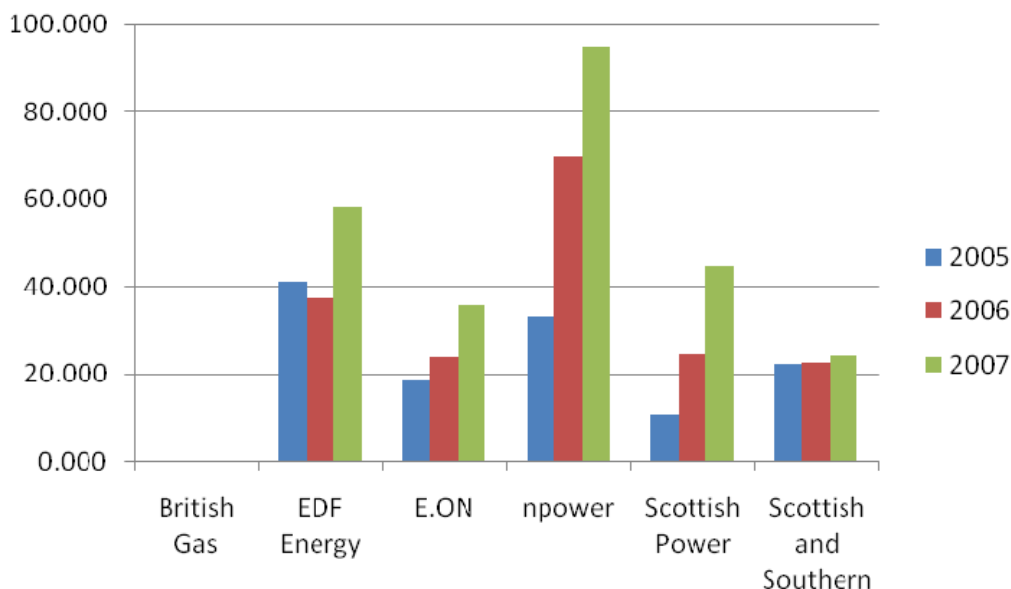
1.25. Consistent with previous years, British Gas did not disconnect anyone during 2007. All other suppliers disconnected more customers in 2007 than in 2006, with npower disconnecting significantly more gas customers than any other supplier. Charts 9 and 10 show the numbers of disconnections per 100,000 customers for each major supplier.

1.26. Of those customers disconnected in 2007, 38% of gas customers and 35% of electricity customers were reconnected within 7 days of disconnection. 14% of gas customers and 20% of electricity customers had their supply reconnected within 24 hours<sup>11</sup>.

**Chart 9: Electricity disconnections by supplier (per 100,000 customers)**



<sup>11</sup> In these reconnection rates we only include those customers who were disconnected and reconnected within the same quarter. Some customers may have been on the cusp of a quarter or reconnected the following quarter and would not be counted. Also, if customers switch supplier or move house they may still be showing as being disconnected when in fact they are not.

**Chart 10: Gas disconnections by supplier (per 100,000 customers)**

1.27. 2007 figures show that disconnections in gas remain higher than in electricity. This may be in part due to the inability to install gas PPMs in some instances, as an alternative to disconnection, because of safety reasons. It is pleasing to see suppliers develop and trial processes that enable the safe fitting of gas PPMs as an alternative to disconnection.

1.28. Suppliers advise that the increase in the total number of disconnections is because they are more confident in their debt and disconnection processes. These are designed to ensure that they only disconnect those customers who do not pay their bills after all attempts to resolve a debt issue have been exhausted. The ERA Safety Net also ensures that no vulnerable customer is knowingly disconnected.

### Ofgem's debt and disconnection best practice review

1.29. In January 2008, we published a "Debt and Disconnection Best Practice Review" that examined how suppliers' debt and disconnection policies and procedures had progressed since our last review in 2003. The review looked at the initiatives suppliers have in place to assist customers having difficulty paying their energy bills. It also examined how suppliers communicate with their customers, especially vulnerable customers, and undertook a programme of consumer research to examine the consumer experience of debt and disconnection.

1.30. The review identified best practice among suppliers and set benchmarks for performance which the industry can draw on in order to further improve the way they respond to and help customers who face debt or the risk of disconnection. Whilst it found that there has been real progress since the last review in 2003, it highlighted that some suppliers had progressed more than others. Notably, the

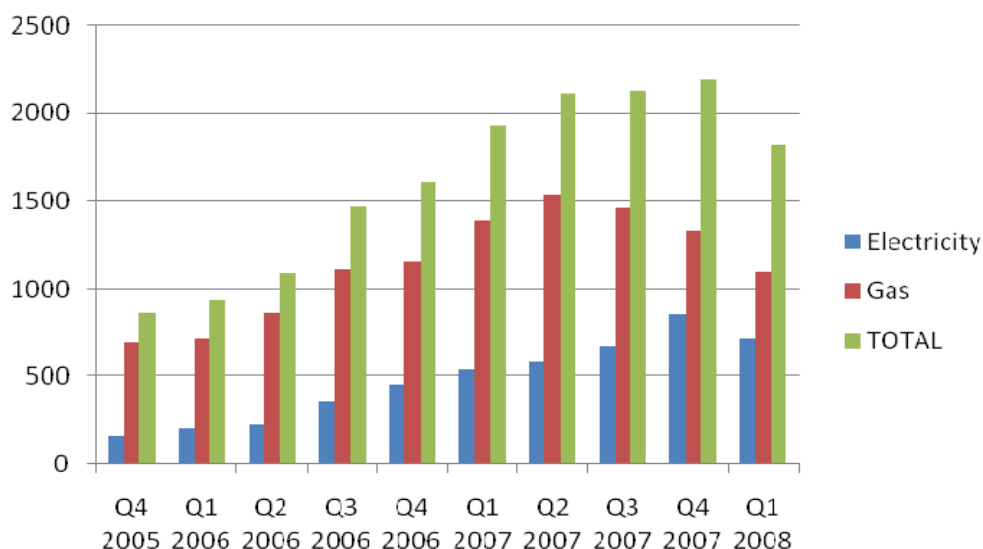


review found that npower had the most improvement to make to bring it in line with the practices of other suppliers, particularly in terms of focussing on early resolution of debt to prevent the need for disconnection.

1.31. Following the publication of our review, we wrote out to the major energy suppliers seeking information on how they intend to take forward the recommendations in our report to improve their debt and disconnection practices. We have received updates from all suppliers detailing improvements to their practices in relation to debt and disconnection and how their businesses have taken forward the recommendations in our report. All suppliers have reviewed their debt and disconnection policies against the best practice initiatives identified in the report and have introduced, or are trialling, improvements to their existing procedures. They have also reviewed their debt and disconnection correspondence to take into account the recommendations included in our review.

1.32. We have looked at the quarterly disconnection statistics up to the first quarter of 2008 (January to March) to gauge the impact of our review on suppliers' performance in this area given their strengthened focus. Chart 11 shows the total number of disconnections carried out since the last quarter of 2005 which highlights that the number of disconnections for the first quarter of 2008 decreased by 16.4% compared to the last quarter of 2007 and is lower than for any quarter in 2007, which we welcome.

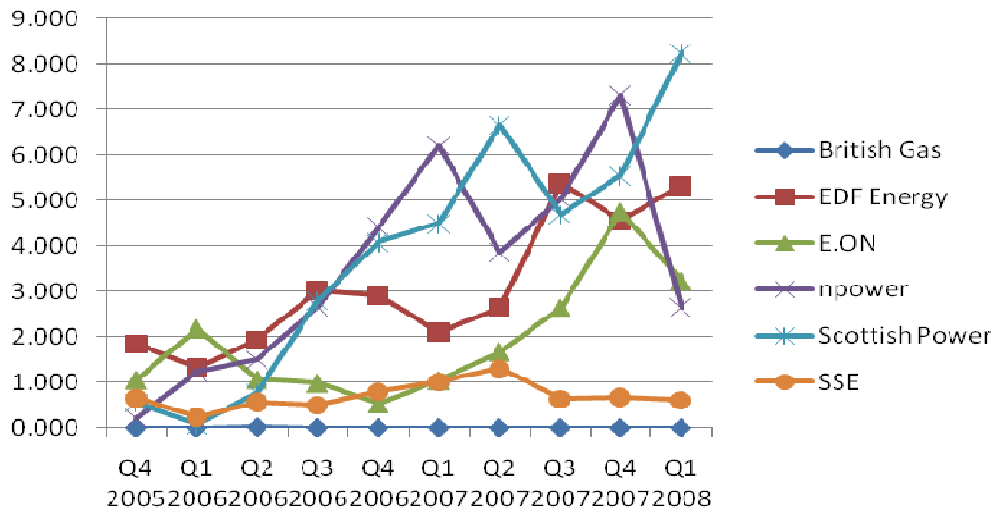
**Chart 11: Overall number of disconnections by quarter**



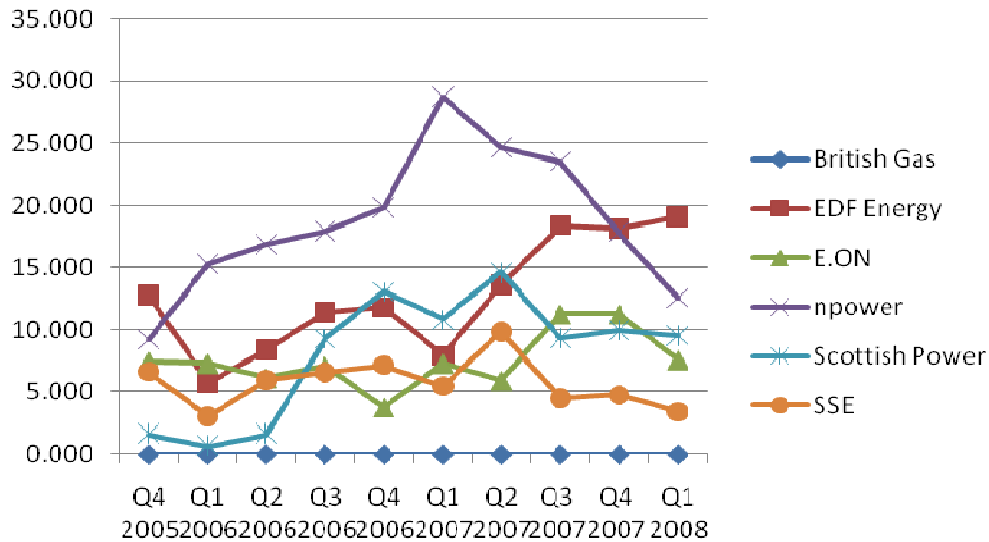
1.33. Charts 12 and 13 below show quarterly disconnection rates for each supplier (per 100,000 customers) for the first quarter of 2008 and particularly highlight improvements in npower's performance over this period where the range of actions npower have taken in response to our review have led to a marked reduction in the number of customers disconnected (down 43%). We will continue to monitor this area closely and will not hesitate to take further action if required.

1.34. We intend to finalise and publish our full statistics for the first quarter of 2008 shortly.

**Chart 12: Quarterly electricity disconnection rates by supplier (per 100,000 customers)**



**Chart 13: Quarterly gas disconnection rates by supplier (per 100,000 customers)**



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## 2. Help for vulnerable customers

### Chapter summary

This chapter outlines the key trends identified in relation to suppliers work to help vulnerable customers through the Priority Service Register (PSR) and energy efficiency advice. It also looks at the uptake by customers of Fuel Direct, a budgeting payment method taking fuel payments directly from a customer's benefits through the Department for Work and Pensions (DWP).

2.1. Under their licence conditions, domestic electricity and gas suppliers have an obligation to maintain a PSR and to offer special help to customers who are of pensionable age, disabled (including customers who are blind or partially sighted, or deaf or hard of hearing) or chronically sick. Suppliers must provide these services to eligible customers free of charge (subject to this being reasonably practicable and appropriate).

2.2. Services include quarterly meter reads for those unable to read the meter themselves, free gas safety checks for eligible customers and third party billing for those unable to manage their own energy accounts.

2.3. Suppliers also have a range of initiatives that offer assistance to their vulnerable and fuel poor customers as part of their social programmes, including social tariffs<sup>12</sup>.

### Priority Service Register (PSR)

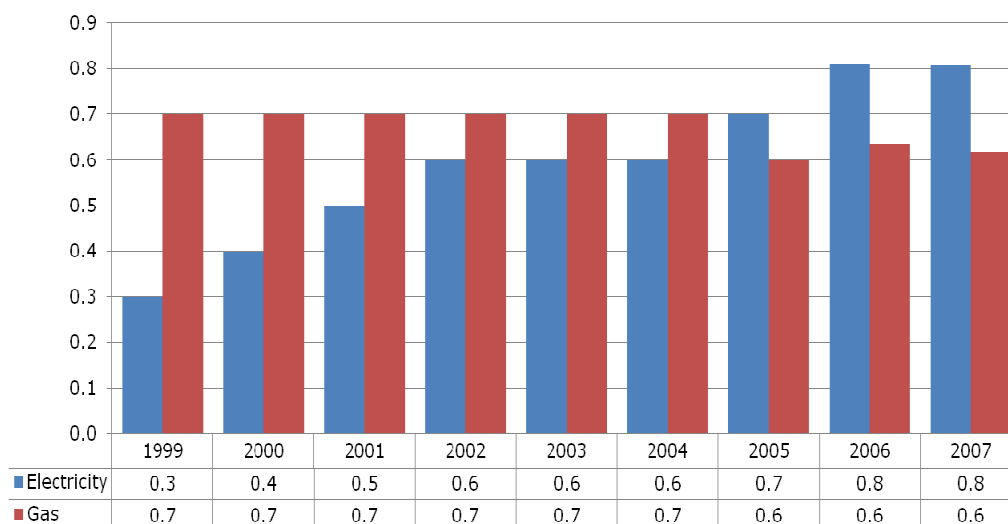
2.4. Suppliers are obliged under their licence conditions to offer certain services to specific vulnerable customers such as those of pensionable age and those with disabilities. These services include access to the Priority Service Register (PSR) and energy efficiency advice.

2.5. Chart 14 below shows the number of customers on the PSR over time. There are currently around 808,000 electricity customers and around 620,000 gas customers on the PSR.

2.6. Electricity PSR numbers have increased over time; more than doubling since 1999. However in 2007, the numbers of electricity customers on the PSR has remained constant compared with 2006. The number of gas customers on the PSR fell by 2.5% in 2007.

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<sup>12</sup> Further information on suppliers' social initiatives can be found on our website at: <http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Pages/CSR.aspx>

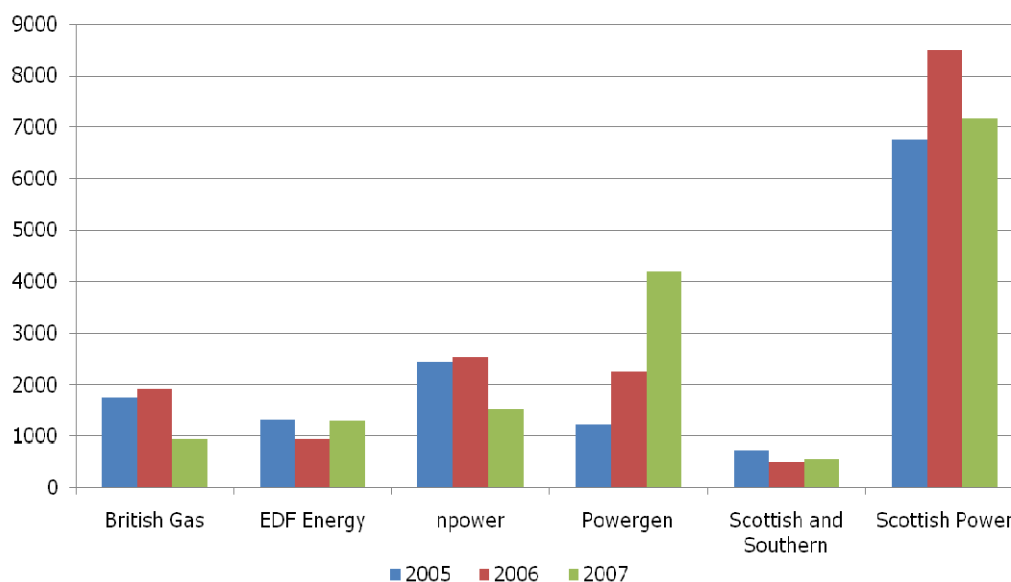
**Chart 14: Number of customers (millions) on suppliers' PSRs**

2.7. In electricity, SSE has the most customers on their PSR in absolute terms and they have also seen the largest increase in PSR customer numbers compared with 2006. In gas, British Gas, SSE and E.ON have the most customers on their PSRs. Whilst British Gas has almost twice as many customers on their gas PSR, it was the supplier with the largest decrease in customer numbers on their PSR in 2007, with a decrease of 77,500 customers on their gas and 57,000 on their electricity PSR compared with 2006.

2.8. The most commonly used services provided to PSR customers are quarterly meter reads and password schemes followed by Braille/large print bills. Overall, there has been a decrease in the number of customers registered for quarterly meter readings of around 50,000 (16%) for electricity and 73,000 for gas (19%) compared with 2006. British Gas has seen a decrease in the number of customers receiving quarterly meter readings of around 77,500 for gas and 57,000 for electricity. All other services have maintained relatively consistent customer numbers.

2.9. Gas safety checks are an important service offered under the PSR. The number of free gas safety checks carried out in 2007 has decreased by 18% compared with 2006 (see Chart 15 below). This decrease is likely to result from the changes made to the eligibility criteria for free gas safety checks as part of the Supply Licence Review in 2007. This modification was intended to ensure that free checks are better targeted at those who need them and was accompanied by a new obligation on suppliers to provide information to all customers on gas safety. We will be publishing a full post-implementation review on gas safety checks in the autumn.

2.10. We intend to continue to monitor suppliers' PSR and gas safety check activity going forward given the benefits available to vulnerable customers and the potential impacts that increased energy prices may have on these customers.

**Graph 15: Number of free gas safety checks (per million customers)**

2.11. As part of Ofgem's Energy Summit on Fuel Poverty, we have been exploring with Government and suppliers the potential for further data sharing to improve the targeting of suppliers' social programmes to fuel poor customers and those vulnerable to fuel poverty. We hope that this approach will also help suppliers to identify those customers eligible for assistance through the PSR.

## Energy efficiency

2.12. Energy efficiency advice and information can help to reduce customers' energy consumption and bills through the installation of energy efficiency measures and education. It is particularly important that certain customers, such as those at home for long periods or those in debt, are provided with advice and information to help them increase their energy efficiency and therefore reduce their energy bills.

2.13. The Carbon Emissions Reduction Target (CERT) is the main Government programme through which suppliers are obliged to deliver energy efficiency measures. Under this programme, 40% of the carbon reduction target must be achieved through the priority group – consumers who are in receipt of certain income related benefits or tax credits or aged over 70. This approach provides significant environmental benefits as well as having the impact of directly reducing energy bills over the long term.

### *Energy efficiency information*

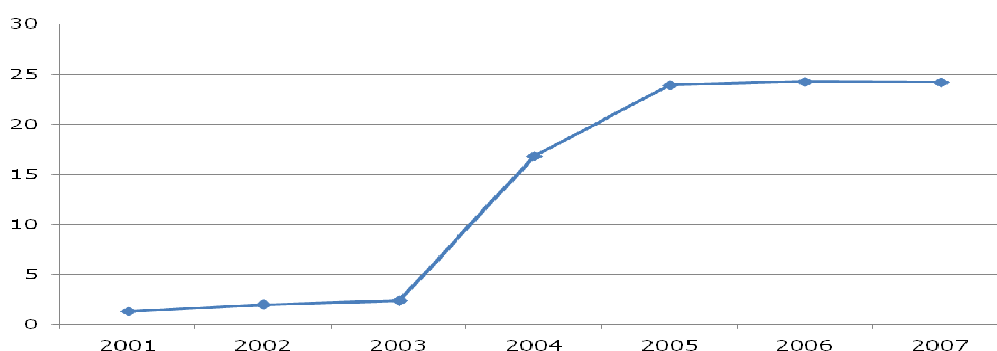
2.14. Energy suppliers also have an obligation under their licence to provide energy efficiency information to customers on request. Information may be verbal or written and includes the provision of general information by customer service staff responding to customer enquiries (but not website downloads). Ofgem specifically collects information from suppliers on certain customers, such as those in debt or on the PSR, who may particularly benefit from this information.

2.15. Energy efficiency information can help prevent those customers in debt from falling further into debt and as a matter of good practice suppliers should provide energy efficiency information to customers in payment difficulty. Energy efficiency information can help customers reduce their energy usage through energy efficiency measures rather than rationing their energy use or falling into further debt.

2.16. The figures for 2007 show an increase of a third in the number of customers in debt given energy efficiency information when compared with 2006 figures. When compared to 2006 figures, the only supplier to provide less energy efficiency advice to its customers in debt in 2007 was npower. Of those customers in debt, 2% were given energy efficiency information up from 1.7% in 2006<sup>13</sup>. As part of our Best Practice Review, we highlighted the importance of providing holistic solutions to customers in debt including the role that energy efficiency advice and measures can play in helping customers to better manage and afford their energy bills.

2.17. Suppliers also offer information on energy efficiency to members of their PSR. These customers may be high energy users due to spending much time at home and heating their homes to a higher temperature; they may also be in fuel poverty. Chart 17 shows that the number of PSR customers receiving energy efficiency information has remained constant from 2005 to 2007.

**Chart 17: Number of PSR customers (thousands) given energy efficiency information**

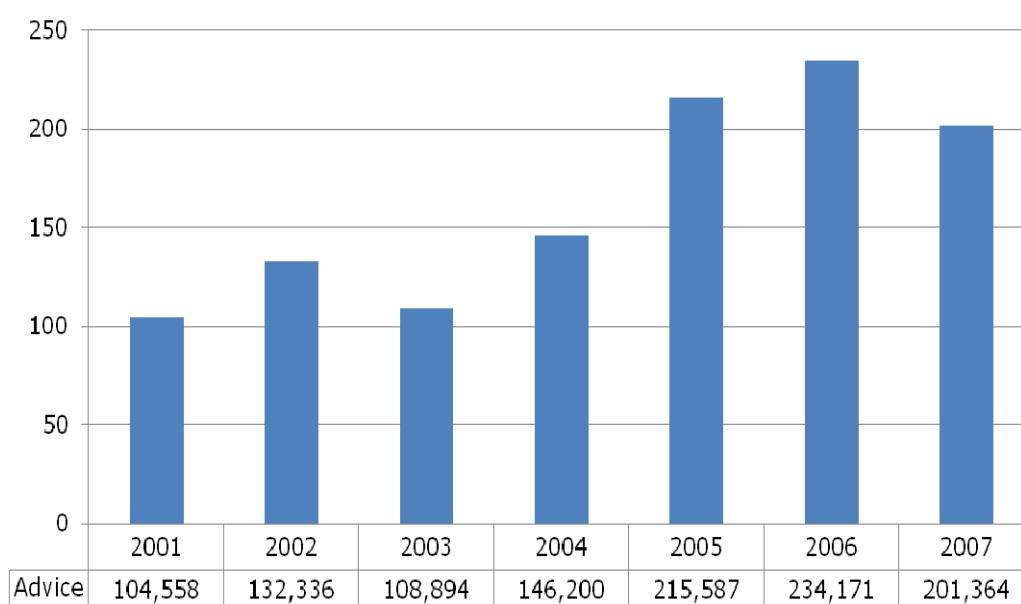


<sup>13</sup> The 2006 figures have been amended compared with those previously reported. In 2006, British Gas included energy efficiency information downloaded from their website which should not have been reported.

*Energy efficiency advice*

2.18. Suppliers also provide more specialist energy efficiency advice to their customers which can be delivered via a specialised advice line or by a qualified person. In 2007, there has been a decrease (of 14%) in the number of customers given specific energy efficiency advice compared with 2006 (see Chart 16). The data for individual suppliers on the number of customers who received specialist energy efficiency advice varies widely with some suppliers' giving significantly more advice than in 2006 and others much less.

**Graph 16: Customers (thousands) given energy efficiency advice**



2.19. Overall, 0.4% of all customers received energy efficiency advice - a slight decrease from 0.5% in 2006. Utilita gave advice to proportionately more of its customers than other suppliers, although it has a smaller customer base. ScottishPower provided energy efficiency advice to 1.35% of its customers, with all other suppliers providing advice to less than 1% of their customers.

2.20. We will continue to monitor the provision of energy efficiency advice and information by suppliers given the role energy efficiency advice can have in helping vulnerable customers manage their energy bills.

## Fuel Direct and budgeting payment methods

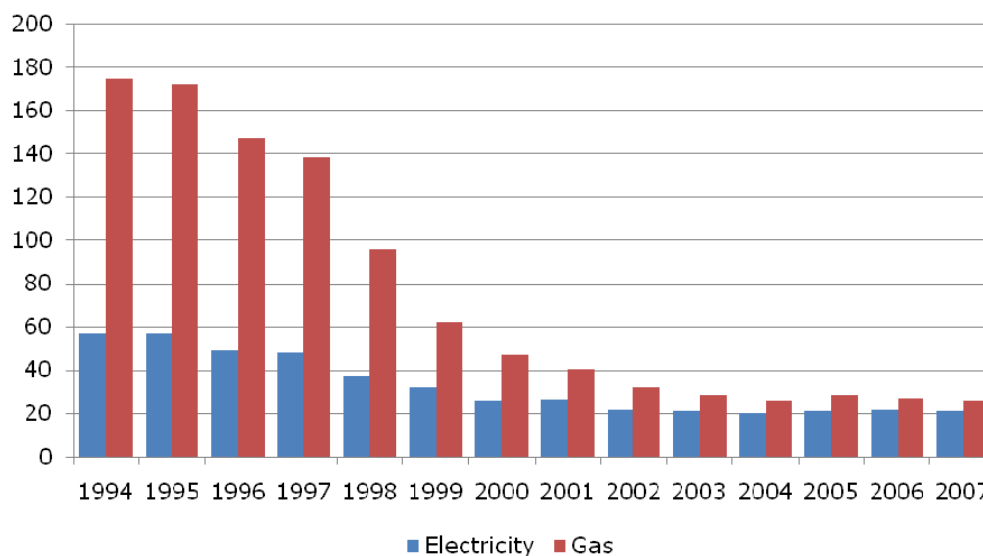
2.21. Fuel Direct is a scheme designed to act as a last resort measure for vulnerable households receiving Income Support, Pensions Credit or income-based Job Seekers Allowance who are threatened with the disconnection of an essential fuel supply. It allows for deductions to be made directly from the customers benefit towards repayment of the debt and current consumption, to be paid by the Department for Work and Pensions (DWP) direct to the consumer's supplier.

2.22. Budgeting payment methods cover other ways to pay for customers who need to budget but would prefer not to be on a PPM. For example, customers can pay weekly or fortnightly towards their energy bills.

2.23. Chart 18 below highlights the decrease in the number of customers on Fuel Direct over time however shows that the number of customers paying for their energy in this way has remained constant since 2004.

2.24. Ofgem has worked with DWP, suppliers and consumer advice agencies to highlight the importance of Fuel Direct and we will continue to monitor use of both Fuel Direct and budgeting payment methods.

**Chart 18: Number of customers (thousands) on Fuel Direct**



## Suppliers' social programmes

2.25. All suppliers offer various forms of assistance to their fuel poor customers and those vulnerable to fuel poverty as part of their social programmes. For example, most suppliers offer social tariffs which are targeted at specific groups of vulnerable



customers; others have trust funds to assist those in financial hardship or fund community projects through partnerships.

2.26. In the 2008 Budget, the Chancellor announced an increase in suppliers' collective expenditure on their social programmes to at least £150m per year in 2011. Government secured an agreement with suppliers building up to deliver this commitment over the 2008-2011 period and requested that Ofgem lead a process to set the parameters for what can be counted towards this spend. We published our guidance and framework for monitoring suppliers' social spend on 25 July<sup>14</sup>.

2.27. We will report annually on suppliers' social programmes and how they meet these social commitments agreed with Government. We intend to publish a report on suppliers' social programmes for 2007-08 in September.

2.28. Suppliers also jointly fund the Home Heat Helpline (0800 33 66 99) which provides customers with independent advice on dealing with their energy bills.

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<sup>14</sup>

[http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Monitoring\\_suppliers\\_105\\_08.pdf](http://www.ofgem.gov.uk/Sustainability/SocAction/Suppliers/CSR/Documents1/Monitoring_suppliers_105_08.pdf)

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## Appendices

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## Appendix 1 - General Information

1.1. The statistics used in this report are gathered from suppliers on a quarterly and annual basis. These statistics are published on the Ofgem website at:

<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/SoObMonitor/Pages/SocObMonitor.aspx>

1.2. Suppliers provide the statistics in line with the guidance Ofgem provides in its document 'Monitoring domestic electricity and gas suppliers' performance under their code of practice – new reporting arrangements' and should be read in conjunction with these statistics to ensure there is no misinterpretation of the data. This document is located at:

<http://www.ofgem.gov.uk/Sustainability/SocAction/Monitoring/COPMonitor/Documents/1/16670-guidancereversion1006.pdf>

1.3. Ofgem analyses all of the information prior to publication. Where we notice trends in certain areas or statistics which concern us, we enter into dialogue with suppliers to establish reasons behind the numbers. We then monitor the trends and take action as required to apply best practice to an area or encourage a change in behaviour by suppliers.

1.4. Allowance should be made for slight variation between suppliers' statistics and the statistics only give a general overview of activity in areas such as debt and disconnection.

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## Appendix 2 – 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.<sup>15</sup>

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 accordingly<sup>16</sup>.

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 them<sup>17</sup>; and
- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.<sup>18</sup>

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:

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<sup>15</sup> entitled "Gas Supply" and "Electricity Supply" respectively.

<sup>16</sup> 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.

<sup>17</sup> 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.

<sup>18</sup> The Authority may have regard to other descriptions of consumers.

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- Promote efficiency and economy on the part of those licensed<sup>19</sup> 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 Regulation<sup>20</sup> 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.

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<sup>19</sup> or persons authorised by exemptions to carry on any activity.

<sup>20</sup> Council Regulation (EC) 1/2003

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## 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:

**Andrew MacFaul**  
Consultation Co-ordinator  
Ofgem  
9 Millbank  
London  
SW1P 3GE  
[andrew.macfaul@ofgem.gov.uk](mailto:andrew.macfaul@ofgem.gov.uk)